



LEEDS

GROUP PLC

Annual Report and Accounts 2019

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Group Information and Advisers

Subsidiary Companies

Wholly owned subsidiary companies of Leeds Group plc (“Leeds Group” or “the Group”):

Hemmers-Itex Textil Import Export GmbH
“Hemmers”

Twentestrasse 1
48527 Nordhorn
Germany

Director during the year

Jörg Hemmers

Principal activity

Import, sale & distribution of fabric

Leeds Property GmbH

“Leeds Properties”

Twentestrasse 1
48527 Nordhorn
Germany

Director during the year

Jörg Hemmers

Principal activity

Property investment

Wholly owned subsidiary companies of Hemmers:

Stoff-Ideen-KMR GmbH
“KMR”

Twentestrasse 1
48527 Nordhorn
Germany

Director during the year

Jörg Hemmers

Principal activity

Retail textile trading

Chinoh-Tex Ltd

“Chinoh-Tex”

F2, Building 1, 111 Shennan Road
Xinzhuang Industry Area
201108 Shanghai
China

Director during the year

Jörg Hemmers

Principal activity

Textile trading

Group Advisers

Solicitors

Walker Morris LLP
33 Wellington Street
Leeds
LS1 4DL

Financial Advisers

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

Auditors

BDO LLP
29 Wellington Street
Leeds
LS1 4DL

Solicitors

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

Registrars*

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

Principal Bankers

Lloyds Banking Group
1 Lovell Park Road
Leeds
LS1 1 NS

** Calls to the Link shareholder helpline 0871 664 0300 cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.*

Chairman's Statement

It has been an extremely difficult and disappointing year for the Group. Trading conditions have continued to be challenging with increased competition creating pressure on gross margins within both the wholesale and retail textile markets. Hemmers-Itex Textile Import Export GmbH ('Hemmers'), the main trading subsidiary, has been affected by the deterioration in both its German and external markets.

On 5th July 2018, an additional investment was made in KMR so that the company became a wholly owned subsidiary rather than a joint venture arrangement. KMR has a limited number of retail shops in Germany and the directors had hoped that with full control of the business and synergies with Hemmers, that the company would contribute to increased profits for the Group. As the retail market in Germany has deteriorated, KMR has also been affected with sales falling during the year with no positive result contribution.

During the year the directors have therefore undertaken a further strategic review of all trading businesses within the Group. The directors see the need to further concentrate on the Group's core business, Hemmers, and have implemented plans and cost cutting measures to ensure that the company is in a good position both to face the current challenging market conditions and to respond to any improvement. A decision has been made to close Chinoh-Tex, the Chinese subsidiary of Hemmers, as it is not generating adequate profits despite recent actions taken to reduce costs. A number of measures have been implemented in KMR to further improve efficiencies and reduce the cost base, such as implementation of new IT systems and changes to how shops are staffed and managed. Management will closely monitor the performance of the KMR retail outlets and take the necessary actions to ensure satisfactory levels of profit are achieved in each.

Trading conditions remain challenging and it will be a difficult year again in 2020, as it will take time for the decisions taken this year to fully translate into improved results. Given the steps that have been taken during the year to improve efficiencies which will reduce the cost level further and enable the Group to compete with a more aggressive sales strategy to regain lost market share, the directors do believe the Group will return to acceptable levels of profit in the forthcoming years, partly because of the potential for consolidation in the market as we expect some competitors to exit the market.

On behalf of shareholders, I want to thank the management and staff of Hemmers, Chinoh-Tex and KMR who have all continued to work tirelessly in very difficult conditions.

Jan G Holmstrom
Non-Executive Chairman
11 November 2019

Finance and Operating Review

Business review

The Companies Act 2006 requires the directors to set out in this report a fair review of the business of the Group during the year ended 31 May 2019, including an analysis of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. This information includes a discussion of the Key Performance Indicators used by the directors to monitor the business which are:

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

Group result

Group revenue in the year was £41,271,000 (2018: £41,538,000). Despite including KMR as a wholly owned subsidiary for eleven months of the year, sales are slightly lower than last year. Market conditions for all trading subsidiaries have been challenging and all companies have faced intense competition both domestically and internationally.

The Group's operating loss of £1,022,000 includes a goodwill impairment charge of £982,000. (2018: profit £1,152,000). Overheads were higher than expected and action has now been taken to realign those overheads to the reduced turnover levels. The goodwill that arose when the Group acquired Hemmers in 1999 amounting to £982,000 has been provided for in the year as an impairment and shown as an exceptional item. Therefore, the Group loss before tax this year is £1,250,000 (2018: profit £885,000).

The tax charge in the year was £43,000 (2018: £340,000). Loss per share was 4.7p (2018: earnings per share 2.0p).

Hemmers

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

Sales for the year were significantly lower than last year at £30,939,000 (2018: £38,299,000). The market in Germany has fallen considerably during the year and Hemmers has also come under increased price pressure from competitors. The gross margin percentage decreased slightly to 21.0% (2018: 22.1%) and that, together with the lower level of sales volume, has resulted in a fall in gross profit. Despite a 6% reduction in overhead expenditure, the pre-tax profit reduced to £239,000 (2018: £1,123,000). A strategic sales review coupled with a comprehensive cost review was undertaken during the financial year to ensure the cost base for Hemmers is aligned to the current market conditions. Hemmers is focused on growing its business domestically and internationally in both its wholesale and retail markets with a more aggressive sales strategy. Hemmers will thereby be in a better position to compete in the marketplace next year to regain lost market share, but it will take some time for the new strategies to be fully recognised.

Hemmers bank debt, net of cash, decreased in the year to £4,197,000 (2018: £4,963,000). This bank debt is secured on the assets of Hemmers.

KMR

On 5 July 2018, KMR became a wholly owned subsidiary within the Group. Prior to that the Group owned 50% of KMR and it was therefore accounted for as a joint venture. Up to that date, the Group's share of the post-tax loss of KMR in the year was £34,000 (2018: £107,000) and that amount is shown separately on the face of the profit and loss account. From the date of acquisition, KMR has been fully consolidated into the Group accounts.

KMR is a retail business trading in Germany. KMR's operating performance since acquisition has been well below expectations. Sales for the company for the whole year were lower than last year at £8,656,000 (2018: £9,343,000). The German retail market has fallen considerably during the year and therefore KMR sales have fallen also.

Costs were too high for the level of trading resulting in an increased loss for the year of £554,000 (2018: loss of £210,000). The integration and efficiencies expected at the start of the financial year have not yet been delivered and further actions have been taken to resolve the situation. Improved working efficiencies have been implemented including the introduction of new working patterns which should ensure that KMR achieves a breakeven position next year.

Finance and Operating Review (continued)

Chinoh-Tex

Chinoh-Tex is a textile trading subsidiary of Hemmers. It is based in Shanghai and has been trading for eleven years. It purchases fabric from Chinese suppliers and in 2019 sold to customers in 52 countries. 43% of sales were made to EU countries (2018: 43%). External sales revenue was considerably lower this year £2,366,000 (2018: £3,239,000). Gross margins, however, improved to 19% (2018: 15%). In line with the cost review undertaken, overhead spending was reduced as compared to last year £251,000 (2018: £388,000). Thus, despite the reduced level of sales Chinoh-Tex's result for the year was a pre-tax profit of £31,000 (2018: loss £86,000).

Chinoh-Tex has provided valuable assistance to its European parent with the purchasing, inspection and shipping of material. However internal sales revenue this year, based on arms-length prices, amounted to just £204,000 (2018: £556,000). With Chinoh-Tex also facing increased competition and decreasing sales as more customers choose to deal directly with the manufacturers in China, the directors have decided to cease trading effective 28 August 2019 with the liquidation completed by 31 December 2019. This will enable Hemmers management to entirely focus on developing the Hemmers and KMR businesses.

Fixed Assets

Capital additions in the year amounted to £550,000 (2018: £400,000). The net book amount of tangible fixed assets in the Consolidated Statement of Financial Position is £9,543,000 (2018: £8,319,000). The acquisition of KMR increased fixed assets by £1,307,000, of which £864,000 related to freehold land and buildings.

Working Capital

Working capital which comprises inventories, trade and other receivables, and trade and other payables increased in the year by £1,031,000 (2018: decreased £345,000). This is due mainly to the acquisition of KMR as KMR had working capital of £1,761,000 at the date of acquisition. There were no major changes to the working capital requirements for the Group during the year. The Group continues to monitor its working capital requirements within its current banking facilities.

Net Asset Value

Net assets decreased in the year by £1,247,000 as follows:

	Net assets £000	Per share pence
At 31 May 2018 (restated based on shares in issue at 31 May 2019)	18,988	69.4
Loss after tax	(1,293)	(4.7)
Purchase of treasury shares	(9)	-
Translation differences	55	0.2
At 31 May 2019	17,741	64.9

Debt Profile

The funding policy of the Group continues to be to match its funding requirement in trading subsidiaries in a cost-effective fashion with an appropriate combination of short and longer-term debt. Property investments have been financed partly by long term loans at fixed interest rates between 1.05% and 4.07%. Working capital finance, when required, is via short term loans of three months currently attracting interest at rates of between 1.25% and 2.5%. Bank debt in the subsidiaries is secured by charges on inventories, receivables and property and is without recourse to the Parent Company.

Impairment reviews

In accordance with IAS 36, an annual impairment review was carried out for each cash-generating subsidiary to which goodwill is allocated. Based on this review the directors considered that the goodwill of £982,000 arising on the acquisition of Hemmers in 1999 was impaired and thus the goodwill was written off in the financial statements.

Finance and Operating Review (continued)

Principal risks and uncertainties

The Board has identified the main categories of business risk in relation to the Group's strategic aims and objectives, and has considered reasonable steps to prevent, mitigate and manage these risks. The principal risks identified are as follows:

Funding risk

The Group has a combination of short-term borrowing facilities and longer-term loan agreements secured on Group properties. The Group remains dependent upon the support of these funders and there is a risk that failure in a company to meet banking covenants could have implications for the Group. Borrowing facilities are monitored regularly and the facilities agreed are more than needed for the Group's requirements. The Group has close working relationships with their current funders but believe alternative banking funders could be secured if required.

Market risk

There is always the ongoing threat of reduced market demand. This has been seen this year and the Group continues to strive to combat the reduced demand by looking at other markets both domestically and internationally and looking at expanding its product ranges for example introducing home furnishing products.

The commercial risks of operating in the highly competitive European fabric market are limited by the fact that Hemmers has a wide range of suppliers, and no customer accounts for more than 5% of revenues.

Foreign exchange risk

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

Brexit

Following the UK referendum result in favour of leaving the European Union ("EU"), the economic environment has become much more uncertain. This uncertainty has continued as the UK looks to secure an acceptable deal and the revised date of 31 October 2019 to leave the EU has been extended. The threat of no deal creates even more uncertainty as does the continual deadline extensions. However, the business of Leeds Group is conducted entirely by subsidiaries incorporated in Germany or China, and their exports to the UK account for approximately 3% only of Group revenue. For this reason, the Directors do not believe that a material risk to Leeds Group will arise from the terms on which the UK will, in the future, have access to EU markets, and vice versa. Leeds Group has loans denominated in euros which do carry a currency risk and may be affected by Brexit, however, the directors do not believe the impact would have a material effect on the Group's results as the subsidiary trades in Euros and the directors consider this provides a natural hedge.

The currency markets dislike the current air of uncertainty surrounding the current negotiations with regard to the UK leaving the EU and sterling has weakened since the UK announced it was leaving the EU. This benefits Leeds Group since, as the pound weakens, the value of the revenues, profits and net assets of foreign subsidiaries are increased in sterling terms. This effect has been seen in both this year's and last year's trading and Statement of Financial Position.

Jan G Holmstrom
Chairman
11 November 2019

Board of Directors

Jan G Holmstrom (Non-Executive Chairman) (Age 66)

Jan has worked in the financial services sector during his entire career and has a wealth of experience working internationally e.g. in the UK, Hong Kong and Sweden. Jan is Non-Executive Chairman of Johnson and Starley Limited, Combat Heating Solutions Limited and a Non-Executive Director of International Fibres Group (Holdings) Limited. Jan joined the Board of Leeds Group in November 2011 and was appointed Chairman in October 2014.

