LORDS
GROUP TRADING

Leading Distributor of Building Materials

Lords Group Trading plc

Annual report 2021

We are a specialist UK distributor of building, plumbing, heating and DIY goods.

Through our two divisions, **Merchanting** and **Plumbing and Heating**, we sell to local tradespeople, plumbing and heating merchants, small to medium-sized construction companies and directly to the general public.

Established over 35 years ago as a family business, we now operate from 45 sites as local market leaders. We aim to become a **£500 million turnover group by 2024, by further growing our national presence, digital offering and product range.**

The Company's shares were admitted to trading on AIM in July 2021.

Visit us online at **www.lordsgrouptradingplc.co.uk**

Front cover - Alan, Branch Manager, Lords Builders Merchants

Mitch, Branch Manager; Darrell, HGV Driver; Joel, Sales Executive; Paul, Warehouse Manager; Sean, Assistant Warehouse Manager, George Lines

Highlights

Revenue

£363.3m +26.3%

2020: £287.6m

Gross profit

£62.7m +32.8%

2020: £47.2m

Adjusted EBITDA[1]

£22.3m +40.1%

2020: £15.9m[3]

Adjusted EBITDA Margin

6.1%

2020: 5.5%[3]

Profit before tax

£8.0m +122.1%

2020: £3.6m[3]

Basic earnings per share

3.73p +95.3%

2020: 1.94p[3]

Adjusted earnings per share[2]

5.48p +58.4%

2020: 3.46p

Dividend per share

1.89p +1.89p

2020: 0.0p

Highlights

- Successful admission to AIM on 20 July 2021, raising gross proceeds of £52.0 million (£30.0 million for the Company and £22.0 million for existing shareholders).
- Strong performance across the Group, with all businesses demonstrating financial and operational progress.
- Strong revenue performance driven by enhanced customer proposition and continued deployment of our strategic initiatives. Like-for-like revenue grew by 18.1% and was 20.8% ahead of 2019.
- Customer and colleague satisfaction scores remain excellent, at 4.7 out of 5.0 in both instances, reflecting the Group focus on colleague engagement and customer service.
- Further progress with our people, plant and premises organic growth strategy, including our digital platforms with all eight of our transactional websites developed and managed in-house. Digital revenue grew 31% in 2021 and now represents 6.3% of Group revenue.
- Four acquisitions since year end, enhancing the Group's geographical presence and offering scope for further growth through extended product ranges.
- Robust pipeline of acquisition opportunities underpins our inorganic growth potential.
- Good progress with sustainability programme, as we continue to reduce our environmental footprint, invest in our people, enhance our health and safety whilst supporting worthwhile projects in our communities.

1. Adjusted EBITDA is calculated in the consolidated statement of comprehensive income, see page 70.
2. Adjusted earnings per share is calculated in note 16.
3. Restated figure.

Contents

At a glance

Lords was established over 35 years ago as a family business. Our first retail unit was in Gerrards Cross, Buckinghamshire and we currently operate from 45 locations in the UK.

Purpose

Our purpose is to be a key partner to our trade and retail customers, helping them deliver their projects on time and on budget. We do this by supporting our colleagues to give the very best customer experience both in store and online.

Vision

Our vision is to be the leading UK distributor of building materials, using our deep understanding and appreciation of our local markets, people and products.

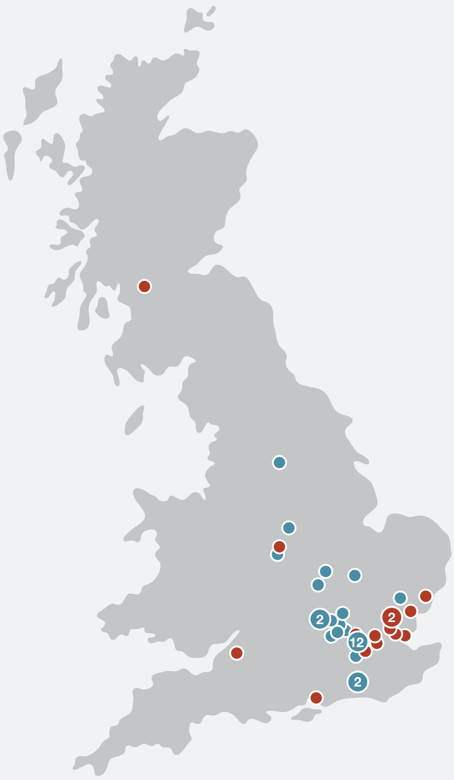
Strategy

We grow organically by investing in our people, plant, premises and technology. We differentiate from many of our peers by combining this with a proactive acquisition strategy. Our strategy improves our customer offering by expanding our geographical footprint, diversifying our product range and increasing our digital sales.

Culture

We have a strong culture, focused on outstanding customer service provided by highly engaged colleagues. Our culture is underpinned by being professional and ethical in everything we do.

Our locations



❶ **Number of sites**
● **Plumbing and Heating**
● **Merchanting**

As at 1 April 2022

Core brands
14

Sites
45

People
881

Our two divisions

Merchanting

We supply building materials and DIY goods through our network of merchant businesses and our digital platforms. We operate in both the 'light side' (timber and building materials) and the 'heavy side' (civils and landscaping), through 30 locations in the UK.

Revenue

£130.5m +55.4%

2020: £84.0m

Adjusted EBITDA

£12.0m +76.5%

2020: £6.8m[2]

A.W. Lumb[1]

Advance Roofing Supplies Ltd[1]

Plumbing and Heating

We are a specialist distributor of plumbing and heating products to a UK network of independent merchants via APP Wholesale and HRP Trade and a digitally focused merchant supplying installers and the general public via Mr Central Heating, Column Rads, Plumbing Stocks and DH&P Plumbing & Heating. The division has an attractive multi-channel offering for customers and its 15 locations enable nationwide next-day delivery.

Revenue

£232.8m +14.3%

2020: £203.6m

Adjusted EBITDA

£10.3m +13.2%

2020: £9.1m[2]

Direct Heating[1]

HRP Trade[1]

1. Acquired FY22.
2. Restated figure.

Read more on pages 18 to 23

Read more on pages 24 to 27

Investment case

We believe there is a unique combination of factors that make us a compelling proposition for investors.

Attractive markets

We operate in a large and growing market. Our addressable market is around £55 billion, giving us considerable scope to grow market share from our current base of 0.7%. We have a particular focus on the repairs, maintenance and improvements (RMI) segment, which generates around 80% of our revenue and has long-term growth drivers, including the age of the UK's housing stock and the need to improve its environmental performance. RMI also offers better margins, as we have more opportunity to add value to the customer through product expertise, prompt fulfilment and a broad basket of products.

Strategy for growth

We invest in our people, plant and premises to drive organic growth. This helps us to maintain strong brands, extend our product range, add new locations and enhance our digital presence.

With more than 2,000 independent merchants in the UK, we can also act as a consolidator and have a robust pipeline of opportunities. We have completed 13 successful acquisitions since 2016 alone, acquiring at 3-6x EBITDA and generating returns on investment of 20% or more. We target acquisitions that extend our product range or geography and offer margin accretion. We expect to deliver significant further growth and margin expansion in the near term.

Customer service and strong relationships

Our business is built on outstanding customer service and a strategy of continuing to broaden our customer offer. This helps us to build long-term relationships with customers and to gain an increasing share of their spend over time.

People and culture

We have a highly experienced management team and 881 colleagues, who combine specialist product knowledge with a passion for customer service. Our culture helps us to attract and retain talented people, with an above average length of service of 5.8 years.

Importantly, we have established an excellent track record of quickly and efficiently integrating our new employees, to ensure we maintain best-in-class customer service and relationships.

Strong cash flow and balance sheet

As a cash-generative business with a strong balance sheet, we have the financial resources we need to invest in our growth strategy, while rewarding shareholders through a progressive dividend policy, as outlined at IPO.

Ana and Gulzhanar, Sales Assistants; Arifa, Store Manager, Lords at Home

Our story so far

We have a long history of growth, through organic investment and through acquisitions. Since 2016 we have made 13 acquisitions, adding new sites and brands while significantly expanding our product range and addressable markets.

1982
Acquisition of the H. Akers business in Edmonton

1984
Established first Lords branch in Gerrards Cross

1985
Established Lords at Home

1987
Opened Westbourne Grove branch

2001
Opened first heavy side branch at Park Royal

2002
Acquired Weldit Limited Liability Partnership

2013
Opened Hayes branch

2016
Acquisition of George Lines (Merchants) Limited

2017
Acquisition of a majority shareholding in Hevey Building Supplies Limited

2017
Acquisition of E.Hussey & Sons Limited (trading as Hussey & Saunders)

2018
Acquisition of Kings Langley Building Supplies Limited

2019
Acquisition of Huntingdon Timber Limited

2019
Opened second George Lines branch

2019
Acquisition of APP Wholesale Limited

2020
Established first Lords Plumbing & Heating branch

2021
Acquisition of MAP Building & Civil Engineering Supplies Ltd

2021
Acquisition of Condell Limited

2021
Shares admitted to trading on AIM

2021
Acquisition of Nu-Line Builders Merchants site

2022
Acquisition of Advance Roofing Supplies

2022
Acquisition of A.W. Lumb

2022
Opened third George Lines branch

2022
Acquisition of Grafton Sudbury branch

2022
Acquisition of Direct Heating / HRP Trade

Chairman's statement

This was an excellent year for the Group, with record revenue and earnings growth and significant strategic headway.

Gary O'Brien
Independent Non-Executive Chairman

This was an excellent year of financial and operational progress for the Group. We delivered record revenue and earnings growth, and made significant strategic headway with as set out on pages 16 and 17, alongside the completion of a successful IPO, which saw the Company's shares admitted to trading on AIM in July 2021. I want to thank the team and all our colleagues across the Group for their efforts in the year, which enabled us to achieve these results during an extremely busy period and against the backdrop of the continued challenges posed by the pandemic.

Admission to AIM

The share issue that accompanied the IPO was oversubscribed, reflecting the attraction to investors of our strategy and growth prospects. This was particularly pleasing given the competition for investor attention in 2021, which the London Stock Exchange has reported as being the strongest year for IPO capital raising since 2007. The placing raised gross proceeds of £30.0 million for the Company, giving us a strong balance sheet to pursue our strategic objectives.

Performance

From a financial perspective, the Group delivered record revenues and profits, with strong two year like-for-like growth in both divisions with Merchanting 20.4% and Plumbing and Heating 21.0%. This reflects the benefits of our, 'People Plant Premises', organic growth strategy, including the rapid expansion of our ecommerce revenues. The integration of our recently acquired businesses has also gone well and they provide a robust platform for further growth, as we invest in them to realise their full potential. The performance in the year reflects the continued resilience of our sector and in particular the repairs, maintenance and improvement (RMI) market, which generates around 80% of our revenue.

Dividends

In light of this financial performance, the Board declared an interim dividend of 0.63 pence per share and has recommended a final dividend of 1.26 pence, to give a total dividend for the year of 1.89 pence per share. As outlined at IPO, we have adopted a progressive dividend policy and therefore expect to deliver growth from this base over the coming years.

People and culture

Our people and culture are among the Group's key strengths. Our employee surveys during the year showed exceptional levels of employee engagement, which are a credit to the management team and the positive, people-oriented culture they have nurtured. In turn, this helps us to achieve equally high levels of customer satisfaction. This obsession with delivering for the customer and investing to further improve our offer to them is at the heart of our growth strategy.

We believe that giving employees a feeling of ownership will help to maintain our strong culture, so all colleagues with continuous service of at least six months received 2,105 shares in the Company at the IPO. In 2022, we will seek to offer an all-employee share scheme, so they can participate in the Group's success as we grow.

Post-IPO, the Group's management team has retained a sizeable shareholding in the business. This reflects their strong belief in our prospects and ensures they are highly incentivised to deliver for all shareholders, and our stakeholders more generally.

Environmental, social and governance (ESG)

We recognise the importance of being a responsible business and meeting the growing expectations of our stakeholders. There are numerous activities under way across the Group, with the aim of enhancing the way we support our people, ensuring high standards of health and safety, minimising our environmental footprint and benefiting our wider communities. We are currently working with specialist ESG consultants to formalise our approach into a detailed five-year strategy, which will help us to focus on the areas where we can make the most difference and measure our progress.

The Group has long understood the importance of strong governance and has developed its governance framework over several years, including appointing independent non-executive directors well ahead of the IPO and adopting the QCA Corporate Governance Code. The Board is well-balanced, with the right mix of skills and experience to execute the Group's strategy. You can read more about this in my introduction to corporate governance on page 52.

Looking forward

The business has many strengths that give us a competitive advantage across our markets. We have a highly experienced and knowledgeable management team, supported by customer-obsessed colleagues achieving excellent levels of customer satisfaction. The long-term drivers of our market are favourable and we believe we have the right growth strategy to take further market share, both organically and inorganically. The Board is therefore confident in its ability to execute the strategy we set out at IPO and demonstrate further progress in 2022.

Gary O'Brien
Independent Non-Executive Chairman

23 May 2022

Chief Executive Officer's review

Lords is a dynamic and entrepreneurial business, based on ethical and professional behaviour, ambitious growth plans and strong relationships.

Shanker Patel
Chief Executive Officer

This was a landmark year for Lords and I am proud of all that our team has achieved. Our performance demonstrated our continued strategic progress, while our prospects for further growth underpinned the success of our IPO. I want to thank all my colleagues across the Group for their continued dedication and hard work during 2021.

Lords has always been a dynamic and entrepreneurial business and we have grown our national presence and service range rapidly in recent years, in particular through acquisition. At the same time, the business is based on solid principles. We always act ethically and professionally, are measured in the risks we accept and take care to consider our stakeholders, as a business built on the strength of all of our relationships. By focusing on our customers, colleagues and suppliers, we create value for our shareholders. We are continuing to embed sustainability into the way we work, benefiting our communities and wider society, while helping to reduce our costs.

Performance

We experienced strong revenue growth in the year totalling £363.3 million (2020: £287.6 million), up 26.3%. On a two-year basis, which looks through the impact of COVID-19 on 2020 revenues, our like-for-like revenue growth since 2019 is 20.8%. Revenue in 2021 was ahead of our budget set at the start of the year, reflecting positive market conditions, leading to an upgrade of our annual expectations for the year in May 2021, ahead of the IPO. Both Group divisions, and all the companies within them, performed above expectations and contributed to this out-performance. Ecommerce sales continued to grow rapidly and were 31% or £5.3 million higher in 2021, in line with our strategy to leverage the investment in technology pre-IPO and grow digital sales as a proportion of Group revenue.

Adjusted EBITDA was £22.3 million (2020: £15.9 million restated), representing a margin of 6.1%, up 60 basis points on the 5.5% achieved in 2020. We remain focused on margin expansion, driven by our focus on network optimisation, digital, product range extension and operational leverage, and expect to make further progress in 2022.

Cash flow was robust, with adjusted cash generated by operating activities of £21.7 million (2020: £15.5 million) while free cash flow (defined on page 16) was £19.5 million (2020: £13.7 million). Free cash flow conversion (Free cash flow/EBITDA) was of 87% (2020: 86%). Coupled with our strong balance sheet, which had net cash of £6.3 million at the year end, we have the financial resources we need to continue to implement our strategy, which has contributed to further acquisitions post year end.

Strategy

The organic growth element of our strategy is designed to further improve our customer offer, by investing in our people, plant and premises. We were delighted with our progress in 2021, which will continue to benefit us in the coming year.

Lords' three Ps

People

Our people are a particular focus and this is reflected in our consistently high engagement scores and employee retention. Over the last twelve months, we have expanded the team in key areas, to accommodate the growth of our business. The expansion of Lords also creates opportunities for our colleagues to take on new roles and we are proud that all of our managing directors have come up through the business. Enabling our people to grow is supported by our approach to learning and development, which included starting an apprenticeship programme in 2021, which we will expand in 2022.

Integrating colleagues who join us through the businesses we acquire is a priority. We go above and beyond to ensure they settle into the Group and to offer them opportunities for personal development.

Plant

On the plant side, we are using digital technology to make our customer experience even better and to make our business more efficient and profitable. For example, we have invested in an electronic point of sale (EPOS) system in our Mr Central Heating branches, which allows customers to move seamlessly between online and instore in their purchasing journey. We are also implementing new systems to significantly streamline stock management in APP's warehouses, while further improving the customer experience around deliveries.

1. Free cash flow defined as cashflow from operating activities, less capital expenditures, exceptional items, bank interest and lease principal and interest paid.

Across the industry, customers are increasingly transacting with merchants both online and in person. To support our digital sales strategy, we have formed a division-wide team in Merchanting and are further developing several of our websites, improving the customer journey and giving customers the confidence to transact online. We have also invested heavily in a team to follow up web orders with phone calls and emails, keeping customers updated on their orders while creating opportunities to upsell, which is proving very effective. The Condell business we acquired during the year has a very strong web presence, and we have utilised space in one of our existing premises to create a distribution hub for digital sales to customers in London.

Premises

We have also been actively investing in premises. This includes relocating two Plumbing and Heating branches, opening a new branch of Lords Builders Merchants, to extend our coverage in West London, and starting the complete refurbishment of our Beaconsfield site.

Acquisitions

During 2021 we acquired three businesses, adding geographical coverage, product range and new customers to our Merchanting division. All three are performing in line with our expectations and the integrations are proceeding to plan, giving us a platform for further growth. Since the end of the year, we have also acquired a business specialising in roofing materials, which will allow us to implant branches into existing Merchanting locations, starting with Beaconsfield. We have also extended our geographical reach into the North of England with the purchase of A.W. Lumb, a specialist drylining and insulation distributor to the new build market alongside a general merchant offering. On 31 March 2022, the Group acquired a Merchanting branch in Sudbury alongside a DH&P Counters / HRP Trade which are complementary to the Plumbing and Heating division with regards geography, customer base and product range. We are excited by the prospects for these businesses which are value accretive and performing in line with expectations and welcome our new colleagues to the Group. All acquisitions were funded via existing facilities.

Outlook

We see excellent opportunities to grow our business, both organically and through acquisition. Our objective is to be a £500 million revenue Group by 2024 and we are confident we will achieve that, while furthering our EBITDA margin by 1.5% over the medium term. We will continue to invest in our people, plant and premises and, with our robust pipeline of acquisition opportunities, to further enhance our geographic, product and channel diversity.

As announced on 26 April 2022, post year end has seen demand for the Group's repairs, maintenance and improvement (RMI) sector focused product offering remain strong and, notwithstanding inflationary pressures and the current global macro-economic and geo-political outlook, the Group's Merchanting division has continued to deliver growth in line with management expectations during Q1 and the beginning of Q2 2022. Customer demand has also remained strong across the Group's Plumbing and Heating division (P&H).

APP Wholesale Limited has not been immune to industry wide boiler supply constraints on account of boiler component shortages and the limited boiler supply has had a progressively negative effect on the division's revenues throughout Q1 2022, with Q1 H&P 2022 division revenues approximately 12.0% below the same period last year. The supply issues are expected to ease moving into H2 2022, and therefore the Group's revenues continue to trade largely in line with market expectations of approximately £438 million and as a result of management actions taken, adjusted profit before tax is in line with current market expectations of approximately £16.0 million.

Shanker Patel
Chief Executive Officer

23 May 2022

Market opportunity

We operate in a substantial market with attractive long-term growth drivers.

The building materials market

Building materials supply in the UK totalled an estimated £76 billion in 2020. The chart below breaks this down by segment. We operate within the general merchants, specialist merchants, direct-to-site via merchant and pure play online merchanting segments, giving us an addressable market of around £55 billion.

The UK building market is driven by construction activity. Long-term drivers of demand in this market include the need for more homes to meet the UK's significant housing shortage, as well as investment in new commercial properties. UK construction activity grew at an average of 2% per annum between 2018 and 2021 and is forecast to grow by 2.5% a year from 2022/2023.

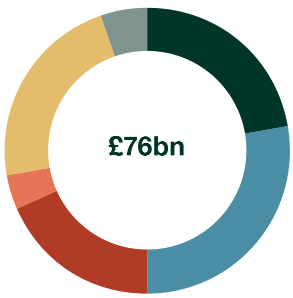
The repairs, maintenance and improvements (RMI) market

The RMI segment accounts for around 80% of our revenues. Housing transactions are a short-term lead indicator for RMI spend and in 2021 RMI demand aligned with the long-term favourable market drivers, driven by rising house prices, people's desires for new lifestyles during COVID-19, low interest rates and the stamp duty holiday, which ended on 30 September 2021. COVID-19 has also encouraged people to add space for home working, a trend we believe will continue, while reduced discretionary spending in areas such as travel has given people more cash to invest in their homes over the short and medium term.

Longer term, the outlook for RMI remains favourable, with demand likely to be driven by:

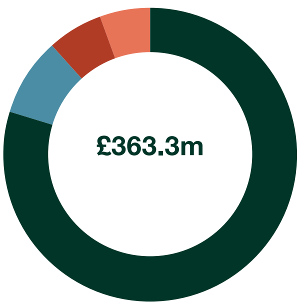
- the age of the UK's housing stock. There are 27.8 million homes across the UK, of which only 36% are maintained to a satisfactory level;
- the need to meet the UK's carbon emission targets through energy efficiency improvements, such as insulation, double glazing and low-carbon heating; and
- the continuing housing stock shortage and demand for new homes.

The building materials market



- **A** General merchants | **£17.0bn**
- **B** Specialist merchants | **£21.0bn**
- **C** Direct-to-site via merchant | **£14.0bn**
- **D** Pure play online | **£3.0bn**
- **E** Retail / DIY | **£17.0bn**
- **F** Fixed price operators | **£4.0bn**
- Total | **£76.0bn**

Lords Group turnover by demand segment



- **A** Repairs, maintenance and improvements market turnover | **£290.3m**
- **B** Infrastructure turnover | **£31.1m**
- **C** Commercial turnover | **£22.0m**
- **D** New house build turnover | **£19.9m**

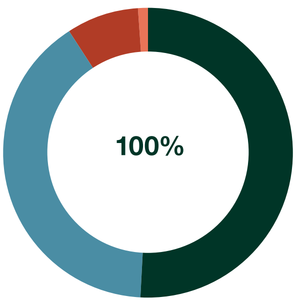
Source: Travis Perkins plc investors website and 2020 annual accounts.

The UK merchanting market

A wide range of companies compete in this highly fragmented market, with 2,300 merchants listed in the national directory. The national merchant chains (Travis Perkins, Jewson/ Saint-Gobain, Wolseley and Grafton) make up 51% of the market by turnover, with 40% attributable to other, smaller and often family run, independent merchants. We currently account for 0.7% of the market.

The national chains have found it difficult recently to increase their market share and some have looked to divest business units. Among the independent merchants, few are pursuing a buy-and-build strategy like ours. As a result, we believe we are very well placed to take further market share through consolidation. Our experience to date shows that independent are particularly interested in passing their business onto a responsible next custodian, and our colleague and customer-focused approach resonates strongly with vendors.

Industry market share by turnover



A Nationals | **51%**
B Independents | **40%**
C Private equity backed | **8%**
D Lords Group Trading |<1%

Source: National Merchant Buying Society.

The plumbing and heating market

In this market, Primaflow F&P is our key competitor for supplying independent plumbers' merchants. We sell a broader range of plumbing and heating products directly to installers and homeowners and this market is more widely competitive. Our strong digital presence and deep stock cover give us an advantage over some of our national competitors, who still sell through more traditional channels.

Boiler sales account for around 80% of our revenues in our Plumbing and Heating division. On average, we deliver around 0.22 million of the 1.2 million annual replacement boiler sales across the market. While this means we rely on a relatively small number of suppliers, we are a key route to market for them, providing coverage and service levels they could not achieve themselves without significant capital investment.

Boilers tend to have a natural replacement cycle as they reach the end of their useful lives, meaning there is a consistent level of demand for them. Technology such as hydrogen-ready boilers and heat pumps offer growth potential for us over the coming years, as some homeowners explore the viability of alternative heating solutions. As a UK distributor of plumbing and heating products, we are well placed to benefit from potential legislative changes regarding the carbon efficiency of the UK's housing stock.

Tim, Warehouse Manager, Mr Central Heating

Business model

Our business model delivers outstanding service for customers through highly engaged colleagues, which in turn creates value for all our stakeholders. We continue to integrate sustainability into all parts of our operations (see pages 32 to 41).

The inputs to our business model

Our business depends on the following resources:

People

At the year end, the Group employed 881 people, who are passionate about delivering for our customers.

Relationships

We build long-term relationships with our customers, based on exemplary service, and with our suppliers, based on close engagement and collaboration.

Premises and plant

We serve our customers from 45 sites, supported by physical plant and our investment in digital technology and platforms.

Knowledge

We have a highly experienced management team, with deep knowledge of the sector, and employ product specialists across the Group.

Financial

The Group is highly cash generative and has a strong balance sheet, enabling us to support further organic growth and acquisition activity.

How we create value

Customer service

Our business model focuses on offering the best possible experience for our customers.

This differentiates us from our competitors and is encapsulated in our mantra of being ‘Customer obsessed, product specialists’. Our approach is reflected in the Feefo Platinum award we hold for trusted service.

We offer our customers access to thousands of different building, plumbing and heating products, sourced from a diverse range of suppliers. Customers can buy from us through the channel that suits them best, whether that is face-to-face through our builders’ merchants, trade counters and shops, or increasingly completing their journey across multiple channels, including online.

We pride ourselves on being flexible, with the aim of getting customers the product they want, when they want it and how they want it, helping us to build long-term relationships with them. The breadth of our customer base means we are not reliant on any particular customer for our revenue.

Colleague engagement score

4.6 out of 5.0

2020: 4.6 out of 5.0

Product specialists and a people-focused culture

Our culture is a key strength, supporting high employee engagement and retention, which in turn contributes to impressive levels of customer satisfaction and repeat business.

Customers often require advice about what to buy, so we employ experienced people who are specialists in the products they sell. We invest in our people, help them to develop their skills and frequently promote from within. As a result, our average length of service is 5.8 years.

Colleague average length of service

5.8 years

2020: 5.9 years

Investment in our locations and technology

To support the customer experience, we focus on prime locations, with well-invested and modern sites, and look to add new locations over time, so we can serve a growing base of customers.

We have invested heavily in our digital platforms, which helps us to stand out from more traditional merchants, and continue to invest to enhance the digital experience.

We now have eight transactional websites, all developed and managed in-house. Our continual investment in technology also drives our efficiency and helps our colleagues be more productive.

Digital revenues

6.3% or £22.6m

2020: 6.0% or £17.4m

Long-term supplier relationships

We look to build strong relationships with our suppliers, which help us to maintain continuity of supply for our customers.

In Merchanting, we have a well-diversified supply chain, with some of our supplier relationships dating back more than 20 years.

In Plumbing and Heating, we have highly collaborative relationships with a group of key suppliers who contribute to the majority of the division's sales. We believe these relationships provide a high barrier to entry in this market.

Top 20 supplier relationships

11.9 years

2020: 11.2 years

Track record of successful acquisitions

We have significant experience of making successful acquisitions, with a track record of achieving returns on investment of 20% or more.

This is an important strength, given the very limited number of independent groups following a similar strategy. We then look to improve their performance through investment and synergies with our existing operations. Cultural fit is a key factor in any purchase.

We often acquire businesses with strong brands and we also have the option to rebrand them under one of our existing businesses. Vendors frequently see us as an ideal home for their businesses and we are regularly approached by owners looking to sell.

Average return on investment

24.9%

The value we create

Through our business model, we create value for a wide range of stakeholders:

Customers

Customers benefit from the best buying experience we can give them, which is reflected in our consistently high customer satisfaction score, which averaged 4.7 out of 5 during 2021.

Colleagues

Our colleagues are able to develop their careers in a supportive environment that wants to bring out the best in them. We aim for them to benefit from our success, through share ownership and incentive schemes.

Suppliers

We offer our suppliers an important route to market and the potential to grow their businesses alongside ours.

Shareholders

Shareholders benefit from our ability to grow organically and inorganically, which supports a progressive dividend policy. Our business is highly profitable and cash generative, underpinning our ability to invest.

Communities

The communities around our locations benefit from our contribution to the local economy, through the jobs we provide. Our obsession with customer service also benefits the many local tradespeople and companies who buy from us.

The challenges to our business model

The current challenges facing our business model relate to our supply chain and our colleagues:

- Supply chain. We have seen shortages of materials and products throughout the pandemic. Strong supplier relationships and ensuring diversity of supply where possible have helped us to manage this. See stakeholder engagement (pages 28 and 29) and the operational reviews (pages 18 to 27) for more information.
- Colleagues. In common with other industries, it can be challenging to recruit new people at present. We also have to support our colleagues' wellbeing, particularly in areas such as mental health. More information on how we manage these issues can be found on pages 36 to 39.

Strategy – Driving growth by investing in People, Plant, Premises – the three Ps

We made good progress with all aspects of our strategy during 2021.

Organic growth

Strategy

We drive organic growth by investing in what we call 'Our three Ps' – people, plant and premises – to give customers the best experience when buying from us.

Investment in our people helps them to develop their skills and careers, and to provide even better services to customers.

Investment in our plant ensures it is modern and efficient. This includes using digital technology to generate efficiencies and enhance the customer experience.

Investment in our premises ensures they remain fit for purpose, improves the environment for customers and employees, and provides capacity for growth.

Progress in 2021

People

- Significant recruitment to support growth, with a net 93 new hires in the year.
- Continued focus on learning and development, health and safety, mental wellbeing, managing performance, and diversity and inclusion.
- Colleague ownership enabled via the IPO, colleagues with six months or greater continuous service were awarded 2,105 shares each in the Group.

Plant

- Further investment in technology, including:
  - EPOS, warehouse management and 'PODFather' customer delivery tracking systems in Plumbing and Heating; and
  - hardware and software underpinning our ecommerce platforms.
- Progressed plans to reduce carbon emissions, for example by electrifying forklifts and piloting alternative fuels for the fleet.

Premises

- Relocated Croydon and Bristol facilities, to provide capacity for growth.
- Began major refurbishment of Merchanting's Beaconsfield site and invested in staff welfare facilities across locations.

Acquisitions

Strategy

We look for acquisitions that can expand our geographical footprint, broaden our product range or grow our digital sales. We only acquire businesses that we can scale up or where we can accelerate growth. We carefully assess cultural fit and typically retain the vendor's management team and incentivise them to perform.

Progress in 2021

Acquired the following, for total consideration of £8.2 million, bringing 98 new colleagues into the Group:

- MAP Building & Engineering Supplies Ltd, which complements our Hevey Building Supplies business with regard to geography, customers and product range;
- 75% of Condell Limited, which complements Lords Builders Merchants through its geographical fit, product range and digital focus; and
- the Malton Road branch of Nu-Line Builders Merchants Limited, which enhances Lords Builders Merchants' presence in London and complements its product range, customer base and digital presence.

Since the end of the year, we made four further acquisitions, further extending our product range and geographical presence (see pages 106 and 107).

Priorities in 2022

- Continue to develop our training offer and further embed our refreshed performance review process.
- Review the organisational structure and associated succession planning.
- Further develop our apprenticeship programme, including in digital roles.
- Continue to advance our approach to health and safety.

- Trial electric mechanical handling equipment.
- Continue to invest in our digital platforms.
- Continue to decarbonise the delivery fleet where possible.

- Accelerate organic growth and regional brand presence through new locations.
- Complete refurbishment of Beaconsfield site.
- Continue to invest in existing premises to maximise use of space and further improve the customer experience.

Priorities in 2022

- Continue to integrate the businesses acquired in 2021 and 2022 and invest in them as necessary, to enable them to deliver their growth potential.
- Make further acquisitions that expand our geographical footprint, product range or digital sales.

Billy, Stock Control Assistant, Lords Builders Merchants

Key performance indicators

We use the following financial and non-financial key performance indicators (KPIs) to measure progress with our strategy.

Financial KPIs

Revenue growth

Definition

The percentage increase in Group revenue year-on-year.

Relevance to strategy

This is a key measure of the success of our growth strategy.

Performance in the year

We achieved revenue growth of 26.3%, driven by both organic growth and acquisitions. Like-for-like growth was 18.1%. 2020 performance was affected by the initial impact of the pandemic. Against 2019, revenue rose by 272%, with 20.8% like-for-like growth. Like-for-like growth excludes any acquisitions or additions made in 2021 and the same proportion in 2021 of acquisitions or additions made in 2020.

Adjusted EBITDA[1]

Definition

Adjusted earnings before interest, tax, depreciation and amortisation.

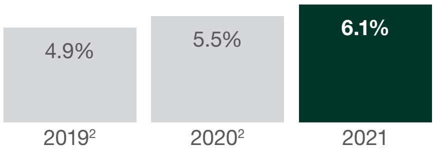
Relevance to strategy

Adjusted EBITDA is an important indicator of our ability to generate profits and is also directly linked to operating cash flow and our ability to invest in the business.

Performance in the year

Adjusted EBITDA increased by 40.1% to £22.3 million, reflecting growth in both Merchanting and Plumbing and Heating. For calculation, see the consolidated statement of comprehensive income on page 70.

Adjusted EBITDA margin



Definition

Adjusted EBITDA as a percentage of revenue.

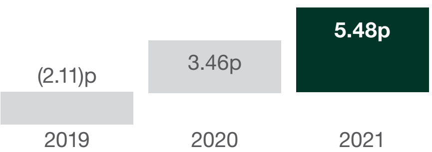
Relevance to strategy

This is a key measure of the efficiency of our operations and our ability to grow profitably.

Performance in the year

Adjusted EBITDA margin increased by 60 percentage points to 6.1%, reflecting our rigorous focus on improving profitability.

Adjusted earnings per share (EPS)



Definition

Earnings attributed to equity holders of the profit adjusted for exceptional items, share-based payments and amortisation of intangible assets divided by closing shares in issue.

Relevance to strategy

This is a core measure of our post-tax profitability and our ability to pay dividends to shareholders.

Performance in the year

Adjusted EPS grew strongly, with a 58% increase driven by both revenue growth and higher margins. See note 16 for calculations.

Free cash flow

Definition

Cash generated by operating activities less capital expenditure, exceptional items and interest paid.

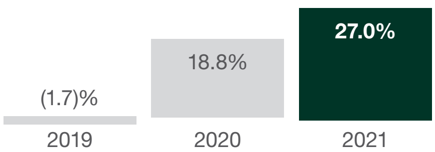
Relevance to strategy

Free cash flow provides a good measure of cash generation, which can subsequently be reinvested to grow the Group.

Performance in the year

The Group continued to deliver strong cash flow generation in 2021 through continued focus on working capital.

Return on capital employed (ROCE)



Definition

Adjusted earnings before interest and tax (EBIT) divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100. Net debt is defined as lender facilities utilised less cash and cash equivalents.

Relevance to strategy

ROCE is a measure of how efficiently the Group deploys its capital, which is key in a business with multiple organic and inorganic growth opportunities.

Performance in the year

ROCE improved by 820 basis points and reflects the improved profitability in FY21.

1. Adjusted EBITDA is EBITDA but also excluding exceptional items and share-based payments.
2. Restated figure.

Non-financial KPIs

Colleague engagement

2020	2021
4.6 out of 5.0	**4.6 out of 5.0**

Definition
A measure of connection and engagement between colleagues and Lords, based on quarterly engagement surveys to all colleagues. Results measured out of 5.0.

Relevance to strategy
People are a core element of our organic growth strategy and fundamental to our ability to deliver excellent customer service.

Performance in the year
The engagement score reported in our most recent survey was 4.7 out of 5, which we believe is exceptionally high.

Customer satisfaction

2020	2021
4.7 out of 5.0	**4.7 out of 5.0**

Definition
A measure of customer satisfaction with Lords products and/or services based on feedback received through Google Reviews, Trust Pilot and Feefo. Results measured out of 5.0.

Relevance to strategy
High levels of customer satisfaction differentiate us from our competitors and help us to generate repeat business over the long term.

Performance in the year
We continued to achieve excellent levels of customer service, with a satisfaction score of 4.7 out of 5 during 2021.

Lost time injury rate

2020	2021
0.5	**0.5**

Definition
A measure of lost time injuries per 100,000 hours worked.

Relevance to strategy
Providing a safe environment for our colleagues and customers is a moral duty for us. It also helps us to maintain high levels of colleague engagement, as well as benefiting our efficiency.

Performance in the year
During the year the Group's Lost Time Injury Rate, was maintained at 0.5 per 100,000 hours worked.

Carbon emissions per £1.0 million turnover

2020	2021
15.3	**13.8**

Definition
The carbon emissions we generate from our operations, measured in kilogrammes per £1.0 million of revenue.

Relevance to strategy
Stakeholders are increasingly focused on the environmental performance of businesses and we need to do our part to maintain our reputation. In the process, we can also reduce our energy costs.

Performance in the year
Increased efficiency has allowed us to improve our intensity ratios.

Operational review

Merchanting

During 2021, the Merchanting division comprised the following businesses and brands: Lords Builders Merchants, George Lines, Hevey Building Supplies, Weldit, Lords at Home, MAP, Lords Plumbing and Condell.

Revenue

£130.5m

2020: £84.0m

Gross profit

£36.4m

2020: £24.3m

Adjusted EBITDA

£12.0m

2020: £6.8m (restated)

Branches

30

At March 2022

Sean, Assistant Warehouse Manager; Darrell, HGV Driver, George Lines

Our business is built on first-class customer service and we have continued to look for ways to enhance that service and extend our product range, both through organic investment and through acquisitions.

Financial performance

The division continued to generate strong growth. Revenue was £130.5 million in 2021, up 55.4% (2020: £84.0 million), with like-for-like growth of 27.6%. Compared with 2019, like-for-like growth was 20.4%. This provides a more relevant comparison than 2020, given the pandemic's impact on revenues in that year.

This significant actual and like-for-like growth reflects buoyant market conditions and demonstrates the success of both our organic and acquisition growth strategies. During the year, we acquired three further business, as described below.

Adjusted EBITDA grew by 77.2% to £12.0 million (2020: £6.8 million), representing an adjusted EBITDA margin of 9.2% (2020: 8.1%), up 110 basis points.

Driving operational performance

Our business has always been built on first-class customer service. We have continued to look for ways to enhance that service, for example through introducing a requirement that customer orders will be fulfilled within 15 minutes of their arrival at a branch, differentiating us from competitors in general merchanting.

Flexibility of communications with customers was an important part of this, for example by using WhatsApp to accept orders, so products could be ready for collection when customers arrived. We understand the challenges our customers face on complex projects and our flexible approach, with same-day delivery and out-of-hours support, builds loyalty and trust.

Expanding our product range is an important part of our strategy, since it helps us to better serve our customers and drive revenue. For example, we saw an opportunity to add plumbing supplies to a number of our larger locations, to maximise use of space and leverage the strength of our Plumbing and Heating division. Having trialled a plumbing counter in Watford in 2020, we have since rolled this out to four branches under the Lords Plumbing brand.

During 2021, we formed a dedicated marketing and ecommerce team in Merchanting. This helped us to drive substantial increases on digital sales in the year (see the case study on page 20 for more information) and to be data-led in our marketing and customer strategies. We have also driven sales by following up digital orders through visits from sales representatives and by using live chat on our websites to take orders offline. Going into 2022, we are trialling a same-day delivery service for digital orders, which will further differentiate us in our market.

Shortages in the supply chain have been one of the key challenges during the pandemic. We have worked hard to maintain consistent supply for our customers, drawing on our strong relationships with suppliers and minimising our reliance on single sources of supply. Conditions in the supply chain have improved but we are still seeing extended lead times on a number of products, which we continue to manage as carefully as possible.

Successfully completing value accretive acquisitions

During the year, we completed three acquisitions that enhanced our customers offering.

In March 2021, we announced the purchase of MAP Building & Engineering Supplies Ltd. MAP serves numerous large conurbations from its location in Ilkeston, Derbyshire, and complements our Midlands division, Hevey Building Supplies Limited, with regard to geography, customers and product range. MAP will benefit from our focus on extending the product range and investing in technology and business development.

In April 2021, we acquired 75% of Condell Limited, a pure play online business which distributes materials across the South of England from its site in Horsham. Since acquisition, we have repurposed Condell's Sutton branch into a Lords Builders Merchant, to best capture its market opportunity. The business is a strong fit with Lords Builders Merchants, in terms of locations, product range and its digital focus.

In August 2021, we further enhanced Lords' strong London presence by acquiring the business and assets of a branch of Nu-Line Builders Merchants Limited, based in Ladbroke Grove, London. The transaction offers synergies for the Ladbroke Grove branch and our wider Merchanting division across product range, acquired customers and our digital presence.

Since the end of the year, we have completed three further margin accretive acquisitions. In January 2022, we purchased Advance Roofing Supplies Limited. Established in 1994, Advance Roofing Supplies sells pitched and flat roofing products to customers locally and nationally, from two locations in Buckinghamshire and Hertfordshire. It offers attractive synergies, increasing our product range and expanding our customer base, particularly in the South-East of England. We intend to grow the business through branches in relevant Merchanting locations, starting with our Beaconsfield branch.

In March 2022, we announced the acquisition of the business and assets of A.W. Lumb, a leading independent builders merchant operating in the North of England from depots in Dewsbury and Tamworth. The business has a general merchanting service, with offerings in building materials, garden landscaping, timber and joinery, and roofing products. It also provides a specialist offering in drylining and insulation to housebuilders. Its customers include several well-known house builders, civil engineering contractors, local authorities, plasterers and smaller developers. In March 2022, we completed the acquisition of the Sudbury branch from Grafton Merchanting GB Limited. The business is a general merchant and adds geographic extension for our Hevey Building Supplies brand.

Merchanting continued

Driving ecommerce sales in Merchanting

Our customers are increasingly choosing to interact with us digitally and we see this as an important differentiator for us in our market.

To support our efforts, we have established a division-wide marketing and ecommerce team in Merchanting and created the role of Marketing and Ecommerce Director. This ensures a consistent approach across the division and enables us to leverage our knowledge and best practice in each business. In addition to investing in our people, we have invested heavily in the hardware and software underpinning our platforms, as well as refreshing the brands of Lords Builders Merchants, George Lines and Condell during the year.

To ensure we make the most of this investment, we have focused on understanding each touch point of the customer journey and maximising the lifetime value of customers. In turn, we have moved away from activity where we cannot measure the outcomes, such as billboard and bus advertising, leaflets and major sponsorships. Instead, we have developed our CRM and direct marketing strategies, and we still engage at a local level through grassroots sponsorships, events and partnerships which resonate strongly with our customer base.

To enable us to take a data-led approach to our marketing and customer strategies, we have invested in tools and platforms to track behaviour both online and offline, with the aim of creating a holistic picture of our customers.

Our new strategy is already delivering significant results. Condell, which we acquired during the year, increased its already strong online revenues by a further 18%. In Lords at Home, where we introduced a new ecommerce site that significantly improved the user experience and product range, we have also seen an immediate and growing uplift in sales. We expect to deliver further growth in ecommerce revenues in 2022.