Jörg Hemmers (Executive Director) (Age 52)

Jörg has worked his whole life in the wholesale and retail textile business. He was one of the first in the trade to realise the potential of sourcing products from China. Leeds Group acquired the Hemmers wholesale operation in 1999 and appointed Jörg as Managing Director. Amongst his achievements is the successful integration in 2003 of Leeds Group's Itex business, based in Holland, to create Hemmers-Itex Textil Import Export GmbH. Jörg joined the Board of Leeds Group in March 2015.

Johan Claesson (Non-Executive Director) (Age 68)

Johan has been a major shareholder in Leeds Group since 1999, and has extensive business interests, both private and in the public arena. Johan is Chairman of Claesson & Anderzén, a private property company. Johan is also a Non-Executive Director of K3 Business Technology Group plc (specialising in business software). Johan joined the Board of Leeds Group in September 2004.

David Cooper (Independent Non-Executive Director) (Age 61)

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

Chairman's Corporate Governance Statement

As Chairman of the Board my role is to develop the strategy for the Company together with the Board of Directors, monitor the ongoing performance of the companies within the Group to ensure that they are meeting our requirements and identify potential acquisitions targets.

In addition, my role also encompasses overseeing the functioning of the Board and its effectiveness, also to ensure sound corporate governance practices are followed.

All the directors believe strongly in the importance of good corporate governance for the creation of shareholder value over the medium to long term and to engender trust and support amongst the Group's wider stakeholders.

In accordance with the changes to AIM Rule 26 the Company is now applying the revised Quoted Companies Alliance ('QCA') Corporate Governance Code ('QCA Code') published in April 2018.

I work with key executives throughout the organisation to instil good corporate governance practices in accordance with the QCA Code.

The Board monitors our corporate governance practices and will always implement improvements which further enhance performance and/or benefit stakeholders.

Jan G Holmstrom
Non-Executive Chairman
11 November 2019

Corporate Governance Report

The Board recognises its responsibility for the proper management of the Company and is committed to maintaining a high standard of corporate governance which is appropriate to the size of the Company and the interests of its shareholders.

The Board considers it appropriate to adopt the principles of the Corporate Governance Code for Small and Medium Sized Companies issued by the Quoted Companies Alliance (“the QCA Code”) published in April 2018. Below we set out the extent of compliance with the ten principles of the QCA Code. Where there are any areas of non-compliance, the steps taken or intended to take in order to move to full compliance are explained:

	Principle	Extent of compliance	Application
1	Establish a strategy and business model which promotes long-term value for shareholders	Fully compliant	<p>The Company’s strategy is shaped by the executive Board and is set out in the Annual Report and on the ‘About Leeds Group PLC’ website page. The company’s shares are traded on the AIM market of the London Stock Exchange.</p> <p>The Group is a textiles business which designs, sources and sells fabric. It sources mainly from the Far East and sells mainly to the European market into three channels: Retail, Wholesale and Garment Manufacturing. In order to service these markets, the Group has invested significantly in recent years in warehousing and distribution facilities and into double folding plant and machinery so as to provide a complete, rapid response, in-house service.</p> <p>The Board believes that these investments promote long term value for shareholders.</p> <p>The strategic reports as presented by the directors in the Annual Report, further explains the Company’s business model and strategy. The reports also include the key performance indicators used by the Board to monitor business performance and the risks and uncertainties facing the business and how these are addressed.</p>
2	Seek to understand and meet shareholder needs and expectations	Fully compliant	<p>The Board is committed to communicating openly with shareholders to ensure that its strategy and performance are clearly understood. The Board communicates with shareholders through the Annual Report and the Interim Statement, trading and other announcement made on RNS and at the Annual General Meeting (‘AGM’) where the Board encourages investors to participate. The Company also maintains a website https://www.leedsgroup.plc.uk which contains information on the Group’s business, corporate information and specific disclosures required under AIM Rules and the QCA Code.</p> <p>In this way the Directors have developed a good understanding of the needs and expectations of all elements of the Company’s shareholder base.</p> <p>There have been no significant votes against resolutions at previous AGMs.</p> <p>As the companies within the Group expand, we continually review the risks and uncertainties facing the Group to ensure we identify any new key risks and how we implement appropriate action to manage these risks.</p>

Corporate Governance Report (continued)

3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	Fully compliant	<p>The Board recognises its responsibility under UK law to promote the success of the Group for the benefit of its stakeholders and understands that the business has a responsibility towards its stakeholders including shareholders, employees, customers, suppliers, regulators and to the local community.</p> <p>The Board sets standards across the Group and monitors these at regular Board meetings. The Board is very conscious that the tone and culture it sets impacts all aspects of the Group and the way employees behave and operate.</p> <p>The Board encourages open dialogue and commitment to providing the best service possible to the Group's customers and considerate interactions with suppliers.</p> <p>The Company monitors feedback from all its stakeholders as reported by the Group companies and the Board uses this to develop future policy. Being a participant in the textile industry, the Board is keenly aware of environmental and labour considerations and is actively working to ensure that it is at the forefront of meeting the standard expected over the coming years.</p>
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Fully compliant	<p>The Board has an active program of working with all the Group companies to assist with achieving goals and to discuss and resolve any issues that arise.</p> <p>The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.</p> <p>The Board monitors financial controls through the setting and approval of annual budgets throughout the Group and the regular review of monthly management accounts which are produced within three weeks of the month end.</p> <p>Each Group company has defined authorisation levels for expenditure, the placing of orders and signing authorities. The daily cash movements of the Group companies are reconciled and monitored by their finance departments. The Group's cash flow is monitored by the Board.</p> <p>Each year on behalf of the Board, the Company Secretary attends audit review meetings at which the auditors present their findings including a comprehensive review of risks/potential risks which cover both financial and non-financial issues potentially affecting a Group company.</p> <p>Group Board meetings are held in Germany at least twice a year which include a meeting with the Hemmers senior management team.</p>

Corporate Governance Report (continued)

5	Maintain the Board as a well-functioning, balanced team led by the chair	Fully compliant	<p>The purpose of the Board is to ensure that the business is managed for the long-term benefit of all shareholders, whilst at the same time having regard for all stakeholders.</p> <p>The Board has a formal schedule of matters reserved for its decisions as set out in Principle 10 below. There are at least four full Board meetings spread across each year which tie in as far as possible with the Group’s financial reporting calendar. At least two meetings will be based at Hemmers. Additional meetings are held as required.</p> <p>The full Board is responsible and accountable to the shareholders for the management and success of the Group and to provide effective controls to assess and manage risks in the Company.</p> <p>The Board currently comprises the Non-Executive Chairman, two other Non-Executive Directors, one of whom is an independent non-executive director and one executive director who is managing director of the main operating business, Hemmers.</p> <p>The Non-Executive Directors are considered to be independent of the management. However, the Non-Executive Chairman and one other Non-Executive Director are representatives of significant shareholders and so do not meet the definition of Independent Non-Executive Director.</p> <p>Each is aware of his statutory responsibilities to act in the interests of all shareholders and they consider their interests to be aligned to promote the long-term success of the company.</p> <p>Thus, the Board only has one Independent Non-Executive Director rather than two as recommended by the QCA code. The Directors believe that the current Board structure has the necessary range of skills, objectivity and diversity to manage what is a simple structure business and that to increase the number of Independent Non-Executive Directors would add cost rather than benefit. The Board continually keeps this position under review and has identified triggers that it believes would lead to additional appointments. These include proposed diversification into new business areas; a significant acquisition; significant organic growth into new territories.</p> <p>The Board has established procedures to identify and monitor potential or actual conflicts of interest.</p> <p>The Board is supported by the Audit, Remuneration and Nominations Committees, each of which has access to information, resources and advice that it deems necessary, at the Company’s cost, to enable the committee to discharge its duties.</p> <p>The Committees’ Terms on Reference are posted on the AIM rule 26 page of Company’s website.</p>
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Corporate Governance Report (continued)

5	Maintain the Board as a well-functioning, balanced team led by the chair	<p>The Remuneration Committee comprises the Non-Executive Directors and is chaired by the Chairman. The Remuneration Committee reviews and if appropriate sanctions remuneration proposals made by the executive Directors.</p> <p>No director is permitted to participate in discussions or decisions concerning his own remuneration. The Remuneration Committee meets as and when necessary.</p> <p>The Nominations Committee comprises all members of the Board and is chaired by the Chairman. The Nomination Committee reviews and, if appropriate, approves recommendations for the appointment of additional Directors or replacement of current Directors and for succession planning for the Company.</p> <p>The Board and its Committees receive appropriate and timely information and minutes are kept of all relevant committee meeting matters.</p> <p>Any director can challenge proposals with decisions being taken after discussion. Any director can ask for a concern to be formally noted. Specific actions arising from meetings are agreed by the Board or relevant committee and then followed up by management.</p> <p>Directors have access to advice or services needed to enable them to carry out their roles and duties.</p> <p>In 2018/19 all directors attended the three Board meetings and six telephone meetings.</p> <p>In 2018/19 all non-executive directors attended the two audit committee meetings and the one remuneration committee meeting.</p> <p>All Directors are subject to reappointment by shareholders at the first Annual General Meeting following their appointment and thereafter by rotation.</p> <p>The Directors spend such time as is necessary to ensure that their roles and duties are carried out effectively.</p>
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Corporate Governance Report (continued)

6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully compliant	<p>The skills and experience of the Board are set out in their biographical details included within the Directors' Report of the Company's Annual Report. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.</p> <p>The Board comprises Directors with a range of different skills including business and financial experience, IT experience and corporate finance experience. All the Directors have considerable experience within the textile and leather industry and therefore are well placed to offer challenge to the Executive Director and Senior management of the textile trading companies.</p> <p>In addition, the Company's Non-Executive Directors have held senior executive positions for a number of years in UK plc companies and therefore are fully aware of their corporate responsibilities and the need to ensure compliance with the AIM regulatory requirements.</p> <p>The Directors of the Company and their responsibilities on the Board are:</p> <p><i>Role of the Non-Executive Chairman – Jan Holmstrom:</i></p> <p>The Non-Executive Chairman has overall responsibility for corporate governance and in promoting high standards throughout the Company. As well as leading and chairing the Board, the Non-Executive Chairman's responsibilities are:</p> <ul style="list-style-type: none"> • Committees are properly structured and operate with appropriate terms of reference; • The Company has a coherent strategy and sets objectives against this; and • There is effective communication between the Company and its shareholders. <p>Jan Holmstrom has held a number of positions as Chairman of private and plc companies and has considerable textile and corporate finance experience.</p> <p><i>Role of the Group Finance Manager and Company Secretary – Dawn Henderson:</i></p> <p>The roles of Group Finance Manager and Company Secretary are combined. The Board acknowledges the QCA guidelines on this matter and consider the joint roles appropriate for the Company's size.</p> <p>The Group Finance Manager is responsible for providing financial oversight of the Group, preparing the accounts, monitoring the performance of the Group companies and reporting on financial matters to the Board. Providing financial input on acquisitions.</p> <p>The Company Secretary is responsible for providing clear and timely information flow to the Board and its Committees and supports the Board on matters of corporate governance and risk. The Company Secretary has direct access to the Chairman on matters of Corporate Governance.</p> <p>Dawn Henderson is a qualified Chartered Accountant who qualified with KPMG in 1988. She has held various Finance Director and Company Secretary roles both within the private and plc environment.</p>
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Corporate Governance Report (continued)

6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully compliant	<p><i>Role of the Independent Non-Executive Director – David Cooper:</i></p> <p>The role of the Independent Non-Executive Director is to contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of the Executive Director, provide constructive challenge and ensure that the Company is operating within the governance and risk framework approved by the Board.</p> <p>David Cooper is a qualified Chartered Accountant with considerable corporate and accounting experience and has also worked in the textile industry for many years.</p> <p><i>Role of the Non-Executive Director – Johan Claesson:</i></p> <p>The role of the Non-Executive Director is to scrutinise the performance of the Executive Director, provide constructive challenge and ensure that the Company is operating within the governance and risk framework approved by the Board.</p> <p>Johan Claesson has held a number of positions as Non-Executive Director of private and plc companies and has also worked in the textile industry for many years. He also has considerable experience in the IT and property.</p> <p>Each director is responsible for maintaining the level of skill set required by the role and this is achieved by continuing professional education, technical updates from professional bodies and advisors and an active role assisting the existing Group companies.</p> <p>Whenever required the Directors seek legal, regulatory and audit advice from external advisors.</p> <p>The Board as a whole is well placed to implement the Company’s strategy</p>
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Partially compliant	<p>There is no formal performance evaluation process in place currently. The Directors will consider what performance evaluation framework is required for the Group.</p> <p>Responsibility for succession planning lies with the Nomination Committee. The Committee is satisfied that the Board has the skills it presently requires. The Board has considered the critical functions within each of the businesses to ensure adequate cover exists for each position which would enable contingency and succession to be managed in an appropriate timescale.</p>
8	Promote a corporate culture that is based on ethical values and behaviours.	Fully compliant	<p>The Board recognises that its decisions will impact the corporate culture of the Group as a whole and that this will affect the performance of the business. The Board is also very conscious that the tone and culture that it sets will greatly impact all aspects of the Group and the way employees behave and operate. The importance of sound ethical values and behaviours is crucial to the ability of the Group to successfully achieve its corporate objectives. Senior management regularly visit group companies and employees are invited to other group company offices.</p> <p>The Board has regular interaction with Group company employees and monitors corporate culture in this way. Additionally, it ensures its sound ethical practices and behaviours are deployed at Group company meetings.</p>

Corporate Governance Report (continued)

9	Maintain Governance structures and processes that are fit for purpose and support good decision making by the Board	Fully compliant	<p>The roles and responsibilities of each Director are set out in the response to Principle 6.</p> <p>The terms of reference of the Board committees are set out in response to Principle 5.</p> <p>There are a wide range of matters reserved for the Board. These include strategy, finance, corporate governance, approval of significant capital expenditure, appointment of key personnel and compliance with legal and regulatory requirements.</p> <p>The Company's governance framework is reviewed to maintain the highest levels of business performance.</p>
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Fully compliant	<p>The Board recognises that meaningful engagement with its shareholders is integral to the continued success of the Group. The Board are kept informed of the views of the shareholders through reports from the Independent Non-Executive Director and Company Secretary.</p> <p>The Board believes that the Annual Report, and the Interim Report published at the half-year, play an important part in presenting all shareholders with an assessment of the Group's position and prospects. All reports and press releases are published on the Group's website.</p> <p>The Annual General Meeting is the principal opportunity for private shareholders to meet and discuss the Group's business with the Directors. There is an open question and answer session during which shareholders may ask questions both about the resolutions being proposed and the business in general. The Directors are also available after the meeting for an informal discussion with shareholders.</p> <p>The Committees of the Board have not published committee reports. They will consider whether to do so in the future.</p> <p>The Board is supported by the Audit and Remuneration Committees, each of which has access to information, resources and advice that it deems necessary, at the company's cost, to enable the Committee to discharge its duties. These duties are set out in the Terms of Reference which are available on the website.</p> <p><i>The Audit Committee</i> The Audit Committee has met with the external auditors during the course of the year to monitor progress and discuss any issues arising.</p> <p><i>The Remuneration Committee</i> The Remuneration Committee reviews and determines on behalf of the Board and shareholders of the Company the pay, benefits and other terms of service of the executive Directors of the Company and the broad pay strategy with respect to senior Company employees.</p> <p><i>Remuneration Policy</i> The objective of the Company's remuneration policy is to develop remuneration packages which motivate Directors and support the business objectives in the short, medium and long term; to align the interests of executive Directors with the interests of long term shareholders; encourage executives to operate within the risk parameters set by the Board and ensure that the company can recruit and retain high quality executives through packages which are fair and attractive but not excessive.</p>

Corporate Governance Report (continued)

10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	<p>Matters reserved for the Board</p> <p>1. Management structure and appointments</p> <ul style="list-style-type: none"> • Senior management responsibilities • Board and other senior management appointments or removals • Board and senior management succession, training, development and appraisal • Appointment or removal of Company Secretary • Appointment or removal of internal auditor • Remuneration, contracts, grants of options and incentive arrangements for senior management • Delegation of the board’s powers • Agreeing membership and terms of reference of board committees and task forces • Establishment of managerial authority limits for smaller transactions • Matters referred to the board by the board committees <p>2. Strategic/Policy considerations</p> <ul style="list-style-type: none"> • Business strategy • Diversification/retrenchment policy • Specific risk management policies including insurance, hedging, borrowing limits and corporate security • Agreement of codes of ethics and business practices • Receipt and review of regular reports on internal controls • Annual assessment of significant risks and effectiveness of internal controls • Calling of shareholders’ meetings • Avoidance of wrongful or fraudulent trading <p>3. Transactions</p> <ul style="list-style-type: none"> • Acquisitions and disposals of subsidiaries or other assets over, say 5% of net assets/profits • Investment and other capital projects over a similar level • Substantial commitments including: <ul style="list-style-type: none"> i. Pension funding ii. Contracts in excess of one year’s duration iii. Giving securities over significant Company assets (including mortgages and charges over the Company’s property) • Contracts not in the ordinary course of business • Actions or transactions where there may be doubt over property • Approval of certain announcements, prospectuses, circulars and similar documents • Disclosure of directors’ interests • Transactions with directors or other related parties
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Corporate Governance Report (continued)

<p>10</p>	<p>Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p>	<p>Matters reserved for the Board (continued)</p> <p>4. Finance</p> <ul style="list-style-type: none"> • Raising new capital and confirmation of major financing facilities • Treasury policies including foreign currency and interest rate exposure • Discussion of any proposed qualification to the accounts • Final approval of annual and interim reports and accounts and accounting policies • Appointment/proposal of auditors • Charitable and political donations • Approval and recommendation of dividends • Approval before each year starts of operating budgets for the year and periodic review during the year <p>5. General</p> <ul style="list-style-type: none"> • Governance of company pension schemes and appointment of company nominees as trustee • Allotment, calls or forfeiture of shares <p>Notices of all general meetings for the past 5 years are contained within the Annual Accounts. These are included on the Company’s website in the Documents and Notifications section.</p> <p>There have been no significant votes against any resolution proposed at a general meeting in the past 5 years. Significant means more than 20% of those who voted, voting against a resolution.</p>
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Jan G Holmstrom
 Non-Executive Chairman
 11 November 2019

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 May 2019.

Principal activities

Leeds Group plc has been established for more than a century and is incorporated in England and Wales under Company Number 67863. Its principal country of operation is Germany.

For most of its history, the Group has been mainly engaged in textile processing, specialising in fabric printing and yarn dyeing, and by 1996 had manufacturing operations in UK, Holland and Italy. In recent years, the European textile manufacturing industry has contracted, with an ever-increasing proportion of European textile consumption being sourced from the low wage economies of the Far East. In response, Leeds Group has ceased all manufacturing activities and is today totally focused on the import and sale throughout the world of fabric imported chiefly from the Far East.

Leeds Group's trading operations are conducted by Hemmers. Hemmers is based in Nordhorn, Germany and has a German subsidiary, KMR based in Nordhorn and a Chinese subsidiary, Chinoh-Tex based in Shanghai.

Results and dividend

The Consolidated statement of comprehensive income for the year is set out on page 25.

Given the results of the financial year, the directors do not recommend the payment of a dividend in 2019 (2018: *£nil*).

Directors and directors' interests

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

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

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

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

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

No changes in directors' share interests or share options have taken place between the end of the year and 11 November 2019.

Substantial shareholdings

The following shareholders held interests of 3% or more of the issued share capital of the Company as at 11 November 2019:

	% of issued share capital	% of issued share capital excluding shares held in treasury
Mr Johan Claesson and associates	25.25	29.20
Mr Peter Gyllenhammar and associates	21.31	24.64
Sunningdale Investments Ltd	8.91	10.31

Directors' Report (continued)

Directors' and officers' liability insurance

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

Political and charitable contributions

The Group made no political contributions, nor any donations to UK charities in the years ended 31 May 2019 and 31 May 2018.

Leeds Group plc Ordinary shares of 12 pence each

The market value of Leeds Group shares between 1 June 2018 and 31 May 2019 ranged between 20p and 32p. The average market value for the year was 27p, and at 31 May 2019 the market value was 21p (*31 May 2018: 28.5p*).

Purchase of own shares

The Company purchased 30,000 of its own shares during the year as shown in note 24. At the forthcoming AGM, the Company will be seeking to renew its authority to purchase up to 15% of the ordinary shares in issue, assuming the remaining authority is fully utilised. Shares will only be purchased if the Board believes it can take advantage of stock market conditions to enhance returns for the remaining shareholders.

Employees

The directors acknowledge that the employees of the Group are key to the success of the business. Employment policies are in place to ensure there is adequate training and development plans in place for all employees aligned to personal appraisal schemes. The directors encourage management feedback at all levels and seek to ensure employees are informed on all matters affecting them through regular management and departmental meetings.

It is the Group's policy to give fair and full consideration to all applications for employment having regard to their aptitudes and abilities including disabled employees. Should an employee become disabled, the Group would, where practicable, seek to continue and arrange appropriate training.

Financial risk management policies

The Group's activities are exposed it to a variety of financial risks which are set out in note 3 to the consolidated financial statements.

Future developments

The Group is focused on developing and improving the Hemmers business. The acquisition of KMR should bring economies of scale and working synergies within the two companies. In order to concentrate on these two trading companies, Chinoh-Tex, the Chinese subsidiary will be closed during the next financial year.

Post-Balance sheet events

Details of events which have occurred since 31 May 2019 and up to the date of this report are disclosed in note 28 to the consolidated financial statements.

Going concern

The directors have prepared forecasts for the period to 30 November 2020, which demonstrate a positive cash flow. Based on the forecasts, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Directors' Report (continued)

Directors' responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

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

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

Website publication

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

Auditors

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

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

By Order of the Board

Dawn Henderson
Company Secretary
11 November 2019

Old Mills
Whitehall Grove
Drighlington
Bradford, BD11 1BY

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

Opinion

We have audited the financial statements of Leeds Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 May 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Statement of Financial Position, Company Statement of Changes in Equity, Notes to the Consolidated Financial Statements and Notes to the Financial Statements of the Company, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent 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 as applied to listed entities, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matter	How our audit addressed the key audit matter
<p>Carrying amount of inventories</p> <p>As detailed in note 16 of the consolidated financial statements, the group has £11.8m (2018: £9.6m) of inventories at the year end. This has increased since the prior year following the acquisition of the KMR business. Given the nature of the business, these inventories include items which may be held in stock for a significant period before being sold. This creates a risk that certain items of inventory may not sell at prices above cost. As detailed in note 2 of the group financial statements, management therefore makes an assessment of the estimated provision required to write down inventory to net realisable value.</p> <p>Given the significant value of inventories on the group statement of financial position, and the estimation in valuation, we identified this as a key audit matter.</p>	<p>For both trading subsidiaries, management calculates an inventory provision in respect of slow moving items. They identify these items based on stock turnover seen in the current year, and apply provisioning rates, based on turnover rates.</p> <p>We confirmed that the policy remained consistent with the previous year. Based on our knowledge of the business and discussions with management we considered whether there were any changes to the nature of the business that would render the provisioning policies no longer appropriate but did not identify any such factors.</p> <p>We tested the integrity of management's provision calculations by confirming they were using underlying data correctly and that the calculations were performed accurately.</p> <p>To gain assurance over the reasonableness of provisioning rates used by management, we performed a retrospective review of prior year inventory items sold at below cost to confirm that the methodology adopted yielded an adequate provision.</p> <p>For a sample of stock items, we reviewed the post year-end sales prices achieved to assess the net realisable value of the inventory and the adequacy of the provisions estimated by management.</p> <p>Based on the procedures performed we found management's inventory provision assumptions and applications thereof to be appropriate.</p>
<p>Acquisition accounting</p> <p>As detailed in note 14 of the consolidated financial statements, in July 2018 the group became 100% owners of KMR, previously a joint venture entity.</p> <p>Accounting for this transaction required judgements in relation to the fair value of the group's original share in the joint venture, the fair value of the consideration paid for the acquisition and the total fair value of assets and liabilities acquired.</p> <p>Given the level of judgments involved and the potential impact on the group's Statement of Comprehensive Income and Statement of Financial Position we identified this as a key audit matter.</p>	<p>We confirmed that the company's proposed accounting for the transaction was in accordance with IFRS 3 Combinations.</p> <p>We obtained the sale and purchase agreement to confirm the elements of consideration transferred to obtain control. We considered management's judgement in respect of the fair value of assets transferred.</p> <p>We challenged management's assumptions regarding the fair value of their original investment and also challenged management's key judgments in respect of the fair value of the assets and liabilities acquired. This included obtaining third party evidence to support the valuation of the property held by the entity. Based on the procedures performed we found the acquisition accounting and its associated judgements to be appropriately calculated and disclosed.</p>

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effects on the financial statements as a whole.