> “”
>
> Our customer base is increasingly looking to purchase and engage with our brands online. By growing our in-house expertise and investing in digital platforms, the Group has seen month-on-month online growth across our businesses.
>
> **Jess Harris**
> Marketing and Ecommerce Director, Merchanting Division

David, Trade Counter Manager; Sonia, HSS Regional Manager, Lords Builders Merchants

Merchanting continued

Transforming our Beaconsfield branch

We acquired our Beaconsfield branch in 2017. Although the site is in an excellent location, close to the M40 and with links to West London and affluent towns in the surrounding counties, the business was loss-making at the time of purchase.

Having grown revenues by 217% during our ownership, in June 2021 we began a complete redevelopment of the branch, transforming it from four acres of largely open storage to a modern facility with improved customer facilities and an extended range of products and services.

We started by replacing an old trade counter and sheds with a two-storey showroom and warehouse. New services will include a landscaping display, a brick library, HSS Hire counter and a Lords Plumbing counter. We will also leverage the capabilities of Plumbing and Heating, by including a bathroom and kitchen centre, with specialist design services. Following our acquisition of Advance Roofing Supplies in January 2022, we will also implant a branch of this business at Beaconsfield.

In addition to the customer benefits, we are improving sustainability at the site, with the introduction of solar panels to generate renewable energy. The branch has continued to trade throughout the project, which we expect in complete in spring 2022.

“”

Beaconsfield is an excellent example of our strategy in action. We acquired an underperforming business with great potential and turned it around. Now we are investing to make it a modern facility that serves our customers even better, while improving its sustainability at the same time.

Jamie Herd
MD, Merchanting Division

Lords Builders Merchants, Beaconsfield

Plumbing and Heating

Plumbing and Heating consisted of four brands in 2021: APP Wholesale, Mr Central Heating, ColumnRads and Plumbingstocks

Revenue

£232.8m

2020: £203.6m

Gross profit

£26.3m

2020: £22.9m

Adjusted EBITDA

£10.3m

2020: £9.1m (restated)

Branches

15

At March 2022

Kris, Trade Counter Manager, Mr Central Heating

In 2021, we continued to implement initiatives that will progressively increase our margin and drive customer service. This includes investing in our technology and systems, and adding strength and depth to our senior team.

Financial performance

This was a strong year for the division. Revenue for 2021 was £232.8 million, representing growth of 14.3% on the £203.6 million achieved in 2020. Against 2019 revenues, which provides a more relevant comparison given the impact of the COVID-19 pandemic on 2020 revenues, growth in 2021 was 21.0%.

This significant growth demonstrates the success of APP's integration into the Group, following its acquisition at the end of 2019, and the benefits of our investment in the business since then. During the first half of the year, the division relocated its Croydon and Bristol facilities to provide capacity for further growth. Plumbing and Heating has also continued to broaden its product range and drive its digital sales.

Adjusted EBITDA grew by 13.2% to £10.3 million (2020: £9.1 million), representing an adjusted EBITDA margin of 4.4% (2020: 4.5%). The division had a significant focus on margin management during the year and we look forward to delivering further benefits in 2022 and beyond.

Driving operational performance

We were pleased to successfully implement several initiatives in 2021 that will help to progressively increase our margin and drive customer service.

When we acquired APP, it had a strongly sales-focused culture. Part of our approach to driving profitability has been to instil a focus on margin and cost management. During 2021, we implemented business intelligence software to optimise customer terms and monitor customer churn. This is now fully implemented and we have already experienced early gains on margin (Q4) and churn (Q2).

One of our most significant initiatives in the year was our investment in the first phase of a new stock management system. This included implementing an electronic point of sale system for the Mr Central Heating trade counters, as well as new automated processes for recording sales orders, purchases and inter-branch transfers. This enables customers to move between online and instore, as well as giving us a clear view of product availability through more accurate inventory.

The second phase of the project will be implemented in H1 2022 and involves using handheld devices to streamline stock management processes in the warehouse. This improves our efficiency, increases our capacity and provides better accuracy of stock levels. The new warehouse management system also links with a second system we are introducing, known as PODFather, which will automatically update customers on order progress and delivery slots, and allows them to sign for deliveries on a device rather than on paper.

In addition, we have implemented a stock visualisation tool. All of the ERP and data tools we have introduced will become increasingly effective for us as we gather more data over time, improving our efficiency, extending our capacity, enhancing the customer experience and enabling us to further extend the product range.

The division has invested in its senior team, adding a commercial director and an operations director in 2021. This has helped us, for example, to develop new ways to measure and monitor performance at the branches to drive operational leverage, to optimise customer and supplier terms, and to manage our supplier relationships.

We continue to carefully manage our supply chain, which was robust throughout 2021. We expect product price inflation on core products in 2022 and some availability pressure, particularly in Q1 and Q2. We are managing this by ensuring we communicate effectively with customers and recommending alternative products where possible.

Our delivery drivers are a key customer-facing role and critical for ensuring we meet customer expectations for 'on-time, in full' delivery. During the year, we continued our programme of driver assessments, providing them with extra training and enhancing our maintenance of the fleet. Going into 2022, training, recruitment and retention of drivers remains a priority.

Plumbing and Heating continued

Investing in premises to drive future growth

In February 2021, we relocated Mr Central Heating's Croydon branch.

The business had outgrown its previous site, which it had traded from for around 20 years, and it was no longer big enough to extend the product range or support local deliveries. It also required daily replenishment from our regional distribution centre in Erith, which increased costs and its environmental impact.

The new branch is in a fit-for-purpose site on a busy trade park. The additional space has allowed us to extend the range from 675 to 926 different products and we plan to increase this further in 2022, by adding underfloor heating, tools, plastics and controls. We now also offer same-day delivery for the local market.

The success of the new branch is reflected in its 9.2% increase in sales in 2021 post-relocation. Customers rate it at an excellent 4.4/5.0, while colleague engagement is at 4.7/5.0.

“”

Investing in our premises is a key part of our organic growth strategy. We want to provide a great environment for our customers to visit and for our colleagues to work in. Increased space also allows us to carry a larger range, helping us to increase sales and further improve our customer service.

Michael Brockman
APP Wholesale Limited,
Managing Director

Mr Central Heating, Park Royal branch

Engaging our stakeholders

Customers

We want to be our customers' merchant or supplier of choice, so we look to offer the best possible service. Through regular dialogue, we can ensure we are meeting or exceeding their needs.

Stakeholder issues

- Product range, price and quality.
- Convenience and accessibility.
- Customer service.
- Fair marketing.
- Customer safety.
- Responsible use of personal data.
- Environment and sustainability.
- Ethics.

How we engage

- The CEO and divisional managing directors maintain direct dialogue with a large number of customers.
- Directors and management visit stores regularly.
- We hold regular business development meetings with customers.
- We run frequent surveys of customer satisfaction.
- We offer advice on energy efficiency and products.

How the Board is kept informed

- Customer KPIs are reported in management and Board packs.

Engagement outcomes

- Engagement helps us to build long-lasting relationships with our trade customers, ensuring we understand their needs and how we can make their projects run smoothly.
- Extending the product range enables greater choice. We offer tailored pricing for volume-related products.
- Digital channels provide 24/7 access to Lords and geographical extension makes it easier for customers to trade with us.

Colleagues

We can only provide superior service and expert knowledge through the hard work and commitment of our colleagues. We therefore need to ensure Lords is a great place to work.

Stakeholder issues

- Fair employment, pay and benefits, including gender pay.
- Training, development and career opportunities.
- Health and safety.
- Diversity and inclusion.
- Responsible use of personal data.
- Environment and sustainability.
- Ethics.
- Ensuring all colleagues are rewarded for the Group's success.

How we engage

- Directors and executive board members visit stores and sites regularly.
- Regular communications on business performance, market conditions and financial performance, including CEO updates and newsletters.
- Surveys to understand employee engagement and where we can improve. See page 36.
- Commitment to training and development, with a target of 16 hours per year.
- Lunch with the CEO for new colleagues.
- Health, wellbeing and fun initiatives for colleagues and families.

How the Board is kept informed

- Colleague KPIs are reported in management and Board packs.

Engagement outcomes

- During the year, our colleague surveys identified the need to enhance our performance review process. We have refreshed the process and provided training to line managers in how to implement it. See page 36 for more information.

Suppliers

We source the vast majority of the products we sell from our suppliers. We therefore need to maintain strong relationships with suppliers and manufacturers worldwide, who meet our high standards.

Suppliers must show that they operate in accordance with recognised standards, that they uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

Stakeholder issues

- Anti-bribery.
- Ethics.
- Preventing modern slavery.
- Environment and sustainable sourcing.
- Operational improvement.

How we engage

- Regular strategy sessions held with key suppliers, to develop sustainable long-term relationships.
- CEO is a Board member of the Builders Merchant Federation and H&B Buying Group.
- Supplier events to be held in 2022, in both divisions.

How the Board is kept informed

- Supplier payment terms reported to the Board.
- Board receives an annual presentation on ethical trading and modern slavery.

Engagement outcomes

- Our engagement enables us to build strong relationships with mutual trust and benefit.
- Regular interactions, formal reviews and strategy sessions enable us to focus on innovation, supply, health and safety, and product development.

Communities

We aim to be responsible members of our communities, reflecting our principle of doing the right thing. This is also important to our colleagues, customers and shareholders.

Stakeholder issues

- Charitable donations.
- Employment opportunities.
- Environmental impact.
- Fair tax.

How we engage

- Charitable activities are reported in colleague communications.
- Group investment of marketing funds into community schemes, including local and regional sports teams, totalling £65,000 in 2021.

How the Board is kept informed

- The executive directors provide regular ESG updates to the Board including charitable donations.

Engagement outcomes

- Our engagement ensures we remain respected by our local communities for our contributions to employment, investment and charitable activities.

Shareholders

To succeed in the long term, we need a supportive and well-informed shareholder base. We therefore look to ensure regular and open communications with our shareholders, while delivering strong and consistent performance.

Stakeholder issues

- Financial and operational performance.
- Strategy.
- Market trends.
- Acquisition pipeline and successful integration.
- Board and management.
- Sustainability and responsible business.
- Corporate governance.
- Management pay and incentives.
- Dividend policy.

How we engage

- One-to-one, group and webcast meetings.
- AGM to be held annually from 2022.
- Publication of newsflow, financial results and the annual report.

How the Board is kept informed

- The executive directors engage directly with shareholders and the Board receives regular shareholder feedback and annual summary of donations.

Engagement outcomes

- Our engagement ensures we have open dialogue with shareholders.

Josh, Branch Manager
Lords Builders Merchants

Section 172 statement

Section 172 of the Companies Act gives company directors a number of duties they need to take account of as they carry out their roles. Here we explain how the Board has considered those duties during the year.

The directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duties under section 172. They consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business, especially with regard to major decisions.

Information on our stakeholder engagement, including how the Board keeps itself informed about stakeholder views, can be found on pages 28 and 29.

Matter	Response
a) The likely consequence of any decision in the long term.	The directors prioritise a long-term view in their thinking about the business, for example in looking to develop multi-year relationships with customers and suppliers. The Chief Executive Officer has been active within the business since 1993. The Board took a number of decisions in the year which the directors determined were in the long-term interests of the Group and its stakeholders. In particular, these included the decision to proceed with the IPO (see case study) and the approvals for the three acquisitions, which reflected the potential for the Group to grow these businesses in the future.
b) The interests of the Company's employees.	As noted throughout this report, the directors believe the Group's employees are vital to its success. Key examples of the Board considering colleagues' interests in the year include the directors' considerable focus on health and safety, and the decision to award free shares in the Company to all employees who had been with the Group for more than six months at the IPO, to encourage them to have a feeling of ownership.
c) The need to foster the Company's business relationships with suppliers, customers and others.	The Board is heavily focused on the Group's relationship with its customers and regularly reviews the results of customer surveys, to ensure that customer service remains strong. The acquisitions and organic investments the Board approved during the year are also designed to improve the customer offer, either by increasing the product range we can provide, expanding the number of customers we can reach by adding new locations, or by enhancing our digital presence. Suppliers are critical partners for our business, particularly in Plumbing and Heating where we are a key route to market for a relatively small number of boiler manufacturers. Long lead times for some products mean the directors have paid careful attention to conditions in the supply chain during 2021 and they are kept informed through regular reports from the divisional managing directors.
d) The impact of the Company's operations on the community and environment.	The directors recognise the significance of protecting the environment and of being seen as good neighbours by the communities around our premises. Since the end of the year, the Group has engaged Mazars to help us develop our sustainability strategy and the Board will play a key role in determining and approving that strategy. We support local charities throughout the communities that encompass our local markets and examples can be found on page 41.
e) The desirability of the company maintaining a reputation for high standards of business conduct.	As noted in the Chief Executive Officer's review, the Group is founded on the principles of being ethical and professional in all its dealings. We have key policies in place, for example to prevent bribery and corruption or modern slavery, and the Board has kept these policies under review, to ensure they remain fit for purpose.
f) The need to act fairly between members of the Company.	The Board is keenly aware of the need to treat all shareholders equally. At the date of this report, the Chief Executive Officer held or controlled the voting rights of 29.01% of the Company's shares. At the time of the IPO, he therefore entered into a relationship agreement (see page 63]), which ensures the Company can carry on its business at arm's length. The Board also appointed an additional non-executive director during the year, ensuring the independent directors have a majority on the Board.

Stakeholder considerations

When making decisions, the Board considers the interests of the stakeholders affected and the impact the decision may have in the long term. Set out below is one example of a key Board decision in 2021 – the Company's admission to AIM.

Key Board decision: admission to AIM

The most significant decision the Board took during the year was approving the admission of the Company's shares to AIM.

Long-term implications of the decision

The decision to proceed with the IPO had numerous long-term implications for the Group. In particular it would:

- open up new ways to reward colleagues through share-based incentives, helping to attract and retain talented people;
- provide the Group with additional equity funding, to support its organic growth and acquisition strategy;
- raise the Group's profile and help to establish it as one of the leading merchants in the industry; and
- require the Group to continue to develop its corporate governance framework, its reporting and its approach to ESG issues.

The directors considered that the long-term implications of the decision were therefore likely to be beneficial to the Group.

In taking its decision, the directors considered the likely impact on the following stakeholders:

Colleagues

Continuing to grow the Group will open up more opportunities for colleagues to develop their careers within the business. The directors were also keen for employees to benefit from the Group's success through share ownership, and therefore approved the distribution of nil-paid shares as part of the IPO. At the same time, the Board was aware that the culture of the Group was a key attraction to employees and noted the need to retain this culture as the Group grows.

Customers

The Group's strategy is designed to continue to improve the offer for customers over time, by investing to broaden the product range, add new premises and improve existing ones, and ensure high standards of service. The directors therefore considered that customers would benefit from the IPO.

Suppliers

The directors considered that the IPO was positive for suppliers, since it enhanced the Group's growth prospects and gave suppliers the opportunity to grow their own businesses alongside the Group.

Environment

WORLD LAND TRUST

Sustainability is an important focus for us and increasingly for our stakeholders as well. We therefore continue to invest to improve our sustainability, focusing on the areas where we see the greatest opportunity.

These encompass reducing our environmental footprint, effectively managing our workforce, ensuring high standards of health and safety, and continuing to be good neighbours to our communities. On the following pages, you can read more about each of these areas and the wide range of initiatives taking place across the Group.

As Group CEO, Shanker Patel leads our approach to sustainability. We are currently working with specialist consultants to formalise our ESG approach into a detailed five-year strategy and intend to establish a sustainability committee as part of this review.

Environment

We are committed to minimising the impact of our business on the environment, with a particular focus on reducing energy consumption and carbon emissions from our operations. Our environmental policy requires us to focus on actions to conserve resources and energy, to minimise emissions into air or water and onto land, and increase recycling rates for waste.

We also see collaboration with our fellow merchants as a way to improve our environmental performance and support wider change. To further advance our environmental initiatives, we joined the Builders Merchant Federation Sustainability Forum, which launched in June 2021. APP has also signed up to CO2nstructZero. This is an initiative of the Construction Leadership Council, which aims to drive change by sharing actions and solutions across the sector.

In 2021, we took part in the Carbon Balanced programme run by World Land Trust (WLT). This enabled us to offset our carbon emissions for 2020 by supporting WLT's projects that protect and restore forests, creating a positive climate impact and helping to conserve biodiversity. We will continue to take part in this programme in 2022.

Reducing our greenhouse gas (GHG) emissions

This section of the report includes the required disclosures under Streamlined Energy and Carbon Reporting (SECR).

Our vehicle fleet contributes 88% of our carbon footprint and we continue to look at ways to increase its energy efficiency, including trialling alternative fuels. In the previous year, we introduced in-cab systems that provide feedback to drivers on how to maximise efficiency. In 2020/21, this helped us to increase fuel efficiency by 20%.

In Merchanting, we are currently trialling the use of hydrogenated vegetable oil (HVO) as a diesel substitute at our Park Royal site, which has the largest fleet in the division. GHG emissions from HVO are approximately 90% lower than from white diesel. While HVO is more expensive than diesel, our trial is also showing efficiency gains that partly offset the higher cost. APP is introducing a 'green van' option, which will allow customers to select a slot that aggregates deliveries to postcodes anywhere in the UK, thereby reducing the number of journeys required.

We are converting our diesel forklift truck fleet in Merchanting to electric vehicles as they come up for renewal. In Plumbing and Heating, all our forklift trucks are electric. Our company car policy also encourages us to replace the car fleet with hybrid or fully electric cars as they come up for renewal, 57% are now hybrid or fully electric.

In APP, the most significant indirect impact of our products is when they are in use. This gives us an opportunity to have a meaningful impact by helping customers improve their environmental performance. For example, we strive to offer customers the most efficient boilers, alongside products such as smart thermostats, which allow them to turn off the heating when away from home, and ways to reduce limescale build-up, which improves boiler efficiency. We also keep customers informed about reducing their energy use, for example through insulating their homes or keeping their boilers well serviced to maintain their efficiency and prolong their life. The implementation of hydrogen-ready boilers from 2022 has the potential to help us further reduce emissions from homes.

Case study

Introducing our unique recycling scheme for boilers

Every year in the UK, 1.2 million boilers are replaced. Despite this, there is no industry-wide scheme for recycling old boilers.

In the first half of 2021, Plumbing and Heating launched its BoilerBox concept to address this.

The BoilerBox is a collapsible crate that customers can acquire alongside a new boiler from Mr Central Heating. Once the new boiler is installed, the old boiler and any related components are placed in the box for clean and convenient storage, until one of our vans collects it. After collection, we credit the customer with the price of the box, meaning the service is free for them.

At our dedicated recycling centre in Erith, we have shown that we can recycle more than 95% by weight of every boiler. Our skilled team dismantles each boiler and separates the waste streams. This ensures no cross-contamination and maximises the volume of materials we can recycle.

The BoilerBox has already proved popular with a wide range of customers and having established proof of concept in 2021, we expect to set targets in due course to encourage further customer engagement with the scheme. We are now encouraging our large independent merchant network to offer the service, as well as looking to expand the service to other products at end-of-life, such as pumps.

Environment continued

Reducing our greenhouse gas (GHG) emissions continued

As we invest in our premises, we look at ways we can improve their environmental performance and reduce energy use. For example, as part of our major refurbishment at Beaconsfield, we will install solar panels to enable renewable energy generation on-site. We are also in the process of installing solar panels and electric vehicle charging stations at Erith, which will completely offset our energy usage at Erith and support customers with electric vehicles.

Reporting methodology

We have followed the HM Government Environmental Reporting Guidelines and used the GHG Reporting Protocol – Corporate Standard to calculate emissions. We have set 2020 as our baseline year and reported our total emissions using the financial control boundary. Our methodology aligns with the Department for Environment, Food and Rural Affairs' (Defra) Environmental Reporting Guidelines and uses the Government's GHG reporting conversion factors to quantify emissions and energy consumption.

Scope 1 refers to direct emissions from building operations released into the atmosphere, such as emissions from plants and boilers serving our properties and emissions from company vehicles. Scope 2 refers to indirect emissions released into the atmosphere associated with consumption of purchased electricity. Scope 3 refers to other indirect emissions that cannot be classified as Scope 2 emissions.

Data estimates

Information is included for those subsidiary undertakings which meet the criteria for reporting under SECR, specifically APP Wholesale Limited, Carboclass Limited and Hevey Building Supplies Limited. The prior year excludes Hevey Building Supplies Limited, who did not meet the criteria. The emissions of smaller divisions that do not meet the reporting threshold are not included.

We have used miles driven to establish our baseline energy consumption and CO_2 emissions of vehicles. We have used our KWh usage to establish energy consumption of electricity and gas.

Within Scope 1, we have excluded emissions from air conditioning and refrigeration units due to the cost of data collection. There are no process emissions within the businesses reporting.

UK GHG emissions and energy use data:

	2021		2020		Change	
	Energy consumption KWh	**Emissions Tonnes CO_2e**	Energy consumption KWh	Emissions Tonnes CO_2e	Energy consumption KWh	Emissions Tonnes CO_2e
Scope 1						
Own transport	**17,812,079**	**4,219**	15,127,893	3,640	18%	16%
Gas	**546,497**	**100**	409,403	75	33%	33%
Scope 2						
Electricity	**1,837,041**	**409**	949,328	221	94%	85%
Scope 3						
Business travel in employee-owned vehicles	**158,963**	**39**	66,246	16	140%	144%
Total	**20,354,580**	**4,767**	16,552,870	3,952	23%	21%
Intensity ratios						
Tonnes CO_2e per employee		**8.5**		9.2		(8)%
Tonnes CO_2e per £million of turnover		**13.8**		15.3		(10)%

Tonnes CO_2e is down on both intensity measures, by employee by 8% and by turnover by 10%. The overall emissions are up due to the current year including Hevey Building Supplies Limited, while the prior year did not, as they did not meet the reporting criteria. Companies included accounted for 95% of sales in 2021 and 88% of employees. Figures are unaudited.