The materiality for the group financial statements as a whole was set at £125,000 (2018: £210,000). This was determined with reference to a benchmark of revenue, of which this represents 0.3% (2018: 0.5%), which, in light of the losses achieved in the current year, we consider to be one of the principal considerations for members of the parent company in assessing the financial performance of the business.

The materiality for the parent company financial statements was set at £50,000 (2018: £98,000). This was determined with reference to a benchmark of 0.8% of net assets, which we consider to be the principal consideration for members of the company.

Component materiality for the subsidiaries considered significant components was set at between £65,000 and £110,000 (2018: one significant component £195,000). This was determined on a consistent basis with group materiality, representing between 0.3% and 0.7% of revenue (2018: one significant component 0.5%).

Performance materiality has been set at 75% (2018: 75%) of the above materiality figures. This has been assessed on criteria such as historic adjustment levels, complexity and controls of the group.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £5,000 (2018: £8,400). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level. This includes certain risks that arise in subsidiaries but have a potentially material impact at group level.

There are five components within the group, including the parent company. The group and parent company was subject to a full scope audit by the group audit team. The two significant components, based in Germany, were subject to full scope audits by a BDO member firm acting as component auditor. This work was subject to a high level of involvement from the group engagement team, including most notably risk identification, setting of materiality and audit response. The group team was involved in these audits from planning through to completion, through engagement with both component management and component audit team at various meetings and performance of on-site review of component auditor files.

For the remaining non-significant components, the group engagement team performed analytical review procedures applying the group materiality level.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2019, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters 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 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities set out on page 11, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom
11 November 2019

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

Consolidated Statement of Comprehensive Income

for the year ended 31 May 2019

	Note	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Revenue	6	41,271	41,538
Cost of sales		(32,254)	(32,526)
Gross profit		9,017	9,012
Distribution costs		(3,424)	(2,722)
Impairment of goodwill	4	(982)	-
Administrative expenses		(5,644)	(5,188)
Administrative costs		(6,626)	(5,188)
Other income	4	11	50
Operating (loss)/profit	4	(1,022)	1,152
Finance expense	7	(194)	(160)
Share of post-tax loss of joint venture		(34)	(107)
(Loss)/profit before tax		(1,250)	885
Tax charge	8	(43)	(340)
(Loss)/profit for the year attributable to the equity holders of the Parent Company		(1,293)	545
Other comprehensive income			
Translation differences on foreign operations		55	141
Other comprehensive income for the year		55	141
Total comprehensive (loss)/income for the year attributable to the equity holders of the Parent Company		(1,238)	686

The results shown in the Consolidated Statement of Comprehensive Income derive wholly from continuing operations. There is no tax effect relating to other comprehensive income for the year. Amounts included in other comprehensive income may be reclassified subsequently as profit or loss.

(Loss)/Earnings per share attributable to the equity holders of the Company

	Note	Year ended 31 May 2019	Year ended 31 May 2018
Basic and diluted (loss)/earnings per share (pence)	9	(4.7p)	2.0p

The notes on pages 29 to 54 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 May 2019

Company number 00067863

	Note	31 May 2019 £000	31 May 2018 £000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	11	8,534	7,755
Investment property	12	1,009	564
Intangible assets	13	72	1,057
Investment in joint venture	15	-	734
Total non-current assets		9,615	10,110
<i>Current assets</i>			
Inventories	16	11,760	9,621
Trade and other receivables	17	4,382	6,252
Corporation tax recoverable		733	386
Cash and cash equivalents	19	1,065	572
Total current assets		17,940	16,831
Total assets		27,555	26,941
Liabilities			
<i>Non-current liabilities</i>			
Loans and borrowings	21	(2,289)	(3,708)
Deferred tax	8	-	(277)
Total non-current liabilities		(2,289)	(3,985)
<i>Current liabilities</i>			
Trade and other payables	20	(2,770)	(2,619)
Loans and borrowings	21	(4,655)	(1,349)
Provisions	23	(100)	-
Total current liabilities		(7,525)	(3,968)
Total liabilities		(9,814)	(7,953)
TOTAL NET ASSETS		17,741	18,988
Capital and reserves attributable to equity holders of the Company			
Share capital	24	3,792	3,792
Capital redemption reserve	24	600	600
Treasury share reserve	24	(807)	(798)
Foreign exchange reserve		2,545	2,490
Retained earnings		11,611	12,904
TOTAL EQUITY		17,741	18,988

The financial statements on pages 25 to 28 were approved and authorised for issue by the Board of Directors on 11 November 2019 and were signed on behalf of the Board by: -

Jan G Holmstrom
Chairman

The notes on pages 29 to 54 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 May 2019

	Note	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Cash flows from operating activities			
(Loss)/profit for the year		(1,293)	545
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	11	668	586
Depreciation of investment property	12	16	19
Amortisation of intangible assets	13	7	6
Finance expense	7	194	160
Impairment of goodwill	4	982	-
Net goodwill arising on acquisition	14	(7)	-
Movement in fair value of derivatives	18	-	(48)
Gain on sale of property, plant and equipment		(5)	-
Share of post-tax loss of joint venture	15	34	107
Tax charge	8	43	340
Cash flows from operating activities before changes in working capital and provisions			
		639	1,715
Decrease in inventories	16	441	597
Decrease in trade and other receivables	17	140	583
Increase/(decrease) in trade and other payables	20	450	(835)
Cash generated from operating activities			
Income taxes paid	8	(430)	(411)
Net cash flows from operating activities			
		1,240	1,649
Investing activities			
Purchase of property, plant and equipment	11	(550)	(400)
Purchase of subsidiary net of cash	14	75	-
Proceeds from the sale of fixed assets		6	-
Net cash used in investing activities			
		(469)	(400)
Financing activities			
Purchase of treasury shares	24	(9)	-
Bank borrowings repaid	21	(1,358)	(2,102)
Bank borrowings drawn down	21	1,287	-
Bank interest paid	7	(194)	(160)
Net cash used in financing activities			
		(274)	(2,262)
Net increase/(decrease) in cash and cash equivalents			
		497	(1,013)
Translation (loss)/gain on cash and cash equivalents		(4)	18
Cash and cash equivalents at the beginning of the year	19	572	1,567
Cash and cash equivalents at the end of the year			
	19	1,065	572

The notes on pages 29 to 54 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 May 2019

	Share capital £000	Capital redemption reserve £000	Treasury share reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 31 May 2017	3,792	600	(798)	2,349	12,359	18,302
Profit for the year	-	-	-	-	545	545
Other comprehensive income	-	-	-	141	-	141
<i>Total comprehensive income</i>	-	-	-	141	545	686
At 31 May 2018	3,792	600	(798)	2,490	12,904	18,988
Loss for the year	-	-	-	-	(1,293)	(1,293)
Other comprehensive income	-	-	-	55	-	55
<i>Total comprehensive income/(loss)</i>	-	-	-	55	(1,293)	(1,238)
<i>Transaction with Shareholders:</i>						
Purchase of treasury shares	-	-	(9)	-	-	(9)
At 31 May 2019	3,792	600	(807)	2,545	11,611	17,741

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

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

The notes on pages 29 to 54 form part of these financial statements.

Notes

forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies

Basis of preparation

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

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences to the date on which control ceases. All intercompany transactions, balances, income and expenses between Group companies are eliminated on consolidation.

Business combinations

The acquisition method is used to account for all acquisitions. The cost of an acquisition is measured at the fair values at the date of acquisition, which is the date on which control is transferred to the Group. The consideration is calculated as the sum of the fair value of assets transferred and liabilities incurred.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest of the acquiree: less
- the net recognised amount of separately identifiable assets acquired, and liabilities assumed, measured at their fair value.

When the excess is negative, a bargain price is recognised immediately in the profit and loss account. Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern bases of accounting in preparing the financial statements.

Changes in accounting policies

The directors have adopted the following accounting standards which became effective for periods beginning on or after 1 January 2018:

IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The effect of IFRS 15 has been assessed by the directors and they have concluded that the adoption of the standard has not had any impact on the Group's revenues, as the Group's revenues relates to the sale of fabric directly to retail stores and wholesale customers and thus revenue is recognised at the point of sale. Previously revenue was recognised at the point of the transfer of the risks and rewards of ownership. As this was also the point of sale, there has been no change to the point revenue has been recognised.

There has been no financial impact of this accounting standard and therefore the 2018 comparative figures have not been restated.

Notes

forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Changes in accounting policies (continued)

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

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

The effect of IFRS 9 has been assessed by the directors and they have concluded that, since the Group does not hold any complex financial instruments, all financial instruments will continue to be held at amortised cost. As such, the adoption of the new standard has not had a material impact on the results or the financial position of the Group. The approach to the measurement of impairment of trade receivables has changed, with the use of the expected credit loss model, however, the directors consider the impact not to be material.

There has been no financial impact of this accounting standard and therefore the 2018 comparative figures have not been restated.

As of the date of these financial statements, the following standards were in issue but not yet effective. The Group has not applied these standards in the preparation of these financial statements and has not adopted any new or amended standards early.

IFRS 16, 'Leases' is effective for periods beginning on or after 1 January 2019. The first set of interim accounts that will be prepared in accordance with IFRS 16 will be 30 November 2019. The impact of the new standard will bring operating lease arrangements on the balance sheet, with the right of use asset and corresponding financial liability recognised on transition. Within the income statement rent expenses will be replaced by depreciation and interest expenses. This will result in a decrease in operating expenses and an increase in finance costs.

The Group has a material operating lease commitment as set out in note 25 and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the Group. The directors have decided they will apply the modified retrospective approach and therefore at the date of initial application an amount equal to the lease liability, using appropriate incremental borrowing rates, will be recognised as a right to use asset. The portfolio of leases consists of vehicle leases and property leases. For low value and short-term leases, the directors have decided to apply the exemptions.

Assuming the Group's lease commitments remain at a similar level to those at 31 May 2019 and the incremental borrowing rate is 3%, the effect of adopting IFRS 16 is expected to result in the recognition of right to use assets and lease liabilities of approximately £3,160,000 as at 1 June 2019.

Instead of recognising operating lease expenses for its operating leases, the Group will instead recognise interest on its lease liabilities and depreciation on its right to use assets. The overall impact on the financial results to 31 May 2020 is expected to be an additional charge to the profit and loss of approximately by £25,000. If incremental borrowing increased or decreased by 1% the impact on the right to use assets and lease liabilities would be approximately £83,000 and the impact on profit would be approximately £7,000.

Notes

forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and is shown net of Value Added Tax. The sale of goods is recognised at the point of acceptance by the customer this reflecting fulfilment of the sole performance obligation to the customer. Contracts with wholesale customers are typically fixed price based on agreed amounts and invoiced upon despatch of the goods in line with the standard terms and conditions of the Group. The Group's standard payment terms are between 30 and 60 days following the date of invoice. Contracts with retail customers are based on a fixed price at the point of sale. There are no long-term or financing arrangements in place across the Group.

The Group is assessed operationally and financially under two revenue streams wholesale and retail revenue as detailed above. The directors do not therefore consider there to be a lower relevant level of revenue disclosure than that disclosed the segmental analysis in note 6. There are no material concentrations of revenue by customers.

Exceptional items

The Group seeks to highlight certain items as exceptional operating income or costs. These are considered exceptional due to their size or nature and may include items such as restructuring costs, material profit or loss on the sale of fixed assets, impairment of assets or gains or losses arising on the acquisition or disposal of subsidiaries or joint ventures. Management believe that separate disclosure of these type of items is relevant to understanding the Group's underlying financial performance

Segmental reporting

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

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

Dividends

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

Goodwill

Goodwill arising an acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of identifiable assets and liabilities acquired, is capitalised as an intangible asset. On capitalisation the goodwill is allocated to a specific cash generating unit to which it relates. The goodwill is tested for impairment on an annual basis at the end of the financial year by reference to the cash generating unit and is carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Other intangible assets

Intangible assets purchased separately, such as trademarks, are capitalised at cost and amortised on a straight-line basis. This is charged to operating expenses over the asset's useful of 20 years.

Property, plant and equipment

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

Land and buildings	8 - 33 years
Plant and equipment	5 - 15 years

Notes

forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Investment property

The Group applies the cost model to investment property. Investment property comprises property held by the Group not occupied by the its trading subsidiaries for the purpose of earning rental income to cover costs. Investment property is stated at depreciated cost. Depreciation is provided on the property to write off the carrying value on a straight-line basis over the expected useful life of 33 years. Freehold land held as an investment is not depreciated.

Impairment of non-current assets

At each financial year end, the Group assesses whether there is an indication that's its assets have been impaired. If there is an indication that its assets have been impaired, the recoverable amount is determined in order to determine the extent of the impairment. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which it relates is determined.

The recoverable amount is defined as the higher of the fair value less costs to sell and value in use at that date. Value in use is calculated as the expected future cash flows discounted on a pre-tax basis, using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to that assets or cash generating unit. If the recoverable amount of the asset is less than the carrying value, the carrying value is reduced to its recoverable amount, that reduction is recognised as an impairment loss.

An impairment loss relating to an asset carried at cost less accumulated depreciation or amortisation is recognised immediately in the profit and loss account. If an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised recoverable amount but limited to the carrying value that would have been determined had no impairment been recognised in prior years. A reversal of an impairment loss is recognised in the profit and loss account.

Leases

Payments made under an operating lease are charged to profit and loss on a straight-line basis over the lease term.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance lease are recognised as assets or the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation so as to achieve a constant rate of interest on the remaining balance.

Finance charges are charged to the profit and loss, unless they are directly attributable to qualifying assets, in which they are capitalised.

Inventories

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

Retirement benefits

The Group operates a defined contribution pension scheme for its UK employees, and contributions are charged to the consolidated statement of comprehensive income in the period to which they relate. The Group does not operate pension schemes in Germany or China where pension arrangements are provided by the state.

Taxation

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

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forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Deferred taxation

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

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

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

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

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

Foreign currency

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

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

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

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

Notes

forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Financial assets and liabilities

IFRS 9 'Financial Instruments' outlines the principles an entity must apply to measure and recognise financial assets and liabilities. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the settlement date.

Financial assets

Financial assets that are held to collect are categorised as amortised cost under IFRS 9. This includes the Group's trade and other receivables and cash and cash equivalents.

The measurement of these financial assets held at amortised cost remains unchanged since the introduction of IFRS 9.

Trade receivables

Trade receivables that do not contain a significant financing component and are recognised initially at fair value and thereafter at amortised cost less provision for impairment. Impairment provisions for current and non-current trade receivables are recognised based on a simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivable is assessed. This probability is then multiplied by the amount of the gross trade receivables to determine the expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in separate provision account with the loss being recognised within administration cost in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collected, the gross carrying value is written off against the associated provision.

Cash and cash equivalents

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

Financial liabilities

The classification and measurement of financial liabilities in accordance with IFRS 9 remains largely unchanged. All financial liabilities are measured at amortised cost and include trade and other payables and bank borrowings.

Trade and other payables

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

Borrowings

Borrowings, which comprise bank loans are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the arrangement of the loan facilities and revolving credit facilities are recognised as transaction costs over the life of the agreement.

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forming part of the financial statements for the year ended 31 May 2019

1 Accounting policies (continued)

Share capital

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

Treasury shares

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

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability. Where the buyer has the right to return the goods the Group estimates the return rate based on past experience with similar sales and recognises revenue on this transaction with a corresponding provision against revenue for estimated returns.

2 Critical accounting estimates and judgements

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

(i) Impairment of intangible assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment loss. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. A provision against the goodwill of £982,000 has been made during the year as it was considered to be impaired as detailed in note 13.

(ii) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods. The values of fixed asset are shown in note 11.

(iii) Inventory

The Company reviews the net realisable value of, and demand for, its inventory on a regular basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends. The values of stock are shown in note 16. A 1% increase in the inventory provision would equate to approx. £126,000.

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forming part of the financial statements for the year ended 31 May 2019

3 Financial instruments - risk management

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

- **Credit risk**
- **Market risk** in the form of foreign exchange risk
- **Liquidity risk**

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

During the year the Group's current bank debt increased from £1,349,000 to £4,655,000 and the non-current bank debt decreased from £3,708,000 to £2,289,000. Other than that, there have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

Principal financial instruments

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

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

The Group had no forward contracts at either 31 May 2018 or 2019. All other financial assets and financial liabilities are measured at amortised cost.

General objectives, policies and processes

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

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

Credit risk

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

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

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forming part of the financial statements for the year ended 31 May 2019

3 Financial instruments - risk management (continued)

Credit risk (continued)

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating “A” are accepted. The directors monitor the utilisation of the credit limits regularly and at the reporting date do not expect losses from non-performance by the counterparties to exceed amounts that have been provided. Details of the provisions held against trade receivables are given in note 17 to the financial statements.

Market risk

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

(i) Cash flow interest rate risk

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

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

(ii) Foreign exchange risk

The Group has operations located in Germany and China whose functional currencies are, respectively, the Euro and the RMB. Foreign exchange risk arises when these entities enter into transactions denominated in a currency other than their functional currency, which almost invariably involves sales or purchases denominated in US Dollars. It is Group policy that Euro/US Dollar exposures should be commercially hedged locally by entering into forward contracts with reputable banks wherever appropriate. Exposure and risk relating to RMB/US Dollar transactions is small. There are no forward contracts outstanding at either year end.

At the date of the consolidated statement of financial position, a 10% strengthening of Sterling against the Euro and the RMB, all other variables held constant, would have resulted in an estimated decrease of £1,505,000 in the reported net asset value of the Group. A 10% weakening of Sterling against the Euro and the RMB at the date of the statement of financial position, on the same basis, would have resulted in an estimated increase of £1,837,000 in the reported net asset value of the Group.

Liquidity risk

Liquidity risk arises from the Group’s management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Board monitors and manages the Group’s net indebtedness by reference to cash flow forecasts prepared in their functional currencies by subsidiary companies. These forecasts are regularly updated, allowing the Board to ensure that the Group will always be able to meet its liabilities when they become due by maintaining adequate cash balances and committed loan facilities. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further discussed in the ‘interest rate risk’ section above.

Capital policy

The Group’s capital comprises equity as shown in the Consolidated Statement of Financial Position plus net debt, which is set out in note 21 to the financial statements. The Board’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a capital structure that optimises the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets or reduce debts.

Notes

forming part of the financial statements for the year ended 31 May 2019

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging:	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Auditor's fees		
<i>Statutory audit services</i>		
- Audit of the Parent Company and the consolidated accounts	34	21
- Audit of subsidiary companies	60	34
<i>Non-audit related services</i>		
- Tax compliance	7	7
- Bank compliance	3	-
Total auditor's fees	104	62
Staff costs	8,788	6,496
Depreciation		
- Property, plant and equipment	668	586
- Investment property	16	19
Amortisation	7	6
Impairment of goodwill	982	-
Operating lease expense		
- Plant and machinery	159	168
- Property	1,178	94
Operating lease income		
- Property	11	50
Gain on disposal of property, plant and equipment	5	-
Gain on derivatives	-	48

5 Staff costs

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

	Management	Sales and customer service	Warehousing	Administration	Group total
2019	8	247	71	52	378
2018	8	65	78	38	189

Staff costs, including directors, comprise	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Wages, salaries and directors' fees	7,353	5,447
Defined contribution pension cost	1	1
Employer's national insurance contributions and similar taxes	1,434	1,048
Total staff costs	8,788	6,496

Notes

forming part of the financial statements for the year ended 31 May 2019

5 Staff costs (continued)

Included in employer's national insurance contributions and similar taxes are the amounts paid by Hemmers to fund employees' pension entitlements provided by the German state.

	Salary & Fees £000	Bonus £000	Taxes £000	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Executive director					
Jörg Hemmers	224	21	13	258	239
Non -executive directors					
Johan Claesson	20	-	-	20	16
David Cooper	15	-	-	15	15
Jan G Holmstrom	31	-	-	31	27
	290	21	13	324	297

Jörg Hemmers is Managing Director of Hemmers, a wholly owned subsidiary of Leeds Group, and based in Germany. No recharge of his salary is made to the Parent Company. The fees relating to Johan Claesson and Jan Holmstrom are paid, respectively, to Johan & Marianne Claesson Aktiebolag and Somerset Aktiebolag who invoice the Company for the services of these directors. Their costs include VAT unrecoverable in the UK.

Outstanding share options granted to employees or directors at 31 May 2019 were nil (2018: nil).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, and comprise the directors of the Group listed on page 6.

	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Salary and fees	290	276
Bonuses	21	8
Employer's national insurance contributions and similar taxes	13	13
Total remuneration of key management personnel	324	297

6 Segmental information

The Group's trading businesses are Hemmers, and its two trading subsidiaries KMR and Chinoh-Tex. Hemmers is incorporated in Germany and is engaged in the import and distribution of fabric from its principal place of business in Nordhorn, Germany. KMR is also incorporated in Germany and is a retailer of fabric and haberdashery, operating leased shops in various German cities. Chinoh-Tex is incorporated in China and based in Shanghai, buying fabric from Chinese manufacturers to be sold internationally.

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

The Parent Company is not in itself an operating segment, but its net costs are shown in order that the segmental information presented to the Board can be reconciled to the Consolidated Statement of Comprehensive Income.

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forming part of the financial statements for the year ended 31 May 2019

6 Segmental information (continued)

The following tables set out a segmental analysis of the Group's operations.

Year ended 31 May 2019	Hemmers £000	KMR £000	Chinoh- Tex £000	Inter segmental £000	Total Hemmers £000	Parent Company £000	Goodwill Impairment £000	Total Group £000
External revenue	30,939	7,966	2,366	-	41,271	-	-	41,271
Inter-segmental revenue	1,852	-	204	(2,056)	-	-	-	-
Cost of sales	(25,911)	(6,092)	(2,093)	1,842	(32,254)	-	-	(32,254)
Gross profit/(loss)	6,880	1,874	477	(214)	9,017	-	-	9,017
Distribution costs	(2,027)	(1,202)	(195)	-	(3,424)	-	-	(3,424)
Admin expenses	(4,231)	(1,119)	(251)	193	(5,408)	(236)	(982)	(6,626)
Other income	11	-	-	-	11	-	-	11
Operating profit/(loss)	633	(447)	31	(21)	196	(236)	(982)	(1,022)
Finance expense	(155)	(39)	-	-	(194)	-	-	(194)
Internal interest	(239)	-	-	-	(239)	239	-	-
Share of JV loss	(34)	-	-	-	(34)	-	-	(34)
Profit/(loss) before tax	205	(486)	31	(21)	(271)	3	(982)	(1,250)

At 31 May 2019	Hemmers £000	KMR £000	Chinoh- Tex £000	Inter segmental £000	Total Hemmers £000	Parent Company £000	Total Group £000
Total assets	22,330	4,609	838	(331)	27,446	109	27,555
Total liabilities	(10,130)	(2,450)	(195)	-	(12,775)	2,961	(9,814)
Total net assets	12,200	2,159	643	(331)	14,671	3,070	17,741