Waste and recycling

A key part of our environmental approach is to increase recycling rates and further reduce the volume of waste going to landfill. During 2021, we were pleased to launch BoilerBox, our unique concept for recycling old boilers. See the case study on page 33 for more information.

In addition to BoilerBox, APP has a number of initiatives to reduce packaging volumes and increase recycling rates. For example, the business has introduced a scheme enabling customers to return cardboard, plastic or polystyrene packaging to APP for recycling. APP also intends to work with its suppliers to reduce the volume of packaging they use, while ensuring the products are still suitably protected from damage. This will be supported by carrying out a complete packaging audit in 2022. In addition, APP is consulting with manufacturers about recovering and reusing materials.

In Merchanting, we are running two trials to improve our management and recycling of waste. At Aylesbury, we are trialling a scheme to segregate all waste streams, which will give us insight into the types of waste we are generating and where each type of waste ends up. In its London branches, Merchanting is trialling a programme to use APP's capabilities to collect and recycle cardboard, paper and plastic, with a view to rolling this out across the division.

Responsible sourcing

Ensuring we responsibly source products is important to us and all of our timber is FSC or PEFC certified. In addition, Lords at Home has a large range of sustainable products, which we further expanded in 2021 (see **www.lordsathome.com** for more information).

We also support our customers' ability to source responsibly. For example, as a proud British manufacturer, Weldit allows its customers to reduce shipping from the Far East.

People

The number of colleagues across the Group grew rapidly in 2021, from 534 in 2020 to 725 by the year end.

Ninety-eight colleagues joined us through the acquisitions we made in the year and there was a net increase of 93 through recruitment to support our business growth. Since the end of year, the number of colleagues has further increased to 881.

As the Group grows, we need to manage our people effectively. We want to make sure our colleagues continue to be happy at work and are highly engaged, recognising that engaged and motivated people are crucial to having satisfied customers.

Engagement

In 2020, we began a programme of quarterly engagement surveys, to give us greater insight into how our people are feeling and identify where we are doing well and any issues to address. The surveys select several questions each time from the Gallup employee engagement survey model, which covers twelve key areas, and one or two questions specific to the Group.

The results have shown excellent levels of engagement, with a score of 4.7 out of 5 in the most recent survey. We will continue the surveys in 2022, enabling us to track the trends in responses over time. All colleagues are offered the chance to take part and we will look to further increase the response rate.

One area highlighted by the surveys was ensuring all colleagues had timely performance reviews. We have therefore changed our performance review process, ensuring our colleagues are given regular feedback to support their career aspirations with Lords. Across the Group, 60 line managers were given appraisal training to ensure all colleagues benefit from the performance review process.

Learning and development

Training in mental health was a key focus for us in 2021. You can find more information on this in the case study on page 33.

We also provided a range of other training opportunities for people throughout the business, in addition to the mental health and performance review training noted above. These included:

- a programme called Excel, which helps developing managers to learn how they can grow in their role and their career journey within the Group;
- line management training for supervisors and team leaders; and
- sales and margin training for colleagues in our Merchanting division.

We also have two colleagues taking MBAs, with financial support from the Group.

For 2022, our focus areas will include ensuring that ongoing training is well structured and considering new programmes, including training for colleagues who want to be the next generation of management. We will also step up our apprenticeship programme, having taken on several apprentices in areas such as finance during 2021. This will include digital apprenticeships, given our growth plans in this area.

Succession planning

One of our current HR workstreams is to formalise our succession planning. As part of this, we are reviewing the organisation’s structure and how it is changing, so we have a clear understanding of the roles we need and the potential for filling them from within. This work will continue in 2022.

Case study

Understanding and supporting colleagues' mental health

Mental health is a serious issue for many people and the additional stresses caused by the COVID-19 pandemic have only increased the challenge. This was brought into sharp focus for us at the start of 2021, when a colleague tragically took their own life due to pressures outside the work environment. We immediately recognised the need to establish support for the colleagues affected by this, and to develop a broader strategy in relation to mental health.

Within a month, we had introduced training for colleagues and managers, to help them understand mental health issues and what signs they should look for in their colleagues. The aim was to remove any stigma around discussing mental health issues and to encourage people to volunteer as mental health first aiders. By the end of the year, we had trained 23 mental health first aiders across the Group, with a further 14 trained in the first two months of 2022.

To raise awareness of the support that was available, in April 2021 we created a brand for mental health: 'Mind Kind – Your Story Matters'. Feedback from colleagues and the senior team has been extremely positive and the constructive support that is available is recognised throughout the business.

MIND KIND YOUR STORY MATTERS

Josh, Branch Manager Lords Builders Merchants

People continued

Diversity and inclusion

As an equal opportunity employer, we recognise the importance of diversity and inclusion, and the business benefits that diverse teams can bring. At the year end, our gender diversity was as follows:

	Female	Male
Board	1	4
Senior management	4	17
Other employees	121	578
	126	599

In total, approximately 17% of our workforce is female. This low level of representation is standard in the industry and we are committed to increasing it, as outlined below.

Ethnic diversity is also an essential consideration for us. At the year end, 84.6% of our workforce identified as white and 15.4% as non-white. Our ethnic diversity is reflective of our local communities and marginally ahead of the UK average. We remain committed to driving further diversity across our Group.

We have initiatives to increase diversity across the Group. For example, we are looking to recruit more female forklift, van and lorry drivers. We also ensure that our employee packs and other materials show a diverse range of colleagues. Through APP, we give talks in schools to highlight opportunities in the industry for people from all backgrounds, including the broad range of different roles within our business, and look to raise the profile of the female installers in APP's network. Our apprenticeship programme also allows us to bring in new talent from diverse backgrounds.

Reward and recognition

As described in the case study on page 39, all employees who had been with us for at least six months received free shares in the Company during the IPO process.

Looking ahead, we will consider ways that we can recognise our people's performance regularly throughout the year, in addition to existing annual bonus structures.

Our people policies

We have many formal policies, including those covering equality and dignity at work, disciplinary procedures, bullying and harassment, and use of computers and IT. The guidelines are reviewed every year and updated as necessary, to ensure they remain fit for purpose. Line managers throughout the business are responsible for ensuring compliance with our policies, with performance reported to the Board.

Katarzyna, Counter Sales; Reina, Branch Manager; Leigh, Stock Controller, Lords Builders Merchants

Case study

Rewarding and incentivising our colleagues

The success of our business depends on the continued hard work and commitment of our colleagues. We therefore want them to feel a sense of ownership for the Group and ensure they benefit as the business grows.

With this in mind, we created the Share Incentive Plan (SIP). Under the SIP, everyone who had been an employee for more than six months at the time of the IPO was eligible to receive free shares. In total, 485 colleagues were awarded 2,105 shares each, which they received in October 2021.

Looking forward, the SIP will enable us to increase participation by our colleagues. It gives us a mechanism for awarding further nil-paid shares or to award matching shares for those our colleagues buy themselves, up to certain limits. Colleagues who receive shares through the SIP need to hold them for at least three years, encouraging them to focus on the Group's ongoing success.

> We want our colleagues to share in our success. Encouraging share ownership through the SIP gives them a real stake in the future of the Group.

Shanker Patel
Chief Executive Officer

Bernard, Assistant Branch Manager; Marcin, Forklift Driver, Lords Builders Merchants

Health and safety

Our business involves handling and transporting significant volumes of heavy and bulky materials, which means we must have a rigorous approach to health and safety.

Health and safety remained a focus across the Group in 2021, with the Board paying close attention to our initiatives and our performance. We are pleased to say that our record during 2021 was strong and we are working hard to further improve performance.

Our approach to health and safety

Our in-house programme is branded 'Safety – Take the Lead' and is designed to ensure our colleagues and customers return home safely every day.

Ultimate responsibility for health and safety rests with the Board. Within the divisions, the operations directors and branch management are responsible for day-to-day safety. However, we expect every colleague in the business to look out for each other, work safely and ensure we maintain the required standards. The Group has a formal health and safety policy, which is reviewed annually, and carries out risk assessments for each location and for specific tasks. Safety performance is discussed weekly at branch level and reported monthly to Board level.

We operate a single health and safety management system across the Group called Safety Cloud, which is provided by a specialist consultancy, Citation. The system contains all of our certifications, licences, training and reporting. Citation also provides a dedicated health and safety consultant, who works across the Group.

The Group has a range of health and safety training for colleagues, including an e-learning suite approved by the Royal Society for the Prevention of Accidents (RoSPA) covering numerous topics, such as manual handling, loading and unloading, and fire hazards. This training is mandatory for colleagues and must be completed every year.

Health and safety performance

Our key performance indicator for health and safety is the lost time injury frequency rate. Performance in the year was strong, with a lost time injury rate of 0.5 (2020: 0.5). This continued our track record of improvement over recent years.

We also closely monitor the outcomes of bi-annual safety audits carried out by Citation, with the results forming part of the bonus calculation for all colleagues. All sites in Merchanting and APP scored over the 90% target on these audits.

Our health and safety initiatives in 2021

In 2021, we had a wide range of initiatives across the Group to further enhance our health and safety performance and continue our best-in-class safety procedures, prioritising keeping our colleagues safe and healthy at work. For example, in Merchanting we reviewed the golden safety rules that we introduced in 2019, covering everyday safety situations such as using seatbelts, operating forklifts and accessing vehicle beds, and ensured that all colleagues understood why they were in place and how they help to protect them in their workplace. Going forward, we aim to have consistent health and safety procedures across the Group and we therefore plan to introduce similar rules in our Plumbing and Heating division in 2022.

In an initiative to reduce the most significant risks our drivers face, Merchanting also took delivery of ten new trucks with enhanced safety features, such as improved access to vehicle beds, fall-from-height systems on the sides of the vehicles and improved lighting. This should further improve our track record in keeping our colleagues safe while working on site.

In Plumbing and Heating, all depots are now on the Group's online safety reporting, training and risk assessment portal and we introduced a safety leadership course which was mandatory for all branch managers, to embed a consistent understanding of health and safety leadership and contribute to building our safety culture. This course will be provided to the next layer of management during 2022.

Our other safety initiatives in the division included:

- all drivers undergoing a DVSA-approved assessment, to identify training needs and address on-road safety;
- starting toolbox talks with colleagues, for example on requirements for personal protective equipment, winter driving and accident investigation;
- upgrading forklifts to include seatbelt sensors, reduced speeds and perimeter lighting;
- fire warden and first aid training in every branch, taking standards beyond base compliance; and
- introducing defibrillators at a number of sites, which are also available to other local businesses. All Plumbing and Heating branches will have defibrillators by the end of 2022.

In addition, during 2022 Plumbing and Heating will introduce a customised manual handling course, which will be RoSPA approved. The division is also looking to implement driver telematics, which will enable it to take a proactive approach to reducing the risk of road accidents.

Communities

Lords has always put our people at the forefront of our success and we believe that investing in quality staff and their welfare will translate in all areas of the business.

These values also extend to our local communities, where we look to be a good neighbour and to have a positive impact on the neighbourhoods around our sites. One important way we do this is by supporting the local economy, both directly through the people we employ and indirectly by helping our customers' businesses to succeed, by providing the products they need with outstanding service.

More importantly, we support a range of charitable initiatives across the Group. These causes benefit the communities in which we operate, and where many of our staff and their families live.

For example, the Group support includes Mary's Meals, which provides one meal every school day for chronically hungry children, helping them to focus on their education that can lift them out of poverty in later life. We also support Save the Children and fund scholarships at the London School of Economics, for students from underprivileged backgrounds who otherwise would not be able to attend. In addition, the Group backs numerous grassroots sports teams.

Millions of people in the UK are in fuel poverty, which is when a household must spend a high proportion of its income to keep their home at a reasonable temperature. One factor in fuel poverty is the amount of energy used, which partly depends on the energy efficiency of the home. This is an important focus area for Plumbing and Heating, for example through the energy efficiency guidance it offers online at: **www.mrcentralheating.co.uk/guide-to-reducing-winter-heating-costs**. More information on Plumbing and Heating's approach to energy efficiency is provided on page 32.

Mary's Meals project, Malawi

Financial review

This was an excellent year, with strong revenue growth and rising margins. Following the IPO, we have the resources to continue to implement our strategy.

Chris Day
Chief Financial Officer

The Group delivered an excellent financial performance in 2021, with strong growth in revenue and profits underpinned by strong cash conversion, supporting our ability to invest for further growth and to reward shareholders through dividends.

Supporting our growth strategy through careful capital allocation

The Group has a wide range of potential investment opportunities, both organic and inorganic. It is therefore important that we take a rigorous approach to allocating capital between these opportunities. We carefully review the investment case for each proposal, to ensure the planned returns are deliverable and that risks have been effectively mitigated, and look for all investments we make to generate a return on investment of at least 20%. Successful implementation of this strategy has contributed to our strong and profitable growth in 2021.

Revenue

Group revenue was £363.3 million in 2021 (2020: £287.6 million), representing growth of 26.3%. Excluding acquisitions, like-for-like (LFL) growth was 18.1%.

The impact of the COVID-19 pandemic affected our revenue performance in 2020, with the result that 2019 provides a more meaningful comparator for revenue growth. LFL growth between 2019 and 2021 was 20.8%.

The table below shows revenue performance by division:

	2021 £m	2020[1] £m	Growth	LFL growth	Two-year LFL growth
Plumbing and Heating	**232.8**	203.6	14.3%	14.3%	21.0%
Merchanting and other services	**130.5**	84.0	55.4%	27.6%	20.4%
Total Group	**363.3**	287.6	26.3%	18.1%	20.8%

Both divisions have demonstrated strong LFL revenue growth over the last two years.

Gross profit

Gross profit for the year was £62.7 million (2020: £47.2 million), up 32.8%. The gross profit margin was 17.3% (2020: 16.4%). We expect continued improvement through pricing and mix initiatives.

Overheads

Overheads, which are defined as distribution costs, administrative expenses and other operating income before exceptional items and share-based payments, increased from £31.3 million in 2020 (restated) to £40.4 million in 2021. This reflected growth in the business, including acquisitions in the period. Cost to serve, which is defined as overheads as a percentage of revenue, increased to 11.1% (2020: 10.9% restated). We continue to focus on operational leverage and expect further efficiency through scale in due course.

1. Restated figure.

Depreciation and amortisation

Depreciation and amortisation increased to £9.4 million (2020 restated: £8.5 million), reflecting acquisitions made in 2021 and continued capital expenditure, as we invest in the Group's people, plant and premises programme. £5.9 million of the depreciation and amortisation relates to right of use assets (2020 restated: £5.6 million), £2.1 million to intangible assets (2020: £1.9 million) and £1.4 million to property plant and equipment (2020: £1.0 million).

Exceptional items

Exceptional costs in 2021 totalled £2.1 million. These comprised costs associated with our admission to AIM (£1.8 million), the costs incurred in relation to acquisitions in the year (£0.5 million) less a reduction in contingent consideration of £0.2 million.

Exceptional items in 2020 totalled a net cost of £0.5 million. This was the net of exceptional costs of £0.3 million for restructuring and £1.7 million for deferred remuneration, less Government grants under the Job Retention Scheme (£1.2 million) and small business retail grants (£0.3 million).

EBITDA and adjusted EBITDA

EBITDA is defined as earnings before interest, tax, depreciation and amortisation on an IFRS basis.

Adjusted EBITDA, which also excludes the exceptional items set out above and share-based payments was £22.3 million up 40.1% from £15.9 million in 2020 restated. The adjusted EBITDA margin improved to 6.1% (2020 restated: 5.5%). EBITDA for 2021 was £20.1 million (2020 restated: £15.4 million).

Financial review continued

EBITDA and adjusted EBITDA continued

The table below shows adjusted EBITDA by division:

	2021 £m	**2021 margin**	2020[1] £m	2020[1] margin
Plumbing and Heating	**10.3**	**4.4%**	9.1	4.5%
Merchanting and other services	**12.0**	**9.2%**	6.8	8.1%
Total Group	**22.3**	**6.1%**	15.9	5.5%

Interest on bank loans and overdrafts

Interest on bank loans and overdrafts reduced to £0.5 million (2020: £1.0 million), reflecting the reduction in average net debt during the year and lower cost of capital post-IPO.

Profit before tax and adjusted profit before tax

Adjusted profit before tax, which excludes exceptional items and share-based payments, was £10.2 million (2020 restated: £4.1 million). The Group generated a profit before tax for the year of £8.0 million (2020 restated: £3.6 million).

Contingent liabilities

In May 2020, the Group discovered that APP Wholesale Limited had been receiving cash payments for goods from customers, in contravention of a regulation related to money laundering. The Group reported this to HMRC and is seeking an agreed outcome. The breaches occurred over a ten-year period from August 2010, cumulatively amounting to up to £2,927,635 (which represents 0.2% of turnover in the same period within APP). The directors are confident that any potential fine levied would be covered by the warranties contained in the sale and purchase agreement for APP when the Group acquired it in December 2019, with regard to any penalties relating to the period prior to the acquisition. More information can be found in note 34 to the financial statements.

Prior year adjustment

In October 2021, the Group undertook a review of the property lease accounting under IFRS 16 included within the admission document for AIM. Several errors were identified, the most material of which were four leases where step increases in rentals were a contractual obligation within the lease and should have been reflected in the valuation of right-of-use assets and the lease liabilities, but they had not been included.

In addition, one subsidiary hires vehicle on a three year lease term but which can be terminated free of charge at any time. The view at the time of the admission document was that these were short-term leases. A subsequent review of the leases indicates that while the subsidiary does not have an obligation to hold the vehicles for a defined period, it usually holds the majority for a period, of around three years.

The errors have been corrected by restating each of the affected financial statement line items for the prior period. Full details can be found in note 3.3.

Cash flow

Adjusted cash generated by operating activities by operating activities was £21.7 million (2020: £15.5m) while free cash flow (defined on page 16) was £19.5 million (2020: £13.7 million). Free cash flow conversion (Free cash flow/ EBITDA was of 87% (2020: 86%).

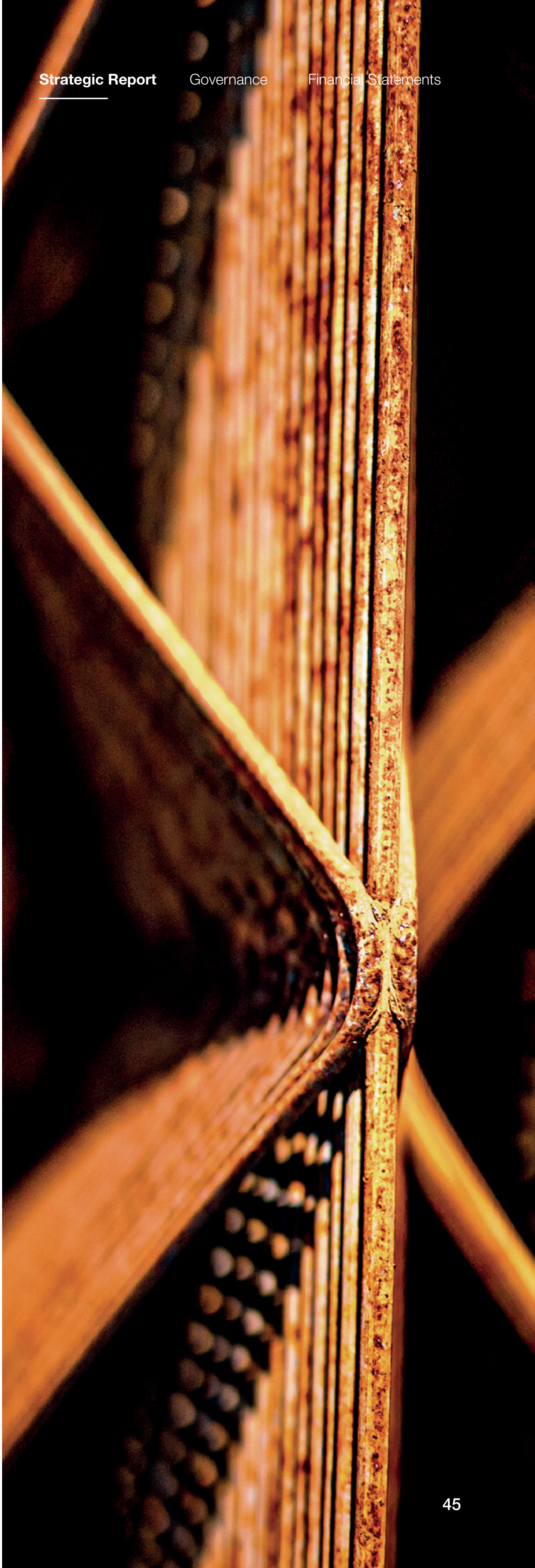
Admission to AIM

On 20 July 2021, Lords Group Trading plc announced the admission of its entire issued share capital to trading on the AIM market of the London Stock Exchange.

Prior to admission and to facilitate the IPO, the Company completed a capital reorganisation and converted all shares in existence on 30 June 2021 into 125,925,000 new ordinary shares with a nominal value of 0.5 pence. Details of the capital reorganisation are disclosed in note 29.

In conjunction with admission, gross proceeds of £52.0 million were successfully raised by way of an oversubscribed placing with institutional investors of 54,736,839 new and existing ordinary shares at a price of 95 pence per share. This comprised a primary placing to raise £30.0 million (before expenses) for the Company and a secondary placing to raise £22.0 million (before expenses) for certain existing shareholders.

1. Restated figure.



Restructuring of financing

On 20 July 2021, the Group used the funds raised in the placing to repay its loan under the Coronavirus Business Interruption Loan Scheme, its revolving loan facility, its term loans and invoice financing.