Year ended 31 May 2018	Hemmers £000	Chinoh- Tex £000	Inter segmental £000	Total Hemmers £000	Parent Company £000	Total Group £000
External revenue	38,299	3,239	-	41,538	-	41,538
Inter-segmental revenue	1	556	(557)	-	-	-
Cost of sales	(29,839)	(3,231)	544	(32,526)	-	(32,526)
Gross profit/(loss)	8,461	564	(13)	9,012	-	9,012
Distribution costs	(2,460)	(262)	-	(2,722)	-	(2,722)
Admin expenses	(4,530)	(388)	-	(4,918)	(270)	(5,188)
Other income	50	-	-	50	-	50
Operating profit/(loss)	1,521	(86)	(13)	1,422	(270)	1,152
Finance expense	(160)	-	-	(160)	-	(160)
Internal interest	(238)	-	-	(238)	238	-
Share of JV profit	(107)	-	-	(107)	-	(107)
Profit/(loss) before tax	1,016	(86)	(13)	917	(32)	885

Notes

forming part of the financial statements for the year ended 31 May 2019

6 Segmental information (continued)

At 31 May 2018	Hemmers £000	Chinoh- Tex £000	Inter segmental £000	Total Hemmers £000	Parent Company £000	Goodwill £000	Total Group £000
Total assets	24,386	1,463	(37)	25,812	149	980	26,941
Total liabilities	(10,189)	(414)	-	(10,603)	2,927	(277)	(7,953)
Total net assets	14,197	1,049	(37)	15,209	3,076	703	18,988

Disaggregation of revenue is shown by destination as follows:

	31 May 2019 £000	31 May 2018 £000
UK	1,403	1,365
Germany	27,053	23,410
Rest of EU	9,048	11,899
Total EU	37,504	36,674
Rest of Europe	2,285	2,598
Total Europe	39,789	39,272
North America	334	712
Asia	173	363
Oceania	775	956
South America	143	232
Africa	57	3
Total revenue	41,271	41,538

Other information:

	Year ended 31 May 2019				Year ended 31 May 2018		
	Hemmers £000	KMR £000	Chinoh-Tex £000	Group £000	Hemmers £000	Chinoh-Tex £000	Group £000
Additions							
Property, plant & equipment	466	84	-	550	398	2	400
Depreciation							
Property, plant & equipment	513	131	24	668	557	29	586
Investment property	16	-	-	16	19	-	19
Amortisation							
Intangible assets	7	-	-	7	6	-	6

Notes

forming part of the financial statements for the year ended 31 May 2019

7 Finance income and expense

	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Finance expense		
Interest paid on bank overdrafts and loans	(194)	(160)
Net finance expense recognised in comprehensive income	(194)	(160)

8 Tax charge

	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Current tax charge		
Tax of overseas operations on profits for the year	164	340
Adjustments for under provision in prior years	157	-
Total current tax charge	321	340
Deferred tax credit for the year	(278)	-
Total tax charge	43	340

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

	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
(Loss)/profit before taxation	(1,250)	885
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018:19%)	(238)	168
Expenses not deductible for tax purposes	17	20
Unrelieved losses	104	43
Utilisation of past losses	(3)	-
Adjustments for under provision in prior years	157	-
Different tax rates applied in overseas jurisdictions	6	109
Total tax charge	43	340

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

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

	Deferred tax £000
Liability at 31 May 2018	277
Credit to income statement	(278)
Effect of movements in foreign exchange rates	1
Liability at 31 May 2019	-

Notes

forming part of the financial statements for the year ended 31 May 2019

9 (Loss)/Earnings per share and Net asset per share

Earnings per share	Year ended 31 May 2019	Year ended 31 May 2018
Numerator		
(Loss)/profit for the year from continuing operations, being the earnings used in earnings per share	£(1,293,000)	£545,000
Denominator		
Weighted average number of shares used in earnings per share (excluding treasury shares)	27,330,788	27,350,843
Basic and diluted (loss)/earnings per share	(4.7)p	2.0p
Since there are no outstanding share options, there is no difference between basic and diluted earnings per share.		
Net assets per share	Year ended 31 May 2019	Year ended 31 May 2018
Numerator		
Net assets	£17,741,000	£18,988,000
Denominator		
Number of shares (excluding treasury shares)	27,320,843	27,350,843
Net assets per share	64.9p	69.4p

10 Dividend

The directors have not proposed a dividend in respect of the year ended 31 May 2019 nor for the year ended 31 May 2018.

11 Property, plant and equipment

	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 31 May 2017	7,943	2,573	10,516
Additions	13	387	400
Effect of movements in foreign exchange rates	66	23	89
Balance at 31 May 2018	8,022	2,983	11,005
Acquisition of subsidiary	406	443	849
Additions	31	519	550
Disposals	-	(78)	(78)
Effect of movements in foreign exchange rates	50	17	67
Balance at 31 May 2019	8,509	3,884	12,393

Notes

forming part of the financial statements for the year ended 31 May 2019

11 Property, plant and equipment (continued)

	Freehold land and buildings £000	Plant and equipment £000	Total £000
Accumulated depreciation			
Balance at 31 May 2017	922	1,722	2,644
Depreciation charge for the year	261	325	586
Effect of movements in foreign exchange rates	5	15	20
Balance at 31 May 2018	1,188	2,062	3,250
Depreciation charge for the year	261	407	668
Disposals	-	(77)	(77)
Effect of movements in foreign exchange rates	5	13	18
Balance at 31 May 2019	1,454	2,405	3,859
Net book amount			
At 31 May 2017	7,021	851	7,872
At 31 May 2018	6,834	921	7,755
At 31 May 2019	7,055	1,479	8,534

12 Investment property

	Freehold land and buildings £000
Cost	
Balance at 31 May 2017	580
Effect of movements in foreign exchange rates	3
Balance at 31 May 2018	583
Effect of movements in foreign exchange rates	4
Acquisition of subsidiary	458
Balance at 31 May 2019	1,045
Accumulated depreciation	
Balance at 31 May 2017	-
Depreciation charge for the year	19
Effect of movements in foreign exchange rates	-
Balance at 31 May 2018	19
Depreciation charge for the year	16
Effect of movements in foreign exchange rates	1
Balance at 31 May 2019	36
Net book amount	
At 31 May 2017	580
At 31 May 2018	564
At 31 May 2019	1,009

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forming part of the financial statements for the year ended 31 May 2019

13 Intangible assets

	Goodwill £000	Trademarks £000	Total £000
Balance at 31 May 2017	972	83	1,055
Amortisation	-	(6)	(6)
Effect of movements in foreign exchange rates	8	-	8
Balance at 31 May 2018	980	77	1,057
Amortisation	-	(7)	(7)
Impairment loss	(982)	-	(982)
Effect of movements in foreign exchange rates	2	2	4
Balance at 31 May 2019	-	72	72

Goodwill arose in 1999 on the acquisition of the cash-generating unit Hemmers, whose recoverable amount has been determined from value-in-use calculations based on budgeted cash flows. Principal assumptions underlying this calculation are the achievement of improved profit in 2020 reflecting planned volume growth and the cost savings flowing from capital expenditure in previous years, and thereafter an annual growth rate into perpetuity of 2% in revenue, profits and working capital reflecting the expected long term growth rate of the sector. Forecasted operating margins and expenses are based on past experience and future expectations that reflect anticipated economic and market conditions, and a pre-tax discount rate of 13% has been applied to anticipated cash flows. Following the reduced trading performance of Hemmers this year and the expected time for the company to improve trading to achieve previous levels of income the forward cash flows are considerably reduced than those of previous figures used in past years. On this basis, the recoverable amount of the cash-generating unit does not exceed the carrying value, and therefore the directors consider that a provision for impairment is required.

14 Subsidiaries

The subsidiaries of Leeds Group which have been included in these consolidated statements, are as follows:

Name	Country of incorporation	Nature of business
* Hemmers-Itex Textil Import Export GmbH.	Germany	Import, sale, and distribution of textiles
* Leeds Property GmbH.	Germany	Property investment
** Chinoh-Tex Ltd.	China	Textile trading
** KMR GmbH.	Germany	Retail trading

* *Wholly owned subsidiaries of Leeds Group.*

** *Wholly owned subsidiaries of Hemmers.*

The registered addresses of these subsidiaries are shown on page 1.

On 5 July 2018 Hemmers became 100% owners of KMR following the buyout of our joint venture partner. KMR is a retailer of fabric and haberdashery, operating shops located throughout Germany. The consideration was €500,000 (£440,000) comprising €250,000 (£220,000) paid in cash and the balance being three shops at a value of €250,000 (£220,000). Hemmers invested a further €370,000 (£326,000) in the company during the period.

The joint venture investment was accounted for in the consolidated financial statements of Leeds Group using the equity accounting method and at 5 July 2018, was held at a carrying value of 697,000 as shown in note 15.

Notes

forming part of the financial statements for the year ended 31 May 2019

14 Subsidiaries (continued)

Accounting for the step acquisition of KMR requires the directors to fair value the original 50% joint venture investment, with the resulting loss debited to the profit and loss in administrative costs as follows:

	€000	£000
As at 5 July 2018:		
Fair value share of original joint venture	650	572
Carrying value of investment in consolidated financial statements	792	697
Loss on fair valuing of joint venture investment	142	125

Upon obtaining 100% control of the KMR entity, the cost of the investment for the purposes of determining the goodwill is calculated as follows:

	€000	£000
Fair value share of original 50% joint venture	650	572
Fair value of the consideration paid to obtain control	500	440
Cost of investment	1,150	1,012

The net assets of the newly acquired subsidiary are as follows:

	€000	£000
Fair value of net assets as at 5 July 2018:		
Fixed assets	520	849
Investment property	965	458
Stock	3,138	2,762
Cash	335	295
Debtors	259	228
Creditors	(1,731)	(1,524)
Loans	(2,186)	(1,924)
Fair value of assets acquired	1,300	1,144

The directors consider that the book values of the new assets acquired approximate to the fair value of the new assets and that there are no separately identifiable intangible assets.

Goodwill on consolidation is calculated as follows:

	€000	£000
Cost of investment	1,150	1,012
Fair value of net assets acquired	1,300	1,144
Negative goodwill arising on consolidation	150	132

This negative goodwill is credited to the profit and loss in administrative costs. The net goodwill charge is £7,000.

The cash flow effect of the step acquisition is as follows:

	€000	£000
Cash	335	295
Cost of purchase	(250)	(220)
Net cash effect	85	75

Notes

forming part of the financial statements for the year ended 31 May 2019

15 Investment in joint venture

	Year ended 31 May £000	
At 31 May 2017	832	
Share of post-tax profit of year ended 31 May 2018	(107)	
Effect of movements in foreign exchange rates	9	
At 31 May 2018	734	
Share of post-tax profit of year ended 31 May 2019	(34)	
Effect of movements in foreign exchange rates	(3)	
Sale of joint venture	(697)	
At 31 May 2019	-	
Summarised accounts of KMR:	Unaudited Year ended 31 May 2019 £000	Unaudited Year ended 31 May 2018 £000
All values translated at closing rates.		
Revenue	-	9,287
Cost of sales	-	(6,712)
Gross profit	-	2,575
Distribution costs	-	(1,282)
Administrative expenses	-	(1,458)
Interest	-	(44)
Tax	-	(1)
Profit after tax	-	(210)
	31 May 2019 £000	31 May 2018 £000
Non-current assets	-	1,541
Inventories	-	2,992
Trade and other receivables	-	54
Cash and cash equivalents	-	186
Corporation tax	-	126
Total assets	-	4,899
Non-current loans and borrowings	-	(1,310)
Trade and other payables	-	(1,274)
Current loans and borrowings	-	(615)
Total liabilities	-	(3,199)
Net assets	-	1,895

As detailed in note 14, the joint venture in KMR was terminated on 5 July 2018 and at that date KMR became a wholly owned subsidiary of Hemmers.

Notes

forming part of the financial statements for the year ended 31 May 2019

16 Inventories

	31 May 2019	31 May 2018
	£000	£000
Total gross value of goods and goods for resale	12,580	10,209
Less provision	(820)	(588)
Finished goods and goods for resale	11,760	9,621

The amount of inventories recognised as an expense during the year was £26,618,000 (2018: £25,918,000).

17 Trade and other receivables

	31 May 2019	31 May 2018
	£000	£000
Trade receivables	3,445	5,117
Other receivables	762	989
Prepayments	175	146
Total trade and other receivables	4,382	6,252

All amounts are anticipated to be receivable in the short term. The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

18 Derivative financial instruments

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

Foreign exchange risk arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the operation makes use of currency derivatives in order to provide an economic hedge over future transactions and cash flows. Last year a forward contract was taken out to hedge the loan from the Parent Company to Hemmers. There was no movement in the year. (2018: credit £48,000). As at 31 May 2019, there were no forward contracts in place.

19 Cash and cash equivalents

	31 May 2019	31 May 2018
	£000	£000
Cash on demand or on short-term deposit	1,065	572

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

20 Trade and other payables

	31 May 2019	31 May 2018
	£000	£000
Trade payables	1,641	1,526
Other tax and social security taxes	66	67
Accruals	374	430
Other payables	689	596
Total trade and other payables	2,770	2,619

All amounts are anticipated to be payable in the short term. The carrying values are considered to be a reasonable approximation of fair value.

Notes

forming part of the financial statements for the year ended 31 May 2019

21 Borrowings

The book value of loans and borrowings are as follows:

	31 May 2019 £000	31 May 2018 £000
Current		
Secured bank loans	4,655	1,349
Non - current		
Secured bank loans	2,289	3,708
Total loans and borrowings	6,944	5,057

Current loans and borrowings

At 31 May 2019 current loans and borrowings of £4,655,000 (2018: £1,349,000) comprise short term loans of £3,220,000 and instalments due on long term loans detailed below of £1,435,000. The interest rate on the short-term loans range from 1.25% to 2.5% (2018: 2.5%) and these loans are secured on the inventories and trade receivables of Hemmers and KMR. The short-term loans are drawn down by Hemmers against short term borrowing facilities of €11,000,000 and by KMR against short term borrowing facilities of €1,500,000. Neither the Parent Company nor any of its subsidiaries other than Hemmers and KMR have borrowing facilities. Following the recent review of bank facilities, the directors have a reasonable expectation that these facilities will remain available for the foreseeable future.

Non-current loans and borrowings

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

The Group's loans and borrowings are within the accounts of Hemmers, Leeds Properties and KMR. They are denominated in Euros, and their principal terms are as follows:

Amounts outstanding at 31 May 2019 were:

	Fixed Interest Rate	Repayment Profile	Final repayment date	31 May 2019 £000	31 May 2018 £000
Loan 1	4.07%	Equal monthly instalments	September 2027	493	554
Loan 2	3.40%	Single bullet repayment	March 2020	-	1,054
Loan 3	1.65%	Equal quarterly instalments	September 2025	1,350	1,586
Loan 4	1.05%	Equal quarterly instalments	March 2026	446	514
Non-current loans				2,289	3,708

The changes in liabilities arising from financing activities were:

	31 May 2019 £000	31 May 2018 £000
At the start of the year	5,057	7,087
Cash items		
Borrowings acquired	1,932	-
Borrowings drawn down	1,292	-
Borrowings repaid	(1,363)	(2,102)
Exchange	26	72
At the end of the year	6,944	5,057

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forming part of the financial statements for the year ended 31 May 2019

22 Financial instruments

The financial assets of the Group are categorised as follows:

At amortised cost	31 May 2019 £000	31 May 2018 £000
Trade receivables	3,445	5,117
Cash and cash equivalents	1,065	572
	4,510	5,689

The financial liabilities of the Group are categorised as follows:

At amortised cost	31 May 2019 £000	31 May 2018 £000
Trade payables	1,641	1,526
Accruals	374	430
Other payables	689	496
Current bank borrowings	4,655	1,349
Non-current bank borrowings	2,289	3,708
	9,648	7,509

Financial risk management

Overview

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

- **Credit risk**
- **Market risk** in the form of foreign exchange risk
- **Liquidity risk**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The Group's risk management is coordinated by the directors who focus on securing the Group's short to medium-term cash flow through regular review of all the operating activities of each of the businesses.

The most significant financial risks to which the Group is exposed are described as follows:

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date as follows:

	31 May 2019 £000	31 May 2018 £000
Trade receivables	3,445	5,117
	3,445	5,117

The Group has adopted the IFRS 9 simplified approach to measuring expected credit losses using expected loss rates and a provision matrix. The provision matrix is based on the Group's historical default rates over the expected life of the trade receivables adjusted for forward looking estimates. There has been no impact of the change to IFRS 9 and the provision calculated under the expected loss model is not significantly different.

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forming part of the financial statements for the year ended 31 May 2019

22 Financial instruments (continued)

At 31 May 2019 £1,234,000 (2018: £1,582,000) of the Group's trade receivables were past due. An expected loss provision of £728,000 (2018: £708,000) is held to mitigate the exposure to bad and doubtful debts. The ageing of the Group's trade receivables is as follows:

	31 May 2019 £000	31 May 2018 £000
Overdue up to 3 months	410	609
Overdue by 3 to 6 months	78	128
Overdue by 6 to 12 months	45	160
Overdue by more than 12 months	701	685
Total past due trade receivables	1,234	1,582
Total receivables not yet past due	2,939	4,243
Total gross receivables	4,173	5,825
Expected credit loss	(728)	(708)
Total trade receivables (note 17)	3,445	5,117

The ageing profile above is the profile used by management to review debts however it is the expected credit loss model which is used to calculate the provision. The expected loss provision for trade receivables is as follows:

As at 31 May 2019	Not due	Overdue	Overdue	Overdue	Overdue	31 May 2019 £000
		up to 3 months	by 3 to 6 months	by 6 to 12 months	by more than 12 months	
Expected loss rate	1%	3%	7%	10%	96%	
Gross carrying amount	2,939	410	78	45	701	4,173
Loss provision	(29)	(16)	(5)	(5)	(673)	(728)
Net carrying value	2,910	394	73	40	28	3,445
<hr/>						
As at 31 May 2018	Not due	Overdue	Overdue	Overdue	Overdue	31 May 2018 £000
		up to 3 months	by 3 to 6 months	by 6 to 12 months	by more than 12 months	
Expected loss rate	1%	4%	7%	10%	90%	
Gross carrying amount	4,243	609	128	160	685	5,825
Loss provision	(42)	(24)	(9)	(16)	(617)	(708)
Net carrying value	4,201	585	119	144	68	5,117

A reconciliation of the movement in the impairment loss for trade receivables is shown below:

	31 May 2019 £000	31 May 2018 £000
Expected credit loss provision as at 31 May	708	975
Amount charged	35	(38)
Amount released	(19)	(238)
Effect of movements in foreign exchange rates	4	9
Expected credit loss provision as at 31 May	728	708

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forming part of the financial statements for the year ended 31 May 2019

22 Financial instruments (continued)

Foreign currency

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

	31 May 2019 £000	31 May 2018 £000
Euro	3,799	5,243
Chinese Yuan	184	433
US Dollar	340	471
Sterling	59	105
Total trade and other receivables	4,382	6,252

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

	31 May 2019 £000	31 May 2018 £000
Euro	2,150	1,903
Chinese Yuan	195	416
US Dollar	364	250
Sterling	61	50
Total trade and other payables	2,770	2,619

All the groups external loans are denominated in Euros.

Liquidity risk

The Group manages its liquidity needs very carefully on a short and medium terms basis. Longer term needs are monitored as part of the Group's budgetary process.

The Group's financial liabilities have contractual maturities which are summarised below:

	As at 31 May 2019			As at 31 May 2018		
	Amounts due in			Amount due in		
	Less than 1 year £000	2 to 5 years £000	Total £000	Less than 1 year £000	2 to 5 years £000	Total £000
Trade payables	1,641	-	1,641	1,526	-	1,526
Accruals	374	-	374	430	-	430
Other payables	689	-	689	496	-	496
Current bank borrowings	4,655	-	4,655	1,349	-	1,349
Non-current bank borrowings	-	2,289	2,289	-	3,708	3,708
Net carrying value	7,359	2,289	9,648	3,801	3,708	7,509

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forming part of the financial statements for the year ended 31 May 2019

23 Provisions

	Tax £000
Provision at 31 May 2018	-
Debit to income statement	100
Provision at 31 May 2019	100

A provision has been made for additional tax which may fall due following a prior year tax assessment in Germany.

24 Share capital

Issued and fully paid	2019 Number	2019 £000	2018 Number	2018 £000
At beginning and end of the year	31,600,000	3,792	31,600,000	3,792

At 31 May 2019, no options over ordinary shares of the Company were outstanding (2018: nil). There are no rights, preferences or restrictions attached to the ordinary shares. The Group has made purchases of its own ordinary shares of 12 pence each to be held in treasury as follows:

	Number of shares	Cost £000
Shares purchased as at 31 May 2018	9,247,760	1,847
Shares purchased in the year	30,000	9
Shares purchased as at 31 May 2019	9,277,760	1,856
Shares cancelled as at 31 May 2018 and 2019	(4,998,603)	(1,049)
Shares held in treasury at 31 May 2019	4,279,157	807
Shares held in treasury at 31 May 2018	4,249,157	798

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

Notes

forming part of the financial statements for the year ended 31 May 2019

25 Leases

The Group holds operating leases in respect of shops, motor vehicles and plant and machinery used in Germany. The Group also occupies a warehouse and office premises in China under an operating lease which will expire in December 2019.

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

	31 May 2019	31 May 2018
	£000	£000
Within one year	1,129	209
Within two to five years	2,240	149
After five years	264	-
Total future values of minimum lease payments	3,633	358

The Group holds an investment property which is leased to external tenants. The total future values of minimum lease payments in respect of this operating lease is due as follows:

	31 May 2019	31 May 2018
	£000	£000
Within one year	-	6

26 Commitments

At 31 May 2019 capital commitments authorised and committed amounted to £353,000 (2018: nil). There were no amounts authorised but not committed (2018: £nil).

27 Related party transactions

Whilst KMR was a joint venture, the Company paid £15,000 (2018: £192,000) in respect of warehouse rent and management fees to Hemmers during the year. The directors consider that this transaction was made on an arm's length basis.

28 Post balance sheet event

On 28 August 2019, Chinoh-Tex was placed into liquidation by Hemmers, its parent company. This was accepted by the Chinese authorities on 4 September 2019. The liquidation will be completed by 31 December 2019 and the costs of liquidating the company are expected to amount to £345,000 comprising redundancy costs, professional fees and bad debts that may arise. There will be lease costs incurred amounting to £33,000 which are included in note 25 above. The directors do not consider there is any impairment to the assets of Chinoh-Tex as at 31 May 2019.

Company Statement of Financial Position at 31 May 2019
Prepared under FRS 101 "Reduced Disclosure Framework"

Company number 00067863

	Note	31 May 2019 £000	31 May 2018 £000
Assets			
<i>Non-current assets</i>			
Investments in subsidiary undertakings	4	3,370	3,370
Amounts receivable from subsidiary undertakings	5	3,022	2,977
Total non-current assets		6,392	6,347
<i>Current assets</i>			
Trade and other receivables	5	15	9
Cash at bank and in hand		94	140
		109	149
Liabilities			
<i>Current liabilities</i>			
Trade and other payables	6	(61)	(50)
Total current assets		48	99
TOTAL NET ASSETS		6,440	6,446
<i>Capital and reserves</i>			
Share capital	7	3,792	3,792
Capital redemption reserve		600	600
Treasury share reserve		(807)	(798)
Retained earnings		2,855	2,852
TOTAL EQUITY		6,440	6,446

The profit after tax of the company for the year was £3,000 (2018: loss of £32,000).

The financial statements on pages 55 to 56 were approved and authorised for issue by the Board of Directors on 11 November 2019 and were signed on behalf of the Board by: -

Jan G Holmstrom
Chairman

The notes on pages 57 to 59 form part of these financial statements.

Company Statement of Changes in Equity for the year ended 31 May 2019

	Share capital £000	Capital redemption reserve £000	Treasury share reserve £000	Retained earnings £000	Total equity £000
At 31 May 2017	3,792	600	(798)	2,884	6,478
Loss for the year	-	-	-	(32)	(32)
At 31 May 2018	3,792	600	(798)	2,852	6,446
Profit for the year	-	-	-	3	3
<i>Transaction with Shareholders:</i>					
Purchase of treasury shares	-	-	(9)	-	(9)
At 31 May 2019	3,792	600	(807)	2,855	6,440

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

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

The notes on pages 57 to 59 form part of these financial statements.