We replaced these facilities with the following arrangements from HSBC UK Bank plc:

1. An invoice financing facility of £10.0 million, attracting an interest rate of 1.80%.
2. A revolving credit facility (RCF) of £30.0 million, repayable after three years and attracting a base interest rate of 2.25% with fixed tiers up to 3.00%, based on leverage.

The loans are secured by fixed and floating charges over the land, tangible assets, insurances and shares in subsidiary undertakings.

In March 2022, we agreed with HSBC to increase the facilities, with the RCF increasing to £50.0 million and the invoice financing facility increasing to £20.0 million to support our growth plans.

Balance sheet and liquidity

As a result of the Group's cash flows and the proceeds of the placing, we had net cash of £6.3 million at 31 December 2021 (2020: net debt of £22.9 million). Our cash balance plus the £34.9 million of undrawn facilities with HSBC gave us liquidity of £46.3 million at the year end.

Right-of-use assets increased by £1.3 million to £33.3 million at the year end (31 December 2020 restated: £32.0 million), while property, plant and equipment rose by £3.7 million to £8.1 million (31 December 2020: £4.4 million). These movements were primarily the acquisitions of Condell, MAP and the Nu-Line branch.

Inventory reduced by £1.2 million, from £40.0 million at 31 December 2020 to £38.8 million at the year end, as the Plumbing and Heating division began to see the benefits of its investment in a new stock management system.

Trade and other payables were £4.7 million higher at £70.8 million (31 December 2020: £66.1 million), while trade and other receivables rose by £5.1 million to £57.7 million (31 December 2020: £52.6 million). This was the result of the acquisitions in the year and the Group's organic growth, through the ordinary course of business.

Earnings per share and adjusted earnings per share

Basic earnings per share was 3.73 pence. The comparable figure in 2020 was 1.94 pence. Adjusted earnings per share (as defined in note 16) was 5.48 pence (2020: 3.46 pence).

Dividend

The Board has recommended a final dividend of 1.26 pence per share. Combined with the interim dividend of 0.63 pence per share, this gives a total dividend for the year of 1.89 pence per share.

The final dividend will be paid on 7 July 2022 to shareholders on the register at the close of business on 6 June 2022. The Company's ordinary shares will therefore be marked ex-dividend on 1 June 2022.

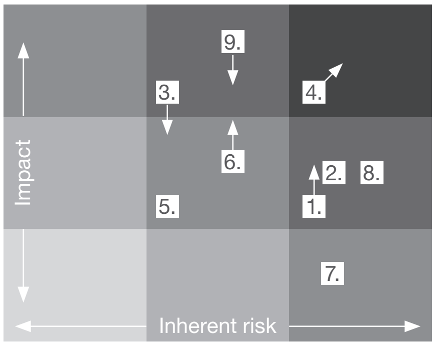
Chris Day
Chief Financial Officer
23 May 2022

Principal risks and uncertainties

Effective risk management is key to delivering our strategy.

Effective risk management is key to delivering our strategy, requiring us to have a robust framework for identifying, managing and mitigating the principal risks we face, and ensuring we identify emerging risks on a timely basis. This section of the report sets out the key elements of our framework and the principal risks the Group faces. Information on our internal controls can be found in the corporate governance statement on page 56.

Risk heatmap:



Our risk management framework

The Group's risk management framework has four layers:

The Board	One of the Board's key roles is to understand, evaluate and monitor the Group's key risks and internal controls. This is supported by Board papers, which explain the effectiveness of particular controls and recommendations for developing them. Board members then use their experience to push these developments forwards. The Board is also responsible for determining our risk appetite.
Audit committee	The audit committee monitors and reviews our internal control systems, guided by the Chief Financial Officer and the Group Financial Controller. The committee receives reports from management on risk management and controls. It also approves the scope of the external audit and receives reports from the auditor on internal controls. The audit committee is also responsible for monitoring emerging risks.
Executive management team	Our executive management team is responsible for implementing the Group's strategy, within the risk appetite set by the Board. It has overall responsibility for managing risks day to day and for implementing actions arising from the Board and the audit committee.
Business units, Group functions and colleagues	Everyone in the Group has a responsibility to share and identify risk and report anything that concerns them.

The Board's assessment of the principal risks and uncertainties facing the Group and the mitigation in place is set out below:

1. Macroeconomic conditions in the UK

Inherent risk:
High

Trend:
Rising

Impact:
Adverse effect on financial performance

Description:

Our markets are cyclical and a proportion of our revenue depends on the willingness of households to incur discretionary expenditure on home improvement projects. A reduction in the UK's economic health could therefore reduce demand.

Our customers are mainly professional tradespeople engaged in RMI activity and these markets are influenced by trends in home improvements and maintenance.

Demand is also linked to inflation, interest rates, change in property values, demographic trends, employment levels and consumer savings.

Mitigation:

- Our business is intentionally exposed to the less cyclical element of our market, RMI. Demand for boilers, which provide a large proportion of sales in Plumbing and Heating, is even less cyclical, reflecting the natural replacement cycle of these products.
- We have continued to diversify our activities by product category, sector, channel and geographical reach.
- Our management has experienced multiple downturns and understands that capital allocation, efficiency and customer service are key.
- Assessment of macro trends helps inform capital allocation and cost control measures.

2. Colleagues

Inherent risk: Medium **Trend:** Stable **Impact:** Adverse effect on customer service, leading to reduced financial performance	**Description:** We have 881 highly engaged colleagues across the Group. They are fundamental to our success, as they drive market opportunities using their experience and knowledge. We need to continue to attract, retain, invest in and incentivise them.	**Mitigation:** • We are committed to high standards of employment practice. • We apply significant resources to training, development, mentoring, 360 feedback, incentive structures, safety and mental health. • The majority of our colleagues are shareholders, through the Share Incentive Plan set out at IPO. • We carry out quarterly surveys across all colleagues and act on their feedback. • We benefit from an average length of service of 5.8 years and look to promote from within, including all five current managing directors. • The remuneration committee reviews all key aspects affecting the workforce.

3. Competition in our markets

Inherent risk: Medium **Trend:** Falling **Impact:** Adverse effect on financial performance	**Description:** We face competition across the Group. Our competitors' actions apply price pressure and we need to remain competitive. In Merchanting, we compete with builders' merchants and retailers of varying sizes, while Plumbing and Heating competes with plumbers' merchants in the B2C market and one other national distributor in the independent B2B channel. Some competitors have greater financial resources and economies of scale, which may give them an advantage. New business models also pose a threat, alongside changing customer behaviours enabled by technology.	**Mitigation:** • As a service-led group, we look to compete on our customer proposition rather than solely on price. • We continually monitor gross margins and have an effective strategy for passing through inflation. • Digital is a strength of our business and we have invested in our in-house expertise. • We have invested in our marketing function, to drive our value message rather than price. • Our membership of a buying group helps offset the scale gap. • We conduct regular customer surveys and have received a Platinum award from Feefo for our outstanding customer service.

Principal risks and uncertainties continued

4. Sustainability and climate

Inherent risk: High Trend: Rising Impact: Adverse effect on our reputation and our financial performance	Description:	Mitigation:
	We recognise the need to be a responsible business, including minimising the environmental impact of our operations. ESG is an increasing focus for our stakeholders and we therefore need an ethical and sustainable model to deliver long-term growth.	• We have begun developing a sustainability strategy in 2022, with support of Mazars. • We implemented a wide range of environmental improvements in 2021, including BoilerBox, carbon offsetting, trials of alternative fuels, an engine management solution, waste management and recycling, and increasing energy efficiency through redevelopment of sites (see page 33). • All our timber has FSC and PESC accreditation. • We have Group-wide policies in place for anti-bribery, modern slavery and timber sourcing.

5. Technology and IT Infrastructure

Inherent risk: Medium Trend: Stable Impact: Adverse effect on customer service and financial performance	Description:	Mitigation:
	Our ability to trade depends on our IT infrastructure and we are therefore exposed to the risk of system failure. Over time, the pace of technology change could mean our systems become outdated, making our business processes inefficient, or that they become more vulnerable to unauthorised access.	• We completed a review of our cyber security and network infrastructure in 2021, which will be implemented in 2022. • We rigorously test system changes and ensure business acceptance prior to launch. • Our brands operate on different ERP systems, which would limit the consequences to the Group if one of these systems suffered an outage.

6. Health and safety

Inherent risk: Medium Trend: Increasing Impact: Adverse effect on colleagues, our reputation and our financial performance	Description:	Mitigation:
	Our operations have inherent health and safety risks to colleagues, customers and third parties on site. Prevention of injury and death is an absolute Board priority. The primary health and safety risks in our operations are manual handling, slips, trips, falls, transferring materials, road traffic incidents, and incidents involving mechanical handling equipment and delivery vehicles.	• Health and safety is a Board priority and an agenda point at all of its meetings. • We complete external safety audits of our sites twice a year. • We have an established process for reporting near misses and accidents, allowing us to apply lessons learned to prevent future incidents. • We have invested significant resources in our individual businesses on awareness, training, management, risk assessment and corrective actions. • Our Take the Lead safety programme drives overall progress and coordinates continuous improvement.

7. Acquisition and integration

Inherent risk:	Description:	Mitigation:
Inherent risk: High **Trend:** Stable **Impact:** Adverse effect on financial performance	Acquisitions are a key element of our growth strategy and the Group's development. We may not be able to identify targets on acceptable terms, that are sufficiently accretive and cash generative, or that meet our return on investment criteria. Failure to effectively integrate our acquisitions may delay or reduce the expected returns. Larger transactions carry an elevated risk, given their increased importance relative to the Group as a whole.	• We have significant in-house resource, with a dedicated M&A team and a long-established and experienced integration team. • Our acquisition decision-making is underpinned by strategic and financial criteria and Board approval. • We conduct regular post-investment reviews, for the first five years post-transaction.

8. Supplier management and rebates

Inherent risk:	Description:	Mitigation:
Inherent risk: High **Trend:** Stable **Impact:** Adverse effect on customer service and financial performance	Consistent product availability is key. If suppliers fail to deliver the products we need on a timely basis, it will impact our customer proposition and our sales volumes. Volume-related rebates from suppliers represent a material proportion of Group EBITDA. There is a risk that rebates are not accounted for correctly.	• We maintain strong relationships with suppliers and proactively manage any issues that arise. • Rebates are documented in written agreements and we complete regular reconciliations to ensure accurate reporting. A proportion of rebates are paid monthly or quarterly, which reduces the materiality of year-end rebates receivable.

9. Finance and liquidity

Inherent risk:	Description:	Mitigation:
Inherent risk: Medium **Trend:** Reducing **Impact:** Adverse effect on financial performance	We face the following financial risks: • Credit risk – the risk that accounts receivable will not be settled, leading to financial loss. • Liquidity risk – the risk that we have insufficient funds to finance our operations or growth strategy. • Interest rate risk – increases in interest rates would raise the cost of servicing debt.	• Credit risk is managed locally in each subsidiary, with oversight by the Chief Financial Officer. We utilise credit insurance and perform credit limit reviews, based on each customer's creditworthiness. • Liquidity risk – we undertake rigorous forecasting and regularly model severe downside scenarios, to ensure we maintain sufficient funding and facilities. • Interest rate risk – our operations are financed by a mix of retained profits and bank borrowings based on floating rates. We model interest rates in severe downside scenarios. We reviewed the need for interest rate fixing in 2021 and concluded it was not currently required.

Chris Day
Chief Financial Officer

Board of Directors

We have a strong Board, with an appropriate balance of different backgrounds, skills and experience.

Gary O'Brien

Non-Executive Chairman

A D R

Appointed to the Board: 1 July 2020

Skills and experience

- One of the most seasoned leaders in the retail sector, having held numerous senior roles in major retail businesses.
- Extensive public company experience, as a director of both Main Market and AIM companies.
- Significant experience of business transformations, including refinancings.
- Management and advisory expertise in private businesses across corporate finance, telecommunications, IT and financial services marketing.
- Excellent understanding of the Group, having worked with the business since 2014, contributing financial acumen and strategic guidance.

Other current appointments

- Adviser to Bailey Montagu.
- Director of several private property / investment funds.

Past appointments

- Chairman, John Lewis of Hungerford; CFO, Signet Group; Deputy CFO of Burton Group plc; Deputy Managing Director and Finance Director, Max Factor.

Shanker Patel

Chief Executive Officer

Appointed to the Board: 22 October 2018

Skills and experience

- Deep understanding of the Group and its markets, having worked within the business since 1993 and as CEO for more than ten years.
- Successfully driven the Group's growth strategy, with a strong track record of delivering both organic and acquisitive growth.
- Committed to developing people and maintaining a strong culture.
- Managed the Group's transition from owner-managed to a public company.
- BSc from the London School of Economics, Law degree and an Exec Ed from Harvard Business School.

Other current appointments

- Designated member of the H&B buying group that represents Lords.
- Board member of the Builders Merchants Federation.
- Chair of West London Business.

Past appointments

- Managing Director of Lords Group Trading, prior to appointment as CEO.

Chris Day

Chief Financial Officer

D

Appointed to the Board: 2 January 2019

Skills and experience

- Significant experience in both finance and supply chain management.
- Successfully driven the Group's growth strategy, focusing on capital allocation to deliver the Group's strategic plan.
- Overseen numerous acquisitions at Lords since joining in 2017, as well as helping to structure many parts of the business in readiness for growth.
- Chartered Global Management Accountant and holds a BA (Hons) from Cardiff University and an MSc in Supply Chain Management from Cranfield.

Other current appointments

- None.

Past appointments

- Senior finance roles at Travis Perkins plc and Monsoon Accessorize.

A Audit committee member
D Disclosures committee member
R Remuneration committee member
Committee Chair

Dawn Moore

Non-Executive Director

A R

Appointed to the Board: 1 July 2020

Skills and experience

- Extensive record of success in executive-level human resources and people strategy, across a range of large organisations and sectors.
- Significant relevant knowledge across manufacturing, construction and infrastructure sectors.
- Named one of the eight most influential women in construction in 2018 and received multiple national awards for work on diversity and inclusion, culture change, recognition and HR strategy.
- Has worked with the Group since 2020, offering her wealth of experience across people, strategy and governance.

Other current appointments

- Group People & Communications Director at J Murphy & Sons Ltd.

Past appointments

- Director of Human Resources for Morgan Sindall, Vesuvius, Tarmac and Keepmoat.
- An experienced non-executive director in the private, public and third sectors.

Andrew Harrison

Senior Independent Director

A R

Appointed to the Board: 1 March 2021

Skills and experience

- Highly experienced in the merchant industry, with an executive career spanning more than 40 years.
- Andrew held various strategic roles, in sales, marketing and operations, and has led sector-leading teams such as procurement, supply chain, international sourcing and category management.
- Headed up a large number of acquisitions and integrations of businesses into the Travis Perkins Group.
- Deep experience and knowledge of business transformation programmes, governance and customer relationship strategy across the home improvement, timber and builders merchant sector.

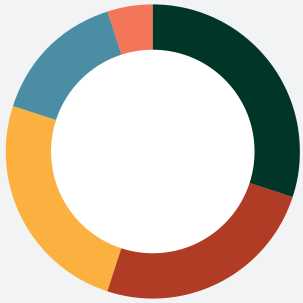
Other current appointments

- None.

Past appointments

- Chief Executive Officer of the Plumbing and Heating division, Travis Perkins; Chief Operating Officer, Travis Perkins; Managing Director of Keyline, Benchmarx and CCF.

Board activities



A	Strategy | **30%**
B	Business Updates | **25%**
C	Governance | **25%**
D	Financial Performance and budgeting | **15%**
E	Investor Relations | **5%**

Chairman's introduction to corporate governance

We understand the importance of strong governance. The Board is well-balanced and we work effectively together, as we oversee the Group's development.

Gary O'Brien
Chairman

I am pleased to introduce our first corporate governance report as a public company. As Chairman, I am responsible for running the Board and for the Group's overall governance. The corporate governance statement and committee reports on the following pages explain our committed approach to governance.

The Board has a clear understanding of the importance of strong governance, which provides a framework within which the Group can implement its strategy in a controlled and considered manner and enables us to serve the interests of all our key stakeholders, including our shareholders, to maintain and promote long-term value in the Company. We have therefore adopted the QCA Corporate Governance Code (the 'QCA Code'), which is specifically designed for small to mid-sized companies, as the most appropriate recognised governance code for the Group. The business has been strengthening its governance structures for several years. This has helped to ensure that the Group has complied in full with the QCA Code's requirements since IPO in July 2021, so far as practicable having regard to the size, nature and current development of the Company. More information on how we have met the QCA Code's principles can be found on page 53.

We deliberately constructed a well-balanced Board prior to the IPO. The non-executives have a wide and complementary skill base that provides significant support to the Group. Having previously been an adviser to the Group since 2014, I joined the Board in 2020. My background, both in corporate finance and in public company roles, is highly relevant to the Group's acquisition strategy and its approach to funding that growth. Dawn Moore also joined the Board in 2020, with considerable experience in human resources. Andrew Harrison, who was appointed to the Board in 2021, brings with him more than four decades of industry experience. Furthermore, the respective experience of each of the executive directors ensures the whole Board has a suitable blend of experience and expertise, with Shanker Patel having built the Group's business from a one-store high street outlet and Chris Day having senior finance experience in the sector. As the Group continues to deliver on its growth ambitions, we may consider the need to add further technology and marketing expertise to the Board.

I aim to maintain a collegiate culture on the Board where we work together effectively, with all directors contributing strongly to our discussions and offering an appropriate level of challenge and debate. We are also highly focused on the culture across the Group, as I discuss in my statement in the strategic report on page 6. Our people and culture are a vital part of what makes the Group special and we recognise that for our growth strategy to succeed, we must continue to pay close attention to this area.

During 2021, the Board has focused on several areas. We spent considerable time preparing the Group for IPO and for life as a public company, including defining the responsibilities of the Board and its sub-committees, and ensuring that the Group's senior management team are aligned with shareholders by implementing appropriate incentive structures. Health and safety has also been an important consideration, given the nature of the Group's business, and our ongoing commitment is to send our colleagues, customers and everyone we work with home safely, every day.

As we move into 2022, we are reviewing the Group's organisational structures, to ensure that we have identified the people and roles required to support our growth strategy. The Board will also continue to hold meetings at divisional locations, giving us the opportunity for a deep-dive into the businesses and the chance to assess the culture on the ground.

I look forward to updating you on our progress in our 2022 annual report.

Gary O'Brien
Chairman
23 May 2022

Compliance with the QCA Corporate Governance Code

The table below sets out where the information required by the QCA Code can be found within this annual report.

	Application
Principle 1 **Establish a strategy and business model which promote long-term value for shareholders**	Purpose – page 2 Business model – pages 12 and 13 Strategy – pages 14 and 15
Principle 2 **Seek to understand and meet shareholder needs and expectations**	Stakeholder engagement – page 28 Relations with shareholders – page 31
Principle 3 **Take into account wider stakeholder and social responsibilities and their implications for long-term success**	Stakeholder engagement – page 28 s172 statement – page 30 Sustainability – pages 32 to 41
Principle 4 **Embed effective risk management, considering both opportunities and threats, throughout the organisation**	Principal risks and uncertainties – pages 46 to 49 Internal controls – page 56 Audit committee report – pages 57 and 58
Principle 5 **Maintain the Board as a well-functioning, balanced team led by the chair**	Board biographies – pages 50 and 51 Chairman's introduction to corporate governance – page 52 Directors' roles – page 54 Directors' time commitment – page 55
Principle 6 **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**	Board biographies – pages 50 and 51 Chairman's introduction – page 52
Principle 7 **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**	Board effectiveness – page 56
Principle 8 **Promote a corporate culture that is based on ethical values and behaviours**	Chairman's statement – pages 6 and 7 Chief Executive Officer's review – pages 8 and 9 Chairman's introduction to corporate governance – page 52
Principle 9 **Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**	Corporate governance statement – pages 54 to 56
Principle 10 **Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**	Stakeholder engagement – page 28 Relations with shareholders – page 31 Audit committee report – pages 57 and 58 Remuneration committee report – pages 59 to 61

A statement of compliance with the QCA Corporate Governance Code is available from the corporate governance section of the Company's website.

Corporate governance statement

Board composition

The Board consists of the non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer and two further non-executive directors.

The Board considers that Gary O'Brien, Dawn Moore and Andrew Harrison are independent and the Board therefore meets the QCA Code recommendation of having at least two independent non-executive directors.

There were three changes to the Board's membership during the year. Andrew Harrison was appointed to the Board on 1 March 2021 as a non-executive director and was subsequently appointed to the role of senior independent director. Timothy Holton and Allan Pierce both stepped down as directors of the Company on 31 May 2021, ahead of the IPO.

The role of the Board

The Board is responsible for the Group's overall management, including formulating and approving the Group's long-term objectives and strategy, approving budgets, overseeing the Group's operations, maintaining sound internal control and risk management systems, and implementing the Group's strategy, policies and plans.

There is a formal schedule of matters reserved for the Board's decision. This encompasses:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- internal controls;
- major contracts and projects;
- communication;
- Board membership and other appointments;
- remuneration of directors and senior management;
- delegation of authority;
- corporate governance matters;
- policies; and
- other matters, including appointment of advisers, litigation and insurance matters.

A full schedule of matters reserved for Board decision is available from the corporate governance section of the Company's website.

The Board has established audit, remuneration and disclosure committees, with formally delegated duties and responsibilities. The composition and work of the audit and remuneration committees are described in their respective reports on pages 57 to 61.

The disclosure committee supports the Board with respect to compliance with the UK Market Abuse Regulation, the Disclosure Guidance and Transparency Rules for Companies, as well as identifying, controlling and disclosing inside information. The disclosure committee comprises Gary O'Brien (Chair) and Chris Day, and meets as necessary.

Given the size of the Board, a nomination committee has not been established. The Board as a whole is therefore responsible for reviewing its structure, size and composition, and the skills, knowledge and experience required to ensure the Board operates effectively.