Notes

forming part of the financial statements of the Company for the year ended 31 May 2019

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with FRS 100 and FRS 101, and the Company takes advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below.

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

Investments

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

Impairment of intercompany receivables

At each financial year end, the Company assesses whether there is an indication that its assets have been impaired. If there is an indication that its assets have been impaired, the recoverable amount is determined in order to determine the extent of the impairment. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which it relates is determined.

The recoverable amount is defined as the higher of the fair value less costs to sell and value in use at that date. Value in use is calculated as the expected future cash flows discounted on a pre-tax basis, using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to that assets or cash generating unit. If the recoverable amount of the asset is less than the carrying value, the carrying value is reduced to its recoverable amount, that reduction is recognised as an impairment loss.

An impairment loss relating to an asset carried at cost less accumulated depreciation or amortisation is recognised immediately in the profit and loss account. If an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised recoverable amount but limited to the carrying value that would have been determined had no impairment been recognised in prior years. A reversal of an impairment loss is recognised in the profit and loss account.

Financial assets and liabilities

IFRS 9 'Financial Instruments' outlines the principles an entity must apply to measure and recognise financial assets and liabilities. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the settlement date.

Financial assets

Financial assets that are held to collect are categorised as amortised cost under IFRS 9. This includes the Group's trade and other receivables and cash and cash equivalents. The measurement of these financial assets held at amortised cost remains unchanged since the introduction of IFRS 9.

Amounts receivable from subsidiary undertakings

Amounts receivable from subsidiary undertakings are initially measured at fair value and subsequently measured at amortised cost. Impairment provisions are recognised based on the general approach within IFRS 9, which requires an assessment of whether there has been a significant increase in credit risk since initial recognition of the facility. Assessment of the requirement of a provision made based on 12-month expected credit losses, or lifetime credit losses, as appropriate.

Cash and cash equivalents

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

Notes

forming part of the financial statements of the Company for the year ended 31 May 2019

1 Accounting policies (continued)

Financial liabilities

The classification and measurement of financial liabilities in accordance with IFRS 9 remains largely unchanged. All financial liabilities are measured at amortised cost and include trade and other payables and bank borrowings.

Trade and other payables

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

Foreign Currency

The financial statements are presented in UK pounds sterling, which is the company's functional currency. Transactions entered into by the Company in a currency other than sterling are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

Dividends

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

2 Statement of Comprehensive Income

A separate statement of comprehensive income for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The profit for the year for the Company dealt with in the consolidated financial statements of the Company was £3,000 (2018: loss £32,000).

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

3 Staff costs

The average number of persons employed in the year by the Company (including directors) was 4 (2018: 4).

Staff costs, including directors, comprise	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000
Wages and salaries	108	100
Defined contribution pension cost	1	1
Employer's national insurance contributions and similar taxes	3	3
Total staff costs	112	107

The remuneration of the directors is disclosed in note 5 to the consolidated financial statements. Outstanding share options granted to employees or directors at 31 May 2019 were nil (2018: nil).

4 Investments in subsidiary undertakings

	Cost £000	Accumulated impairment £000	Net carrying amount £000
At 31 May 2019 and 31 May 2018	3,370	-	3,370

Details of subsidiary undertakings are given on the Group Information page 1 and in note 14 to the consolidated financial statements.

Notes

forming part of the financial statements of the Company for the year ended 31 May 2019

5 Trade and other receivables

	31 May 2019 £000	31 May 2018 £000
Prepayments and accrued income	15	9
Amounts receivable from subsidiary undertakings	3,022	2,977
Total trade and other receivables	3,037	2,948

No impairment loss was recognised in the year in respect of amounts receivable from subsidiary undertakings. (2018: £nil). The amounts receivable from subsidiary undertaking relates to long term loans with details as follows:

	Fixed Interest Rate	Repayment Profile	31 May 2019 £000	31 May 2018 £000
Loan 1	8%	Repayable on demand	2,650	2,635
Loan 2	8%	Repayable on demand	372	342

6 Trade and other payables

	31 May 2019 £000	31 May 2018 £000
Accruals and deferred income	61	50
Total trade and other payables	61	50

7 Share capital

Issued and fully paid	2019 Number	2019 £000	2018 Number	2018 £000
At beginning and end of the year	31,600,000	3,792	31,600,000	3,792

At 31 May 2019, no options over ordinary shares of the Company were outstanding (2018: nil).

Details of the shares held in treasury are disclosed in note 23 to the consolidated financial statements.

8 Commitments

The Company holds no assets under finance leases and has no commitments under operating leases.

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

Five Year Summary of Results and Capital Employed

	Year ended 31 May 2019 £000	Year ended 31 May 2018 £000	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000	Year ended 31 May 2015 £000
Results					
Revenue	41,271	41,538	41,053	36,272	34,859
Cost of sales	(32,254)	(32,526)	(32,468)	(28,563)	(27,066)
Gross profit	9,017	9,012	8,585	7,709	7,793
Operating expenses	(9,057)	(7,860)	(7,008)	(6,165)	(6,171)
(Loss)/profit from operations (excluding impairment charges)	(40)	1,152	1,577	1,544	1,622
Net finance expense	(194)	(160)	(162)	(88)	(64)
Share of post-tax (loss)/profit of joint venture	(34)	(107)	33	51	13
Impairment of goodwill	(982)	-	-	-	-
(Loss)/profit before tax	(1,250)	885	1,488	1,507	1,571
Tax charge	(43)	(340)	(334)	(468)	(518)
(Loss)/profit after tax	(1,293)	545	1,114	1,039	1,053
Assets					
Non-current assets	9,615	10,110	10,339	7,359	3,115
Current assets	17,940	16,831	18,756	15,156	15,344
Total assets	27,555	26,941	29,095	22,515	18,459
Non-current liabilities	(2,289)	(3,985)	(4,259)	(4,073)	(909)
Current liabilities	(7,525)	(3,968)	(6,534)	(2,930)	(3,728)
Total liabilities	(9,814)	(7,953)	(10,793)	(7,003)	(4,637)
Total net assets	17,741	18,988	18,302	15,512	13,822
Financed by					
Total equity	17,741	18,988	18,302	15,512	13,822
Key Statistics					
Basic and diluted (loss)/earnings per share	(4.7p)	2.0p	4.1p	3.8p	3.8p
Net assets per share	64.9p	69.4p	66.9p	56.5p	50.2p

Notice of Annual General Meeting

The one hundred and nineteenth annual general meeting of the Leeds Group plc (“the Company”) will be held at 12 noon on 12 December 2019 at the offices of Leeds Group plc, Old Mills, Whitehall Grove, Drighlington, Bradford, BD11 1BY for the following purposes:

Ordinary business

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

1. To receive the report of the directors, the financial statements for the year ended 31 May 2019 and the report of the auditors thereon.
2. To re-appoint Mr Dave Cooper as a director.
3. To re-appoint Mr Jörg Hemmers as a director
4. To re-appoint BDO LLP as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the financial statements are laid before the Company and to authorise the directors to fix their remuneration.

Special business

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

5. That in accordance with Article 21.1 of the Articles of Association of the Company and Part 18 of the Companies Act 2006 (“the Act”) the Company be and is hereby granted general and unconditional authority (pursuant to section 701 of the Act) to make one or more market purchases (as defined in section 693(4) of the Act) of any of its own ordinary shares of 12 pence each on such terms and in such manner as the Board of directors of the Company may from time to time determine provided that:
 - 5.1 the maximum number of ordinary shares authorised to be purchased by this resolution is 685,000 being 2.26 per cent of the issued ordinary share capital at the date of this notice;
 - 5.2 the maximum price that may be paid for such an ordinary share (exclusive of expenses) is an amount equal to but not more than the higher of:
 - 5.2.1 105 per cent of the average middle market quotations for an ordinary share in the Company taken from the AIM appendix to The London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase; and
 - 5.2.2 the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange for an ordinary share in the Company at the time the purchase is carried out;
 - 5.3 the minimum price that may be paid for such an ordinary share (exclusive of expenses) is 5 pence per share; and
 - 5.4 unless previously revoked or varied, the authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur) except that the Company may, before such expiry, enter into a contract for the purchase of its own ordinary shares which may be completed by or executed wholly or partly after the expiration of this authority and may purchase ordinary shares in pursuance of any such contract as if the authority conferred by this resolution had not expired.

Notice of Annual General Meeting (continued)

Special business (continued)

6. That the directors be and hereby are generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into shares in the Company (Rights) up to an aggregate nominal amount of £1,093,000. The authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur), except that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry, and the directors may allot shares and grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all previous authorities granted to the directors to allot shares and grant Rights, but without prejudice to the allotment or grant of Rights already made or to be made pursuant to such authorities.
7. That, subject to the passing of resolution 6 above, the directors be and hereby are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - 7.1 in connection with an offer of such securities by way of a rights issue, open offer or other pre-emptive issue or offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or any legal, regulatory or practical problems under the laws of any territory, or the requirements of any recognised regulatory body or stock exchange in any territory or any other matter whatever; and
 - 7.2 otherwise than pursuant to sub-paragraph 7.1 above up to an aggregate nominal amount of £189,000.

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

By Order of the Board

Old Mills
Whitehall Grove
Drighlington
Bradford
BD11 1BY

Dawn Henderson
Company Secretary

11 November 2019

Notice of Annual General Meeting (continued)

Notes

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and section 360B of the Companies Act 2006 (the Act”), only those shareholders registered in the register of members of the Company at close of business on 10 December 2019 as holders of ordinary shares of 12p each in the capital of the Company shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member entitled to attend, and vote may appoint a proxy to attend, speak and to vote in his or her stead. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A form of proxy has been inserted into this annual report and accounts and contains notes for its completion.
3. To be valid, the form of proxy and any power of attorney or the authority under which it is signed (or a notarially certified copy of it) must be completed and lodged at the Registrars of the Company, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not later than 12 noon on 10 December 2019.
4. Completion and return of a form of proxy does not preclude a member from subsequently attending and voting at the meeting. If a member appoints a proxy or proxies and then decides to attend the annual general meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
5. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

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

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

6. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Link Asset Services at PXS, 34 Beckenham Road, Beckenham, BR3 4TU no later than 12 noon on 10 December 2019. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 4 above, your proxy appointment will remain valid.
7. Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours until the date of the annual general meeting and on that day, at the place of the meeting from at least 15 minutes prior to the meeting until its conclusion:
 - a. Directors' letters of appointment
 - b. Current articles of association

Notice of Annual General Meeting (continued)

Notes (continued)

8. As at 11 November 2019 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consisted of 31,600,000 ordinary shares of 12 pence each, with one voting right per share. There are 4,279,157 shares held in treasury, representing approximately 13.45 per cent of the total issued share capital. Thus, the total voting rights in the Company as at 11 November 2019 are 27,320,843.
9. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.

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

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

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

Explanation of resolutions

Resolution number 1

The directors must present to shareholders the report of the directors and the financial statements for the year ended 31 May 2019. That report and those financial statements, and the report of the Company's auditors on those financial statements, are set out on pages 1 to 59 of this document.

Resolution numbers 2 and 3

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

Resolution number 4

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

Resolution number 5

The directors are seeking authority to enable the Company to purchase ordinary shares in the capital of the Company by utilising some of the Company's available distributable profits. The directors would only consider effecting purchases under this authority, if granted, where to do so would improve the Company's earnings per share and would be in the best interests of shareholders generally. The authority would allow purchases of up to 685,000 ordinary shares, being approximately 2.26 per cent of the Company's ordinary share capital in issue as at the date of this notice, at a minimum price per ordinary share of 5 pence and a maximum price per ordinary share of the higher of 5 per cent above the average of the middle market quotations for an ordinary share as derived from the AIM appendix of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchases are made and the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. This authority expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.

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

Resolution number 6

The directors are seeking authority to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (Rights) up to an aggregate nominal amount of £1,093,000 being an amount representing approximately 33 per cent of the Company's current issued share capital (excluding treasury shares). It is not the directors' current intention to allot shares or to grant Rights pursuant to this resolution. This authority expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.

Resolution number 7

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

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



LEEDS

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