The Board also delegates specific responsibilities to senior management. This is governed by a formal policy and a delegated authority matrix.

The directors' roles

The respective roles of the directors are set out in the table below. The roles of Chairman and CEO are clearly defined and set out in writing. A more detailed description of their responsibilities is available from the corporate governance section of the Company's website.

Role	Key responsibilities
Chairman	Board oversight. Ensuring that the Board as a whole participates in a full and constructive manner to developing and determining the Group's strategy and overall commercial objectives. Acting as guardian of the Board's decision-making processes.
Chief Executive Officer	Running the Group's business. Proposing and developing the Group's strategy and overall commercial objectives, in close consultation with the Chairman and the Board. With the executive team, implementing the decisions of the Board and its committees.
Chief Financial Officer	Supporting the Chief Executive Officer in developing the strategy and objectives. Managing the Group's financial performance. Managing the Group's financial resources and liquidity.
Senior independent director	Acting as a sounding board for the Chairman. Acting as an alternative line of communication between the Chairman and other directors. Acting as an alternative line of communication for shareholders as required. Appraising the Chairman's performance.
Non-executive directors	Acting as a sounding board for the Chairman and a source of reciprocal feedback for other members of the Board and shareholders, where required.

Board and committee meetings

The Board holds at least eight formal meetings in a full year and also meets on an ad hoc basis where necessary. The table below shows attendance at Board and committee meetings during the year. The disclosure committee did not meet in 2021.

Only the non-executive directors are members of the audit and remuneration committees. Shanker Patel and Chris Day may be invited to attend meetings of these committees, to provide input and support the committees' discussions where appropriate.

Director	Board	Audit committee	Remuneration committee
Gary O'Brien	7/7	2/2	3/3
Shanker Patel	7/7	—	—
Chris Day	7/7	—	—
Dawn Moore	7/7	2/2	3/3
Andrew Harrison	6/7	1/2	3/3
Allan Pierce[1]	1/1	—	—
Timothy Holton[1]	1/1	—	—

1. Allan Pierce and Timothy Holton stepped down from the Board on 31 May 2021. Only one Board meeting was held during the period in 2021 that they were directors.

Provision of information to the directors

To enable the directors to discharge their duties, they receive appropriate and timely information in advance of Board and committee meetings. A calendar of meetings and principal matters to be discussed are agreed at the beginning of each year. This enables the authors of documents for the Board and committees to be informed of deadlines for submission.

Board and committee papers and presentations are focused on key issues requiring decisions to be made. Papers are collated by the Board or committee Chair, the Company Secretary and the Chief Financial Officer, compiled into a pack and circulated at least five working days before meetings, allowing time for full consideration. Management supplies the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary. Committee Chairs report to the Board after each committee meeting and at Board meetings.

Where a director is unable to attend a Board or committee meeting, he or she is provided with all relevant papers and information relating to that meeting and encouraged to discuss issues arising with the respective chairs and other board and committee members. All non-executive directors are provided with access to papers for each of the Board's committees.

Company Secretary and advice for directors

The Company has appointed ONE Advisory Limited as Company Secretary. The Company Secretary is available to advise all the directors and ensure that the Board's procedures are followed and that applicable rules and regulations are complied with.

The Company also has procedures to enable the directors to obtain independent professional advice at the Company's expense, if required to enable the directors to fulfil their duties.

Directors' time commitment

All the non-executive directors must be able to devote sufficient time to the Group to discharge their duties effectively. This includes preparing for and attending scheduled Board and committee meetings, as well as other meetings or calls as necessary. The Board confirms that all of the non-executive directors are able to commit the time required to fulfil their roles.

Service agreements and letters of appointment

The executive directors, Shanker Patel and Chris Day, are appointed to the Board under service agreements dated 14 July 2021. These agreements may be terminated by six months' notice by either side.

The non-executive directors, Gary O'Brien, Dawn Moore and Andrew Harrison, are appointed to the Board under letters of appointment dated 14 July 2021. Non-executive appointments run for an initial term of three years from the appointment date and are subject to three months' notice by either side.

Election by shareholders

In accordance with the Articles of Association, Gary O'Brien, Dawn Moore and Andrew Harrison will all stand for election at the annual general meeting (AGM) on 29 June 2022. Going forward, the Board's policy is for the directors to stand for re-election every three years.

Under the Company's Articles of Association, one third of the Board are required to stand for re-election each year. The QCA Code recommends as best practice all directors be re-elected on an annual basis. The Board may want to consider putting all directors up for re-election this year as is often the case with inaugural AGMs of newly listed companies.

Corporate governance statement continued

Internal controls

The Board is responsible for establishing and maintaining the Company's system of internal financial controls. The audit committee assists the Board in discharging these duties.

Internal financial control systems are designed to meet the particular needs of the Company and the risks it faces. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The controls in place include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure, compliance matters and ensuring proper accounting records are maintained.

The directors have reviewed the effectiveness of the procedures in place and consider that they are appropriate to the nature and scale of the Group's operations. The directors will continue to reassess the Group's internal financial controls as it grows. The Board's policy is to ensure that the management structure and the quality and integrity of the personnel are compatible with the Group's requirements.

Conflicts of interest

The directors are required to disclose any conflicts of interest at the start of all Board and committee meetings and this is a formal agenda item.

For information on the relationship agreement between the Company, Cenkos and Shanker Patel, see the directors' report on page 63.

Relations with shareholders

The Board is committed to listening to and communicating openly with shareholders, to ensure that the Company's strategy, business model and performance are clearly understood.

The executive directors meet regularly with institutional shareholders, including after the announcement of results, and are responsible for ensuring that the Board understands their expectations. The Board also receives feedback from our broker on investor views and other investment market-related feedback.

In addition, the Board is committed to achieving high standards of corporate reporting and to keeping investors informed through regulatory announcements of important news flow.

AGM

The AGM also provides opportunities for dialogue between the Board and the Company's shareholders. The AGM will be held on 29 June 2022 at the offices of Cenkos, 6 7 8 Tokenhouse Yard, London EC2R 7AS. Shareholders can also access the meeting online via the Investor Meet Company platform.

The Notice of Meeting, setting out the resolutions proposed, is contained in a separate document and is available on the Group's website.

Board effectiveness

At the end of the year under review, the Company had been trading on AIM for less than six months and the Board therefore considered it too early to conduct a full performance evaluation during 2021. Over the next twelve months the Company intends to conduct internally facilitated evaluations to review the performance of the Board and to ensure its members are functioning in an efficient manner, focusing on defined objectives as well as reviewing the effectiveness of each of the Board's committees. The Board will consider the benefits of an externally facilitated evaluation in due course.

Board diversity

The Board does not have a formal policy or targets for diversity. At the end of the year, the Board had one female member and one member from an ethnic background. The Board is very aware of the importance of diversity and the benefits it brings in terms of differing experiences and perspectives. We will therefore fully consider diversity as part of any future appointments to the Board.

Succession planning

The Board has spent time considering succession planning for the executive directors and other members of the senior management team. This is part of our broader work on reviewing the organisational structure, understanding the roles required within that structure, and where there are gaps that need to be filled. This work will continue throughout the course of 2022 and on an ongoing basis alongside the evaluation of the capabilities of the executive directors and members of the senior management team and as part of the Company's review of Board effectiveness.

Audit committee report

> The audit committee plays an important part in the Group's governance, through our focus on risk, internal controls, audit and financial reporting.

Gary O'Brien
Audit committee Chairman

I am pleased to present the first report of the audit committee. The committee plays an important part in the Group's governance, through its focus on the integrity of financial reporting, the quality and effectiveness of external audit, risk management and the system of internal control.

Committee membership

All the committee members are independent non-executive directors. I chair the committee and its other members are Dawn Moore, who was appointed to the committee in 2020, and Andrew Harrison, who joined the committee on his appointment to the Board on 1 March 2021. The Company Secretary acts as secretary to the committee.

I am considered to have recent and relevant financial experience, given my background as the finance director of public companies. The other committee members also bring valuable experience and perspectives to our work. Andrew Harrison has deep knowledge of the industry and the control environment that is necessary to operate successfully in our sector. Dawn Moore has wider management experience at a senior level in major companies, including in the construction sector, giving her insight into how successful businesses operate and the issues they face.

The committee's role

The committee's responsibilities include:

- monitoring the integrity of the Group's financial statements, including its annual and half-yearly reports and any other formal statements relating to its financial performance;
- reviewing significant financial reporting issues and judgements;
- reviewing and challenging accounting policies;
- reviewing the effectiveness of the Group's internal control and risk management systems;
- overseeing the relationship with the external auditor, including advising on its appointment, agreeing the scope of the audit and reviewing the audit findings;
- reviewing the adequacy and security of whistleblowing arrangements and ensuring proportionate and independent investigation of any matters; and
- considering at least annually the need for an internal audit function.

A full list of the committee's responsibilities can be found in its terms of reference, which are available from the corporate governance section of the website.

Committee meetings

The committee meets at least three times a year, at appropriate intervals in the financial reporting and audit cycle. Attendance at the committee's meetings can be found on page 55.

In addition to the committee members, Chris Day (Chief Financial Officer) and Kevin Ellis (Group Financial Controller) attend meetings at the committee's invitation. The committee also meets with the lead audit partner, without management being present.

Audit committee report continued

Financial reporting and significant judgements

One of the committee's key responsibilities is to consider the significant areas of complexity, judgement and estimation that have been applied in preparing the financial statements for the year under review. These areas of judgement and estimation were discussed with management and with the auditor.

The committee considers the advise from internal and external advisors, common practice within the industry and its knowledge of the business in determining the judgments and estimates.

Risks considered by the committee

During the year the audit committee identified revenue, rebates and inventory as principle risk areas. The committee asked management to review the adequacy of internal controls and monthly reporting during the financial year whilst requesting that the auditors give additional focus to these areas in the annual audit.

Internal audit

The committee discussed the need for an internal audit function. We concluded that given the current size of the Group, an internal audit function was not required during 2021. However, we intend to engage one of the major accounting firms to develop our risk framework and will keep the requirement for internal audit under review in 2022.

External auditor

PwC was appointed as the Group's external auditor in 2018, following a formal tender process. The firm played an important role in the Group's transition from being a relatively small company to being ready to trade on AIM. We valued PwC's work and were pleased with the service we received and I want to thank them for their contribution.

However, following the IPO, the audit committee felt it was timely to review the Group's needs. One of our requirements was that the audit should be led by a partner with public company experience. We were also keen to ensure that the Group received the best possible value for money from the audit. After a formal tender process, the committee recommended the appointment of RSM as the Group's external auditor and the Board approved the appointment at its meeting in September 2021. We had already developed a relationship with RSM, which was the reporting accountant for our IPO, giving us an understanding of the standard of service the firm offered.

The committee has engaged with RSM ahead of the audit of the 2021 financial statements, to discuss its audit plan, the overall planning materiality and its assessment of the audit risks.

Independence of the external auditor

As part of the tender process for the external audit, we considered RSM's independence in light of its role as reporting accountant for the IPO. The committee was satisfied that RSM is independent, given that the engagement team is different from the team that worked on the IPO. RSM has also formally confirmed its independence, as part of the annual reporting process.

Provision of non-audit services

RSM has not provided any non-audit services to the Group since its appointment as external auditor. Earlier in the year, prior to their appointment, they acted as reporting accountants for the IPO.

PwC provided services related to remuneration benchmarking, the Group restructuring and valuation of the Company Share Option Plan. The total fees for these services amounted to £185,000, equivalent to 84% of the audit fee.

The committee does not have a formal policy regarding provision of non-audit services by the external auditor and will consider any proposed work on a case-by-case basis.

Review of internal controls

One of the committee's key areas of focus during the year was the Group's internal controls, to ensure the control framework was appropriate and working effectively ahead of the IPO. This did not identify any material issues. The year has seen the installation of a new stock management system concluded in Plumbing and Heating (see page 25 of the strategic report), which has enhanced the controls around stock in that division.

Priorities for 2022

During 2022, one of the committee's priorities will be to review the Group's risk management framework and consider the Group's appetite for risk. We will also review accounting policies across the Group, to ensure they are appropriate and that accounting policies in acquired businesses are aligned with the Group's.

Gary O'Brien
Audit committee Chairman

23 May 2022

Remuneration committee report

This was a busy year for the committee as we ensured we had the right remuneration packages to promote the Group's success.

Dawn Moore
Remuneration committee Chair

Annual statement

I am pleased to present our first remuneration report. The following pages set out our remuneration policy and explain how we implemented it in 2021.

We formed the remuneration committee at the start of 2021, well ahead of the IPO. Our responsibilities include determining, and agreeing with the Board, the remuneration framework for the Chairman, the executive directors and other designated senior management. This includes ensuring objectivity around remuneration packages for any new appointments. While we are not responsible for determining pay for the workforce as a whole, we do monitor remuneration across the Group as part of our role.

Our remuneration objectives

Across all our activities, we look to meet the following overarching objectives:

- develop remuneration packages which motivate directors and support the delivery of business objectives in the short, medium and long term;
- align the interests of the executive team with the interests of long-term shareholders;
- encourage executive and senior team members 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.

Committee meetings

The committee meets formally at least two times a year and we also have ad hoc meetings where necessary. The Chief Executive Officer and Chief Financial Officer attend our meetings by invitation but are not involved in any discussion regarding their own pay. Similarly, none of the non-executive directors are involved in determining their own fees.

Our key activities in 2021

In the run-up to the IPO, we conducted a substantial review of remuneration for senior roles, including benchmarking provided by PwC. Our work also included a significant focus on the design of suitable incentive structures, both at senior management level and throughout the Group, including the nil cost Share Incentive Plan (SIP) provided to employees as part of the IPO process. We see employee share ownership as an important factor in maintaining the Group's highly engaged culture.

Other important workstreams in the year included ensuring a thorough process was in place for reviewing senior management salaries, including appropriate benchmarking, and consideration of pension arrangements for key individuals. We also discussed succession for key roles.

Remuneration outcomes for 2021

In determining the level of remuneration for 2021, the committee took the following factors into account:

- the Group's overall performance;
- the performance of key executives in delivering the Group's strategy;
- objective benchmarking carried out within the same and similar sectors; and
- the Group's remuneration objectives, as outlined earlier in the report.

Our priorities for 2022

During 2022, the remuneration committee will continue to focus on succession planning for key roles, in particular at Board level, as well as ensuring our incentive arrangements remain competitive in the market.

Remuneration committee report continued

Remuneration policy

The policy of the remuneration committee is to ensure that the executive directors and senior management are rewarded for their individual contributions to the Company's overall performance, and to provide them with a fair and competitive remuneration package (including long-term incentive plans) to attract, retain and motivate individuals with the experience and competence required to ensure that the Group is managed effectively and successfully having regard to the interests of shareholders. The committee will review the remuneration policy from time to time and take whatever action it considers necessary to ensure that remuneration is aligned with the overall strategic objectives of the Group.

Advisers to the remuneration committee

The committee is authorised to obtain outside professional advice and expertise and will also receive advice and support from the Chief Executive Officer and Chief Financial Officer. PwC provided support to the committee through the IPO process, defining incentive schemes and Board benchmarking.

Executive directors' remuneration

The details of individual components of the remuneration package are discussed below:

Salary

The base salaries of the executive directors are set at levels considered to be appropriate when they enter into service agreements with the Company. The base salaries are reviewed by the remuneration committee annually and any increases are awarded having regard to performance and salary levels in comparable organisations.

Benefits in kind

A range of taxable benefits are available to the executive directors. These benefits primarily comprise private healthcare, life assurance and the provision of a car or car allowance.

Performance-related bonuses

It is the policy of the Company to operate bonus arrangements for the executive directors which are performance related, the primary measures being the achievement of financial targets and personal performance. Shanker Patel met the performance conditions attached to his FY21 performance bonus but decided to waive the £200,000 bonus. The sum will be reinvested into ESG initiatives within the Group.

Deferred Bonus Plan

The Group operates a Deferred Bonus Plan, under which certain directors and senior management have been granted options to subscribe for ordinary shares. All options were equity settled. The options are subject to service and performance conditions.

Pension contributions

The Company makes contributions into personal pension schemes, or makes payments in lieu of contributions, of 15% of basic salary for the executive directors.

Remuneration of non-executive directors

The remuneration of non-executive directors is reviewed annually in December and becomes effective on 1 January. Their level of remuneration is based on outside advice and a review of current practices in other companies.

Executive directors' contracts

Executive directors are employed under service agreements, which are terminable on six months' notice by the Company and six months' notice by the director.

Non-executive directors' contracts

The Chairman and the non-executive directors each receive a fee for their services under appointment letters which are for an initial term of three years, save that either party may terminate on three months' notice. The fee is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. The Chairman and non-executive directors are reimbursed for travelling and other minor expenses incurred.

Directors' emoluments

	Salary		Bonus		Benefits		Pension benefit		Total	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Shanker Patel	**262**	60	**—**	—	**7**	7	**—**	—	**269**	67
Chris Day	**188**	144	**100**	45	**12**	11	**13**	5	**313**	205
Gary O'Brien	**60**	20	**250**	—	**—**	—	**—**	—	**310**	20
Dawn Moore	**31**	10	**—**	—	**—**	—	**—**	—	**31**	10
Andrew Harrison	**31**	—	**—**	—	**—**	—	**—**	—	**31**	—
	572	234	**350**	45	**19**	18	**13**	5	**954**	302

Directors' interest in shares under the Long-Term Incentive Plan (audited)

Director	Number at 1 January 2021	Awarded in year	Exercised in year	Lapsed in year	Number at 31 December 2021	Date of grant
Chris Day[1]	4,975,590	—	—	—	4,975,590	27/06/2019
Chris Day[2]	—	2,105	—	—	2,105	20/09/2021
Chris Day[3]	—	13,158	—	—	13,158	01/10/2021
	4,975,590	**15,263**	**—**	**—**	**4,990,853**	

1. 2016 Company Share Option Plan.
2. 2021 Share Incentive Plan.
3. 2021 Deferred Bonus Plan.

2016 Company Share Option Plan

All options have an exercise price of £0.005. The CSOP performance measures target Group EBITDA growth, as reported in the Company's audited financial statements, in the five-year period commencing from the vesting commencement date and running to 31 December 2021. All options under the CSOP vest on 28 June 2022. Management assess Chris Day's options to be have a value of £2.3 million based on the share price at 12 May 2022 of 92 pence.

2021 Share Incentive Plan

On listing on AIM, all employees with over six months' service were awarded, 2105 options. All options vest automatically at no cost to the employee on 30 September 2024 as long as they are still employed by the Group. The options must be exercised before 30 September 2031.

2021 Deferred Bonus Plan

The Group issued a deferred bonus plan to certain key management personnel. Under the 2021 Deferred Bonus Plan options vest automatically at no cost to the employee on 31 December 2024 as long as they are still employed by the Group. The options must be exercised before 1 October 2031.

Directors' interests in the Company's shares

At 31 December 2021, the Directors had the following interests in the Company's shares:

Director	Number of shares
Shanker Patel[1]	45,982,041
Gary O'Brien[2]	136,842
Andrew Harrison	52,909
Chris Day	nil
Dawn Moore	nil

1. Includes ordinary shares held by his related trust and children.
2. On 8 July 2021, Gary O'Brien entered into an agreement to transfer the ordinary shares acquired by him at admission to trading on AIM to his SSAS at the placing price. Following completion of the transfer, the legal owner of the ordinary shares will change but Gary will remain as the beneficial owner.

Dawn Moore

Remuneration committee Chair

23 May 2022

Directors' report

Principal activity

The Company is incorporated and registered in England and Wales, with registered number 11633708. Its shares are traded on the Alternative Investment Market of the London Stock Exchange.

The Company was incorporated as a private limited company on 22 October 2018, with the name Lords Group Trading Limited. On 1 July 2021, the Company was re-registered as a public limited company, with the name Lords Group Trading plc.

The Company is the ultimate holding company of the Group. The Group's principal activities are described in the strategic report on pages 12 to 27.

Statutory information contained elsewhere in the annual report

Information required to be part of this directors' report can be found elsewhere in the annual report and is incorporated into this report by reference, as indicated below:

- Financial results and dividends, pages 42 to 45
- Future developments, page 9
- Engagement with employees, suppliers, customers and others with business relationships with the Company, pages 28 to 29
- The directors have had regard to employee interests and impact of these on the principal decisions taken, pages 30 and 31
- Carbon reporting disclosures, page 32
- Corporate governance statement, pages 54 to 56
- Directors' names and biographies, pages 50 and 51
- Directors' interests in shares, page 61
- Related-party transactions, note 39, page 108
- Financial instruments, note 35, pages 102 to 104
- Share capital, note 29, pages 98 and 99
- Events subsequent to the year-end date, note 40, page 108
- Annual general meeting, inside back cover
- Price risk, credit risk, liquidity risk and cash flow, pages 102 to 104

Qualifying third-party indemnity provisions

The Company had qualifying third-party indemnity provisions for the benefit of its directors during the period. These provisions remain in force at the date of signing these financial statements.

Restrictions on transfer of securities in the Company

Certain individuals who were shareholders in the Company prior to the IPO have agreed not to sell, transfer or dispose of any shares held at admission for twelve months following admission, and to only dispose of shares through Cenkos for twelve months from the first anniversary of admission.

Shanker Patel has undertaken not to sell, transfer or dispose of any shares held by him at admission for a period of 18 months following admission.

Other than these agreements, there are no restrictions on transfer of securities in the Company.

Voting rights and securities carrying special rights

The holders of ordinary shares are entitled to one vote per share at the Company's general meetings.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

The Company is not aware of any person who directly owns or controls the Company. As described in the Company's admission document, a concert party does exist of founding shareholders, who owned 52.2% of the Company's shares as at 19 May 2022. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Substantial shareholdings

Based on the share register analysis as at 31 December 2021, and as far as the Company is aware, the following represents interests in excess of 3% of its ordinary share capital:

Name of Shareholder	Shares	%
Shanker Patel	45,982,041	29.01%
Rajen Patel	21,500,790	13.56%
Allan Pierce	19,420,841	12.57%
Premier Miton Group	15,700,000	9.90%
Nilesh Patel	15,204,540	9.59%
Charles Stanley	10,501,916	6.62%
Schroders	8,400,000	5.3%
Slater Investments	7,050,000	4.45%

Directors

The directors who held office during the year or up to the date of signature of the financial statements were as follows:

Shanker Patel	
Gary O'Brien	
Chris Day	
Dawn Moore	
Andrew Harrison	(appointed 1 March 2021)
Tim Holton	(resigned 31 May 2021)
Rajen Patel	(resigned 24 June 2021)
Allan Pierce	(resigned 31 May 2021)

Relationship agreement

On 14 July 2021, the Company, Cenkos and Shanker Patel entered into a relationship agreement pursuant to which Mr Patel has undertaken that, inter alia, the Group and the business shall be managed for the benefit of the shareholders as a whole and independently of him and his associates, and all transactions, agreements and arrangements between any member of the Group and him and his associates shall be on an arm's length basis and on normal commercial terms.

Mr Patel and his associates will also, inter alia:

(a) exercise their respective voting rights to ensure that the independence of the Board is maintained; and

(b) not exercise their voting rights in favour of any resolution to cancel the Company's admission to trading on AIM.

Mr Patel has also undertaken to the Company and Cenkos that he shall and, in relation to his associates, shall procure (so far as he is reasonably able to do so) that each of his associates shall ensure that no contract or arrangement between the Company or any member of the Group and Mr Patel or (so far as he is able) his associates shall be entered into or varied after admission unless it has been approved by a majority of the independent directors and (if Mr Patel is a director at such time) he shall abstain from voting on any resolution of the Board relating to any such contract or arrangement.

The agreement will terminate automatically upon:

(a) the ordinary shares ceasing to be traded on AIM; or

(b) Mr Patel, together with his associates, ceasing to have, in aggregate, an interest in 20% or more of the voting rights attaching to the Company's ordinary shares.

Policy on employment of disabled people

The Group is an equal opportunities employer and its policies for the recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned. It recognises its responsibilities towards disabled people and gives full and fair consideration to applications for employment from them, having regard to their aptitudes and abilities. So far as particular disabilities permit, the Group will continue to employ and arrange appropriate training for any existing employee who becomes disabled. The Group's policy is that the training, career development and promotion of disabled persons should as far as possible be identical to that of other employees.

Political donations

The Company made no political donations during the year.

Auditor

RSM UK Audit LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM.

Going concern

After making enquiries and as more fully explained in the going concern review on page 74, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividends

Dividends of £999,000 were paid in the year (2020: £nil).
A final dividend of £1985,000 is recommended (2020: £nil).

Financial risk management

Information about the Company's financial risk management objectives and policies is set out in note 35 to the financial statements.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Approval

This directors' report was approved on behalf of the Board on 23 May 2022.

Chris Day
Chief Financial Officer

23 May 2022

Directors’ responsibilities statement

The directors are responsible for preparing the strategic report, the directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
d. for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
e. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Lords Group Trading plc website.

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

On behalf of the Board

Gary O’Brien

Independent Non-Executive Chairman

23 May 2022

Independent auditor's report

to the members of Lords Group Trading plc

Opinion

We have audited the financial statements of Lords Group Trading plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise consolidated statement of comprehensive income; consolidated statement of financial position; consolidated statement of changes in equity; consolidated statement of cash flows; company statement of financial position; company statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- 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.

Summary of our audit approach

Key audit matters	**Group** • valuation of inventory; and • application of IFRS 16 Leases. **Parent Company** • None
Materiality	**Group** • overall materiality: £953,000; and • performance materiality: £714,000. **Parent Company** • overall materiality: £943,000; and • performance materiality: £707,000
Scope	Our audit procedures covered 95% of revenue, 97% of total assets and 88% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group 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 group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters continued

Valuation of inventory

Key audit matter description	At 31 December 2021, the Group Consolidated Balance Sheet records inventory of £38.8 million (2020: £40.0 million). This amount is net of an inventory provision of £2.3 million (2020: £2.4 million). As described in note 3 to the financial statements, the Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow-moving inventory. Provision estimates are forward looking and are formed using a combination of factors including historical experience, management's knowledge of the industry, Group discounting and sales pricing. There is significant estimation involved in the calculation of inventory provisions to ensure that inventory is held at the lower of cost and net realisable value. This involves consideration of information relating to sales were last made in relation to each item of inventory held. Due to the factors explained above, and the impact on allocation of audit resource, we have identified the valuation of inventory as a key audit matter.
How the matter was addressed in the audit	In respect of inventory valuation we: • assessed the appropriateness of management's inventory provision calculations, including testing the accuracy and completeness of the data used and the mathematical accuracy of the provisioning model; • critically challenged the assumptions made in the inventory provision models in respect of the expected level of discounting required based on sales made in the year and sales post year end; • in addition, for a sample of items, we examined post year-end sales to test whether net realisable value was greater than cost and considered the results of this in the context of the year-end inventory carrying values; and • assessed the disclosures in the financial statements to ensure appropriate disclosure of the judgements and estimates involved in the group's inventory provisioning.

Application of IFRS 16 Leases

Key audit matter description	The Group applied IFRS 16, "Leases" for the first time in their financial statements following admission to AIM in July 2021, utilising the modified retrospective method of adoption, in the historical financial information in the admission document to AIM, which was deemed to be the first-year accounts under IFRS. The application of IFRS 16 resulted in significant right-of-use assets (ROU's) and lease liabilities being recognised on the Balance Sheet. At 31 December 2021 and 31 December 2020, the carrying value of right- of-use assets was £33.3m and £32.1 million respectively, and the carrying value of lease liabilities was £36.6 million and £34.6 million respectively. As described in note 3, the application of IFRS 16 involves a significant level of judgement in respect of the key assumptions including the incremental borrowing rates (IBR) to be applied in calculating the lease liability. Accordingly, we determined that the valuation of right-of-use assets and lease liabilities had a high degree of estimation uncertainty. Due to the factors explained above, and the impact on allocation of audit resource, we have identified completeness, valuation and disclosure of leases as a key audit matter.
How the matter was addressed in the audit	Our audit work relating to the valuation of ROU assets and lease liabilities included: • testing the accuracy and completeness of the underlying information used in the application of IFRS 16; • critically assessing the key assumptions utilised by management including the discount rate; • testing that the calculations made were accurate through reperformance; • assessing the application of and accounting for changes throughout the year including the treatment of new leases, modifications to leases, the unwinding of interest and capital payments in respect of lease liabilities; • assessing the completeness of leases recognised through testing to underlying leases and the fixed asset registers; and • reviewing disclosures relating to IFRS 16 to ensure they are in accordance with the applicable financial reporting framework.
Key observations	Our audit work in respect of accounting for leases identified material errors in both the current year and for prior years. These have subsequently been corrected. See note 3.3 to the financial statements for details of the prior year restatement.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£953k	£943k
Basis for determining overall materiality	4.5% of adjusted EBITDA	4% of net assets (capped at overall Group materiality)
Rationale for benchmark applied	Adjusted EBITDA is a key performance indicator reported in the consolidated financial statements and is a generally accepted auditing basis for determining materiality.	The Parent Company does not trade and therefore net assets is considered to be the most appropriate benchmark.
Performance materiality	£714k	£707k
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £48k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £47k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of twelve components, all of which are based in the UK.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	3	95%	97%	88%
Total	**3**	**95%**	**97%**	**88%**

Analytical procedures at group level were performed for the remaining nine components.

Of the above, no work was undertaken by component auditors.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the forward-looking assumptions used by management in their assessment of going concern and challenging these based on current year financial performance and expected growth and other changes expected in the industry in which the group operates.
- Considering the adequacy of management's scenario analysis and contingency plans.
- Checking the integrity and mechanism of the forecast model provided by management.
- Obtaining evidence of Board approval of the budgets and forecasts.
- Obtaining evidence of the extension of the Group's financing arrangement post year end.
- Re-calculating management's covenant calculations to assess the risk of forecast non-compliance.
- Evaluating the adequacy of going concern related disclosures in the financial statements.

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 64, 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.

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks hat the group and parent company operates in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
UK-adopted IAS, FRS102 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of computations received from external tax advisors and consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Obtaining an understanding of the processes and controls around revenue recognition. Transactions posted to nominal ledger codes outside of the normal revenue cycle were identified using a data analytic tool and investigated. Performing data analytics relating to revenue receipts and patterns of daily sales to assess for completeness.
Inventory existence and valuation	Attending year end stock takes for a sample of branches. The results of these stock takes were reconciled to year end stock listings. Performing cost vs net realizable value testing. Performing work in respect of inventory provisions as set out in the key audit matters section above.
Supplier rebate accruals	Obtaining confirmations from suppliers of the year end balances recognised, including obtaining confirmations for £nil balances. Examining the appropriateness of management's assessment of the recoverability of rebates accrued for.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

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

Euan Banks (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

23 May 2022

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	2021 £'000	2020 (restated[1]) £'000
Revenue	4	**363,289**	287,565
Cost of sales		**(300,569)**	(240,382)
Gross profit		**62,720**	47,183
Other operating income	6	**696**	436
Distribution expenses		**(3,536)**	(2,785)
Administrative expenses		**(37,576)**	(28,916)
Adjusted EBITDA[3]		**22,304**	15,918
Share-based payments		**(96)**	—
Exceptional expenses	7	**(2,085)**	(519)
EBITDA[2]		**20,123**	15,399
Depreciation		**(1,340)**	(1,033)
Amortisation		**(8,021)**	(7,481)
Operating profit	10	**10,762**	6,885
Finance income	12	**—**	2
Finance expense	13	**(2,741)**	(3,276)
Profit before taxation		**8,021**	3,611
Taxation	14	**(2,377)**	(985)
Profit for the year		**5,644**	2,626
Other comprehensive income		**—**	—
Total comprehensive income		**5,644**	2,626
Total comprehensive income for the year attributable to:			
Owners of the parent company		**5,231**	2,441
Non-controlling interests		**413**	185
		5,644	2,626
Total comprehensive income for the year attributable to owners of the parent			
Continuing operations		**5,231**	2,441
Discontinuing operations		**—**	—
		5,231	2,441
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earning per share (pence)	16	**3.73**	1.94
Diluted earning per share (pence)	16	**3.40**	1.77

The results for the year arise solely from continuing activities.

1. See note 3.3 for details regarding the restatement.
2. EBITDA is defined as earnings before interest, tax, depreciation and amortisation.
3. Adjusted EBITDA is EBITDA but also excluding exceptional items and share-based payments.

The notes on pages 74 to 109 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2021

	Note	2021 £'000	2020 (restated[1]) £'000	2019 (restated[1]) £'000
Non-current assets				
Intangible assets	17	**22,673**	18,198	20,015
Property, plant and equipment	18	**8,050**	4,417	5,054
Right-of-use assets	19	**33,271**	32,087	35,838
Other receivables	22	**304**	78	265
Investments	20	**84**	4	4
		64,382	54,784	61,176
Current assets				
Inventories	21	**38,781**	40,004	40,679
Trade and other receivables	22	**57,744**	52,633	44,219
Cash and cash equivalents	23	**11,402**	16,342	3,361
		107,927	108,979	88,259
Total assets		**172,309**	163,763	149,435
Current liabilities				
Trade and other payables	24	**(70,459)**	(65,674)	(58,871)
Borrowings	25	**(2,783)**	(20,738)	(21,782)
Lease liabilities	19	**(5,114)**	(4,180)	(4,339)
Current tax liabilities		**(2,014)**	(1,055)	(395)
Total current liabilities		**(80,370)**	(91,647)	(85,387)
Non-current liabilities				
Trade and other payables	24	**(3,621)**	(2,840)	(2,107)
Borrowings	25	**(2,125)**	(18,522)	(11,016)
Lease liabilities	19	**(31,518)**	(30,373)	(33,050)
Other provisions	27	**(987)**	(817)	(778)
Deferred tax	28	**(2,940)**	(2,433)	(2,662)
Total non-current liabilities		**(41,191)**	(54,985)	(49,613)
Total liabilities		**(121,561)**	(146,632)	(135,000)
Net assets		**50,748**	17,131	14,435
Equity				
Share capital	29	**788**	19,990	19,990
Share premium	31	**28,293**	—	—
Merger reserve	31	**(9,980)**	(9,980)	(12,480)
Capital redemption reserve	31	**—**	—	2,500
Share-based payment reserve	31	**96**	—	—
Retained earnings	31	**27,214**	3,622	1,181
Equity attributable to owners of the parent company		**46,411**	13,632	11,191
Non-controlling interests	32	**4,337**	3,499	3,244
Total equity		**50,748**	17,131	14,435

The financial statements on pages 70 to 73 were approved and authorised for issue by the Board and were signed on its behalf on 23 May 2022.

1. See note 3.3 for details regarding the restatement.

C Day
Director

The notes on pages 74 to 109 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owners of parent company £'000	Non-controlling interests £'000	Total equity £'000
As at 1 January 2020	19,990	—	(12,480)	2,500	—	1,833	11,843	3,244	15,087
Correction of error (net of tax)	—	—	—	—	—	(652)	(652)	—	(652)
Restated total equity at the beginning of the financial year	19,990	—	(12,480)	2,500	—	1,181	11,191	3,244	14,435
Profit for the financial period and total comprehensive income (restated[1])	—	—	—	—	—	2,441	2,441	185	2,626
Reclassification of capital redemption reserve	—	—	2,500	(2,500)	—	—	—	—	—
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	70	70
As at 31 December 2020	19,990	—	(9,980)	—	—	3,622	13,632	3,499	17,131

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owners of parent company £'000	Non-controlling interests £'000	Total equity £'000
As at 1 January 2021 as originally presented	19,990	—	(9,980)	—	—	4,756	14,766	3,499	18,265
Correction of error (net of tax)	—	—	—	—	—	(1,134)	(1,134)	—	(1,134)
Restated total equity at the beginning of the financial year	19,990	—	(9,980)	—	—	3,622	13,632	3,499	17,131
Profit for the financial period and total comprehensive income	—	—	—	—	—	5,231	5,231	413	5,644
Share-based payments	—	—	—	—	96	—	96	—	96
Share capital issued	158	29,842	—	—	—	—	30,000	—	30,000
Costs of capital raise	—	(1,549)	—	—	—	—	(1,549)	—	(1,549)
Non-controlling interests share of acquisitions	—	—	—	—	—	—	—	425	425
Capital reorganisation	(19,360)	—	—	—	—	19,360	—	—	—
Dividends paid	—	—	—	—	—	(999)	(999)	—	(999)
As at 31 December 2021	**788**	**28,293**	**(9,980)**	**—**	**96**	**27,214**	**46,411**	**4,337**	**50,748**

1. See note 3.3 for details regarding the restatement.

The notes on pages 74 to 109 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2021

	2021 £'000	2020 (restated[1]) £'000
Cash flows from operating activities		
Profit before taxation	**8,021**	3,611
Adjusted for:		
Depreciation of property, plant and equipment	**1,340**	1,033
Amortisation of intangibles	**2,087**	1,841
Amortisation of right-of-use assets	**5,934**	5,640
Loss on disposal of property, plant and equipment	**—**	2
Share based payment expense	**96**	—
Finance income	**—**	(2)
Finance expense	**2,741**	3,276
Operating cash flows before movements in working capital	**20,219**	15,401
Decrease in inventories	**2,837**	675
Increase in trade and other receivables	**(1,791)**	(8,227)
Increase in trade and other payables	**3**	7,725
Cash generated by operations	**21,268**	15,574
Corporation tax paid	**(1,751)**	(555)
Net cash generated by operating activities	**19,517**	15,019
Cash flows from investing activities		
Purchase of intangible assets	**(648)**	(24)
Business acquisitions (net of cash acquired)	**(6,225)**	—
Deferred consideration paid	**(875)**	(200)
Purchase of property, plant and equipment	**(1,297)**	(418)
Purchase of investments	**(77)**	—
Interest received	**—**	2
Net cash used in investing activities	**(9,122)**	(640)
Cash flows from financing activities		
Principal paid on lease liabilities	**(6,750)**	(6,565)
Issue of share capital	**30,000**	—
Costs of capital raise	**(1,549)**	—
Dividends	**(999)**	—
Non-controlling interests cash contribution	**—**	70
Proceeds from borrowings	**4,908**	6,461
Repayment of borrowings	**(40,081)**	—
Bank interest paid	**(529)**	(1,003)
Interest on financial liabilities	**(335)**	(361)
Net cash outflow from financing activities	**(15,335)**	(1,398)
Net (decrease) / increase in cash and cash equivalents	**(4,940)**	12,981
Cash and cash equivalents at the beginning of the period	**16,342**	3,361
Effect of foreign exchange rates	—	—
Cash and cash equivalents at the end of the period	**11,402**	16,342

1. See note 3.2 for details regarding the restatement.

The notes on pages 74 to 109 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2021

1. General information

Lords Group Trading plc (the 'Company') is a listed public company limited by shares and incorporated and domiciled in England. The address of the Company's registered office and principal place of business is 2nd Floor Hanger Green, London, England, W5 3EL. The Company changed its name from Lords Group Trading Limited during 2021.

The principal activity of the Company together with its subsidiary undertakings (the 'Group') throughout the period was the distribution of building materials, heating goods and DIY goods to local tradesmen, large-scale developers, small and medium construction companies and retail customers.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 May 2022. The directors have the power to amend and reissue the financial statements.

2. Accounting policies

2.1 Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS). The prior year information for year ended 31 December 2020 is the same as that disclosed in the historical financial information in the admission document to AIM, which was deemed to be the first-year accounts under IFRS. The financial information for the year ended 31 December 2020 was prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606 / 2002 as it applies in the European Union.

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies. The financial information is presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.2 Going concern

At 31 December 2021, the Group had £34.9 million of undrawn facilities as disclosed in note 25 and £11.4 million of cash. The Group has further increased its facilities to ensure it has the resources to pursue its consolidation strategy as described in the strategic report. The Group amended its banking facilities on 28 February 2022 and increased its invoice drawdown facility to £20 million and its revolving loan facility to £50 million as disclosed in the post balance sheet events note, note 40. This represents an overall increase in facilities of £30 million over those available at 31 December 2021 and which are available to the Group until 21 July 2024. Banking covenants are breached if the last twelve months' adjusted EBITDA / interest (interest ratio) falls below 5 or the last twelve months' net debt / adjusted EBITDA exceeds 2.5. At 31 December 2021, the interest ratio was over 21 and there was no net debt.

Accounting standards require that the foreseeable future covers a period of at least twelve months from the date of approval of the financial statements, although they do not specify how far beyond twelve months a board should consider. The Board has considered cash flow facilities out to an extended period coinciding with the expiry of the banking facilities on 21 July 2024. The Group is expected to have at least £27.8 million of headroom over its facilities at all times until 21 July 2024.

The cash flow forecasts have been stress tested by considering the most likely risks impacting the Group. These are considered to be growth below forecast, increased working capital requirements through increased debtors and increased cost to serve. The Group's cash flow projections indicate covenants on facilities will not be breached unless, instead of the anticipated growth, the Group's projected EBITDA falls by £6.7 million, debtors increase by 24%, or there is an increase in cost to serve of £8.2 million above the base model. While none of these are likely to occur, the Group has mitigating actions at its disposal that it can take in downside scenarios, such as delaying capital expenditure and maintaining a strong credit control function across the Group supported by credit insurance and restructuring the Group to reduce costs. Cash flow forecasts are reforecast in the event of a potential acquisition not already in the forecast. The Group prepares weekly cash flow projections, daily sales flashes and monthly management accounts compared to budget with key performance indicators which together will provide an early warning system to indicate whether any mitigating actions are necessary in any part of the Group.

In all reasonable scenarios the Group is projected to be compliant with its banking covenants and therefore the directors are satisfied that the Group has adequate resources to continue operations for the foreseeable future.

After reviewing the Group and Company's forecasts and risk assessments and making other enquiries, the Board has formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence until at least 21 July 2024, when the existing banking facilities expire.

Accordingly, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

2.3 New accounting standards, interpretations or amendments adopted by the Group

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective. The Group applies for the first time the following new standards:

New amended IFRS standards applicable for year ended 31 December 2021:

Area	Effective date – on or after
Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions (issued on 28 May 2020)	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	1 January 2021

By adopting the above, there has been no material impact on the financial statements.

International Financial Reporting Standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, there are no standards in issue from the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) which are effective for annual accounting periods beginning on or after 1 January 2022 that will have a significant impact on these financial statements.

Area	Effective date – on or after
Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)	1 April 2021
Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020)	1 January 2022

2.4 Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries as if they form a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

The consolidated financial statements of the Group have been prepared under IFRS 3 Business Combinations.

2.5 Revenue recognition

IFRS 15 Revenue from Contracts with Customers is a principle-based model of recognising revenue from contracts with customers. It has a five-step model that requires revenue to be recognised when control over goods and services is transferred to the customer.

The Group operates through branch point of sale transactions, website and telephone orders. Revenue is recognised when the Group delivers a product to the customer, whether this be at point of sale or delivery. Payment of the transaction price is due immediately when the customer purchases the product and takes delivery or, in the case of certain Group transactions, payable on set credit terms.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty. Production-based taxes are not included in revenue, they are paid on production and recorded within cost of sales. Customers have a right of return within a specified period and this gives rise to variable consideration under IFRS 15. The right of return asset is recognised within inventory less any expected costs to recover those products (including potential decreases in the value to the Group of returned products), with the refund liability due to customers on return of their goods recognised within trade and other payables.

Amounts received in advance for future sales are recorded as contract liabilities and revenue is recognised as the performance obligations are met.

2.6 Other operating income

Other operating income represents all other income received by the Group.

Commissions are accrued into the period in which they are due in accordance with when the sale was made within the branch.

2.7 Rebates

Rebates received from suppliers for the purchase of stock are netted off against purchases. Rebates are accrued in accordance with rebate agreements and recognised in the period to which they relate.

Inventory values are reduced by the amount of rebate receivable in proportion to the value of purchases still in inventory to total purchases. The remainder of the rebate is released to and reduces cost of sales.

Rebates payable on sales are offset against turnover. Rebates are accrued in accordance with rebate agreements and recognised in the period to which they relate.

2.8 Employee benefits: pension obligations

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid, the Group has no further payment obligations.

The contributions are recognised as an expense in the consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

2.9 Net finance costs

Finance income

Finance income relates to bank deposit income.

Finance expense

Finance expense comprises of borrowing costs and lease costs which are expensed in the period to which they relate. Upfront facilitation fees are spread over the borrowing period.

2.10 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Notes to the financial statements continued

for the year ended 31 December 2021

2. Accounting policies continued

2.10 Current and deferred taxation continued

Deferred tax balances are recognised in respect of all temporary differences under IFRS that have originated but not reversed by the statement of financial position date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- where they relate to temporary differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.11 Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition of businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is considered to have an indefinite useful life.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive income as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to administrative expenses in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. The Group has no assets with indefinite lives, other than goodwill, throughout the reporting periods. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows on a straight-line basis:

The estimated useful lives range as follows:

Trade names	9-12 years
Computer software	3-10 years
Customer relationships	9-12 years

The estimated useful lives are as estimated based upon management's best estimate of the expected life of the asset. Useful lives are reconsidered if circumstances relating to the asset change or if there is an indication that the initial estimate requires revision.

2.12 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	2%
Long-term leasehold property	in accordance with the leasing arrangements
Plant and machinery	20%
Motor vehicles	20%
Fixtures and fittings	20%
Office equipment	10% – 33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.13 Impairment of tangible and intangible assets and right-of-use assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit (CGU). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

2.14 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in listed company shares are remeasured to market value at each statement of financial position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

The Group places seed investments in promising new companies through Lords Group Ventures Ltd. These investments represent financial assets measured at fair value through other comprehensive income as they represent equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

2.15 Inventories

Inventories are valued at the lower of cost and net realisable value, where net realisable value is an estimate of the selling price less cost to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is required, the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling costs directly attributable to bringing the inventories to their present location and condition.

2.16 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: a physically distinct asset can be identified; and the Group has the right to obtain substantially all of the economic benefits from the asset throughout the period of use and has the ability to direct the use of the asset over the lease term, being able to restrict the usage of third parties as applicable.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lease liabilities are initially measured at the present value of the lease payments that are due over the lease term, discounted using the Group's incremental borrowing rate. The Group's incremental borrowing rate is the rate that would have to be paid for a loan of a similar term, and with similar security, to obtain an asset of similar value. The Group's borrowing rate is appropriate as all Group companies are able to borrow from the Group company.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to take that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred;
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset; and
- non-lease components including service charges on motor vehicle leases.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease, with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Right-of-use assets include assets associated with the long-term lease commitments of the Group. Any leasehold improvements made to the assets, typically buildings, are included within property, plant and equipment. The costs of the improvements are depreciated over the remaining lifespan of the lease.

Notes to the financial statements continued

for the year ended 31 December 2021

2. Accounting policies continued

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.18 Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances, and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.19 Financial assets

Management determines the classification of its financial assets at initial recognition.

Financial assets recognised at amortised cost

The Group's financial assets held at amortised cost comprise trade and other receivables, cash and cash equivalents in the consolidated statement of financial position.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables).

They are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed using a provisions matrix using fixed rates of credit loss provisioning where the provisions representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group has the option to invoice finance, with recourse, a proportion of up to 90% of its trade receivables. Trade receivables are stated gross of all amounts received for invoice financing and the invoice financing is recorded in other loans within borrowings falling due within one year.

Impairment provisions for other receivables are recognised based on the general impairment model within IFRS 9. In doing so, the Group follows the three-stage approach to expected credit losses. Step one is to estimate the probability that the debtor will default over the next twelve months. Step two considers if the credit risk has increased significantly since initial recognition of the debtor. Finally, step three considers if the debtor is credit impaired, following the criteria under IFRS 9.

Financial assets recognised at fair value through profit or loss

Financial instruments such as forwards, swaps and forward exchange contracts are classified as derivative financial assets and liabilities at fair value through profit or loss. Derivative financial assets and liabilities are initially measured at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value at each financial period end date. The resulting gain or loss is recognised in fair value gains / (losses) through profit or loss immediately. The Group does not apply hedge accounting.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability, unless a bilateral netting agreement exists between the Group and the counterparty, in which case derivative financial asset and liability positions with the counterparty are aggregated to produce a single netted asset or liability.

The fair value of the derivative contracts is based on their observable prices in the exchange marketplace requiring no significant adjustment.

2.20 Financial liabilities

The Group measures its financial liabilities at amortised cost. All financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provision of the instrument.

Financial liabilities measured at amortised cost

The Group's financial liabilities held at amortised cost comprise trade payables and other short-dated monetary liabilities, and bank and other borrowings, in the consolidated statement of financial position.

Trade payables and other short-dated monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Bank and other borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Unless otherwise indicated, the carrying values of the Group's financial liabilities measured at amortised cost represents a reasonable approximation of their fair values.

2.21 Borrowing costs

Upfront borrowing costs are capitalised and amortised at a consistent rate over the term of the loan.

2.22 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.23 Exceptional items

The Group classifies certain charges or credits that do not reflect the underlying performance of the Group, and that have a material impact on the Group's financial results, as exceptional items. These are disclosed separately to provide further understanding of the financial performance of the Group.

2.24 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

In the year ended 31 December 2020, the Group utilised the Government's Coronavirus Job Retention Scheme (CJRS), which allows for businesses to submit claims for repayment of furlough or flexible furlough employee wages as a result of COVID-19. The grant income received has been accounted for as an exceptional item in the income statement in that year. The Group also received small business retail grants which were also accounted for as exceptional items in that year.

2.25 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors of the Group. The Group will provide information to the CODM on the basis of products and services; being the sale and distribution of plumbing and heating goods, and the sale and distribution of all other merchanting services.

2.26 Equity instruments

Equity comprises the following:

- 'called up share capital' represents the nominal value of equity shares;
- 'share premium' represents amounts paid for shares in excess of nominal value;
- 'merger reserve' represents reserves created instead of share premium in accordance with section 612 of the Companies Act;
- 'capital contributions' represents capital introduced by non-controlling interests in subsidiary Limited Liability Partnerships;
- 'retained earnings' represents retained earnings less retained losses; and
- 'non-controlling interests' represents the amount not attributable to the parent company.

2.27 Share-based payments

The Group awards share options to some employees in exchange for the services rendered, which are equity settled. Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

2.28 Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the consolidated statement of comprehensive income in the year that the Group becomes aware of the obligation. Provisions are measured at the present value of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Finance costs are incurred over the life of the provision. When payments are made, they are charged to the provision carried in the statement of financial position.

2.29 Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

2. Accounting policies continued

2.29 Business combinations continued

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss.

Deferred consideration to be transferred by the acquirer is recognised at the acquisition-date fair value after being discounted to present value. The discounting unwinds over the period of the deferment and costs are included within finance expenses.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) twelve months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

2.30 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Lords Group Trading plc, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

2.31 Materiality

In preparing the financial statements, the Board considers both quantitative and qualitative factors in forming its judgements, and related disclosures, and is mindful of the need to best serve the interests of its stakeholders and to avoid unnecessary clutter borne of the disclosure of immaterial items. In making this assessment, the Board considers the nature of each item, as well as its size, in assessing whether any disclosure omissions or misstatements could influence the decisions of users of the financial statements.

3. Critical accounting judgements, estimates and errors

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Key accounting judgements

Recognition of legal and regulatory provisions

A key area of judgement applied in the preparation of these financial statements is determining whether a present obligation exists and, where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis as facts change. In the early stages of legal and regulatory matters, it is often not possible to reliably estimate the outcome and in these cases we do not provide for their outcome but instead include further disclosures outlining the matters within our contingent liabilities note. See note 2.28 for the accounting policies and note 34 for contingent liabilities.

3.2 Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 addressed below.

Lease liabilities

The Group makes judgements to estimate the incremental borrowing rate used to measure lease liabilities based on expected third-party financing costs when the interest rate implicit in the lease cannot be readily determined. A Group incremental borrowing rate has been applied for all subsidiary leases because the Group has central borrowings.

The Group has adopted a range from 2.25% to 5.50% as its incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The incremental borrowing rate has been determined by using a synthetic credit rating for the Group which is used to obtain market data on debt instruments for companies with the same credit rating and adjusted for the lease term and type of asset. The Group performed a sensitivity analysis on the incremental borrowing rate and identified that if the incremental borrowing rate increased to 8%, for all assets, there would be a reduction in the carrying amount of the right-of-use asset at 31 December 2021 of £3,484,000 (2020: £3,982,611) and there would be a subsequent decrease in the lease liability of £3,213,000 (2020: £3,042,806). If the incremental borrowing rate decreased to 3%, for all assets, there would be an increase in the carrying amount of the right-of-use asset at 31 December 2021 of £4,902,000 (2020: £3,455,737) and there would be a subsequent increase in the lease liability of £4,140,000 (2020: £2,870,130).

In addition, the Group provides for dilapidations on the leaseholds at rates it estimates as appropriate to cover the anticipated dilapidation cost over the term of the lease; these are included within the lease liability calculation.

Useful economic lives of intangible and tangible assets

Annual amortisation and depreciation charge for intangible and tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on cash-generating unit performance, technological advances, future investments, economic utilisation and the physical condition of the assets. See notes 17 and 18 for the carrying values of the assets and details on the key assumptions made. Notes 2.18 and 2.19 contain the accounting policies.

Inventories

The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow-moving inventory. Provision estimates are forward looking and are formed using a combination of factors including historical experience, management's knowledge of the industry, Group discounting and sales pricing. Management use a number of internally generated reports to monitor and continually re-assess the adequacy and accuracy of the inventory provision. In arriving at their conclusion, the directors consider inventory ageing and turn analysis. See note 21 for the carrying value of the asset and note 2.15 for the accounting policy. The inventory provision is 5.9% of inventory (2020: 6.1%). Doubling the provision would increase cost of sales / reduce the carrying value of inventory by £2,304,000 in 2021 (2020: £2,446,000).

Fair value of intangible assets

The fair value of customer relationship assets and trade names separately acquired through business combinations involves the use of valuation techniques and the estimation of future cash flows to be generated over several years. The estimation of the future cash flows requires a combination of assumptions including assumptions for customer attrition rate, EBIT and discount rates. The relief from royalty rate is the value that would be obtained by licensing trade names out to a third party, as a percentage of sales. See note 17 for the carrying value of the assets and note 2.13 for the accounting policies.

The assumptions applied by the directors in respect of the business combinations recorded in note 30 are as follows:

				Trade names	
	Customer attrition rate	EBIT as a % of revenue	Discount rate	Relief from royalty rate	Discount rate
Kings Langley Building Supplies	4.3%	1.8%	17.6%		
Huntingdon Timber Limited	10.0%	14.7%	17.4%		
APP Wholesale Limited	21.0%	2.6%	17.3%	0.3%	17.3%
Condell Limited	5.0%	3.8%	19.2%	0.3%	19.2%
MAP Building & Civil Engineering Supplies Ltd	5.0%	5.3%	19.2%	0.3%	19.2%
Certain of the assets and business of Nu-Line Builders Merchants Limited's Malton Road branch	5.0%	3.1%	19.2%		

3. Critical accounting judgements, estimates and errors continued

3.2 Key accounting estimates and assumptions continued

Fair value of consideration in business combinations

The fair value of consideration requires assumptions regarding the fair value of a share of the Company and discount rates for lack of liquidity and minority ownership.

3.3 Correction of error in accounting for leases under IFRS 16

In October 2021, the Group undertook a review of the property lease accounting under IFRS 16 included within the admission document for AIM. Several errors were identified, the most material of which were four leases where step increases in rentals were a contractual obligation within the lease and should have been reflected in the valuation of right-of-use assets and the lease liabilities, but they had not been included.

In addition, one subsidiary hires vehicle on a three year lease term which can be terminated free of charge at any time. The view at the time of the admission document was that these were short-term leases. A subsequent review of the leases indicates that while the subsidiary does not have an obligation to hold the vehicles for a defined period, it usually holds the majority for a period, of around three years.

These errors have been corrected by restating each of the affected financial statement line items for the prior period as follows:

Consolidated statement of financial position (extract)	31 December 2020 £'000	Increase/ (decrease) £'000	31 December 2020 (restated) £'000	31 December 2019 £'000	Increase/ (decrease) £'000	31 December 2019 (restated) £'000
Right-of-use assets	27,059	5,028	32,087	30,504	5,334	35,838
Current lease liabilities	(3,704)	(476)	(4,180)	(3,917)	(422)	(4,339)
Trade and other payables	(66,111)	437	(65,674)	(59,316)	445	(58,871)
Non-current lease liabilities	(23,912)	(6,461)	(30,373)	(26,813)	(6,237)	(33,050)
Other provisions	(787)	(30)	(817)	(749)	(29)	(778)
Deferred tax	(2,801)	368	(2,433)	(2,919)	257	(2,662)
Net assets	**18,265**	**(1,134)**	**17,131**	**15,087**	**(652)**	**14,435**
Retained earnings	4,756	(1,134)	3,622	1,833	(652)	1,181
Total equity	**18,265**	**(1,134)**	**17,131**	**15,087**	**(652)**	**14,435**

Consolidated statement of comprehensive income (extract)	31 December 2020 £'000	Increase/ (decrease) £'000	31 December 2020 (restated) £'000
Administrative expenses	(29,944)	1,028	(28,916)
Adjusted EBITDA	14,890	1,028	15,918
EBITDA	14,371	1,028	15,399
Amortisation	(6,238)	(1,243)	(7,481)
Operating profit	**7,100**	**(215)**	**6,885**
Finance expense	(2,898)	(378)	(3,276)
Profit before taxation	**4,204**	**(593)**	**3,611**
Taxation	(1,096)	111	(985)
Profit for the year	**3,108**	**(482)**	**2,626**
Total comprehensive income attributable to:			
Owners of the parent company	2,923	(482)	2,441
Non-controlling interests	185	—	185
	3,108	**(482)**	**2,626**

Basic and diluted earnings per share for the prior year have not been previously reported.

The correction further affected some of the amounts disclosed in note 10, Expenses by nature. Amortisation of right-of-use assets increased by £1,243,000 while short-term and low-value lease rentals decreased by £810,000. In note 13, Finance expense, lease liability interest has increased by £378,000.

4. Revenue

All of the Group's revenue was generated from the sale of goods in the UK and was recognised at a point in time (rather than over time). No one customer makes up 10% or more of revenue in the year (2020: none).

5. Segmental analysis

The Group has two reporting segments, being the distribution of plumbing and heating, and the sale and distribution of merchanting and other services. Total assets and liabilities are provided to the CODM in the Group's internal management reporting by segment and therefore is split and presented below. Information about geographical revenue by segment is disclosed in note 4.

2021	Plumbing and Heating £'000	Merchanting £'000	Total £'000
Revenue	232,837	130,452	363,289
Cost of sales	(206,497)	(94,072)	(300,569)
Gross profit	26,340	36,380	62,720
Other operating income	186	510	696
Distribution costs	(105)	(3,431)	(3,536)
Administrative expenses	(16,123)	(21,453)	(37,576)
Adjusted EBITDA	10,298	12,006	22,304
Share-based payments	(37)	(59)	(96)
Exceptional items	—	(2,085)	(2,085)
EBITDA	10,261	9,862	20,123
Depreciation	(1,124)	(216)	(1,340)
Amortisation	(1,523)	(6,498)	(8,021)
Operating profit	7,614	3,148	10,762
Finance income	—	—	—
Finance costs	(773)	(1,968)	(2,741)
Profit before taxation	6,841	1,180	8,021
Taxation	(1,059)	(1,318)	(2,377)
Profit / (loss) for operating unit	5,782	(138)	5,644
Assets and liabilities			
Total assets	96,080	76,229	172,309
Total liabilities	(59,098)	(62,463)	(121,561)
Net assets	36,982	13,766	50,748
Additions to non-current assets	9,895	7,756	17,651

5. Segmental analysis continued

2020	Plumbing and Heating (restated[1]) £'000	Merchanting (restated[1]) £'000	Total (restated[1]) £'000
Revenue	203,578	83,987	287,565
Cost of sales	(180,666)	(59,716)	(240,382)
Gross profit	22,912	24,271	47,183
Distribution costs	(54)	(2,731)	(2,785)
Administrative expenses	(13,897)	(15,019)	(28,916)
Other operating income	180	256	436
Adjusted EBITDA	9,141	6,777	15,918
Exceptional items	(1,346)	827	(519)
EBITDA	7,795	7,604	15,399
Depreciation	(162)	(871)	(1,033)
Amortisation	(1,914)	(5,567)	(7,481)
Operating profit	5,719	1,166	6,885
Finance income	—	2	2
Finance costs	(1,039)	(2,237)	(3,276)
Profit / (loss) before taxation	4,680	(1,069)	3,611
Taxation	(931)	(54)	(985)
Profit / (loss) for operating unit	3,749	(1,123)	2,626
Assets and liabilities			
Total assets	107,742	56,021	163,763
Total liabilities	(74,774)	(71,858)	(146,632)
Net assets / (liabilities)	32,968	(15,837)	17,131
Additions to non-current assets	1,127	1,222	2,349

1. See note 3.3 for details regarding the restatement.

6. Other operating income

	2021 £'000	2020 £'000
Commission	**504**	219
Parking income	**131**	168
Other	**61**	49
	696	436

7. Exceptional items

Exceptional items are presented separately as one-off costs that are unlikely to reoccur or costs outside normal business trading.

	2021 £'000	2020 £'000
Listing costs	**1,523**	—
Costs of business combinations	**514**	—
Costs of previous financing expensed	**248**	—
Restructuring costs	**—**	293
Deferred remuneration liability	**—**	1,707
Reduction in contingent consideration	**(200)**	—
Government grants – job retention scheme	**—**	(1,221)
Government grants – small business retail grants	**—**	(260)
	2,085	519

Year ended 31 December 2021

On 20 July 2021, the Group listed on the Alternative Investment Market (AIM). The costs associated with the listing have been expensed and amounted to £1,523,000. Associated with the listing, the Group underwent a refinancing. The costs of the previous financing were being expensed over the term of the loans. As these were no longer required, the costs associated with the previous financing arrangements, which amounted to £248,000, were written off to the income statement with the refinancing.

Transaction costs relating to business combinations amounting to £514,000 were expensed in the year. More details of business combinations are shown in note 36.

A £200,000 contingent consideration assumed on the acquisition of Kings Langley Building Supplies Limited was not payable and therefore released to the income statement in the year.

Year ended 31 December 2020

As a result of the coronavirus epidemic the Group underwent a restructuring programme which resulted in costs of £293,000.

APP Wholesale Limited, a subsidiary undertaking, introduced a management incentive plan for key employees as a result of the sale of the entire capital to Lords Group Trading plc in December 2019. As the conditions of the management incentive plan were not met by the employees until 2020, the cost was recognised in the year ended 31 December 2020.

The Group received government grants under the job retention scheme and small business retail grants of £1,221,000 and £260,000 respectively.

8. Employee benefit expenses

Staff costs, including directors' remuneration, were as follows:

	2021 £'000	2020 £'000
Wages and salaries	**22,833**	17,485
Social security costs	**2,313**	1,760
Defined contribution costs	**424**	366
Share-based payments	**96**	—
	25,666	19,611

The average monthly number of employees, including the directors, during the year were as follows:

	2021 Number	2020 Number
Management and administration	**82**	43
Sales, retail and manufacturing	**556**	498
	638	541

9. Directors' and key management remuneration

Directors	2021 £'000	2020 £'000
Remuneration for qualifying services	**841**	575
Company contributions to money purchase pension schemes	**13**	—
	854	575

The number of directors participating in defined contribution pension schemes as at the year end 2021 was none (2020: none). The number of directors participating in money purchase schemes as at the year end 2021 was one (2020: none).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2021 £'000	2020 £'000
Remuneration	**310**	200
Company contributions to money purchase pension schemes	**—**	—
	310	200

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including all executives of the Group. The Group directors and managing directors of each division are deemed to be the key management of the Group.

	2021 £'000	2020 £'000
Remuneration for qualifying services	**1,283**	1,176
Social security contributions and similar taxes	**153**	140
Company contribution to money purchase pension schemes	**55**	42
Share-based payments	**3**	—
	1,494	1,358

10. Expenses by nature

Operating profit is stated after charging / (crediting):

	2021 £'000	2020 (restated[1]) £'000
Depreciation of property, plant and equipment	**1,340**	1,033
Amortisation of intangible assets	**2,087**	1,841
Amortisation of right-of-use assets	**5,934**	5,640
Inventories recognised as an expense	**300,569**	240,382
Short-term and low-value lease payments	**148**	168
Foreign exchange gains	**(14)**	—
Share-based payments	**96**	—
Defined contribution costs	**424**	366
Release of impairment of inventories	**(142)**	(2,137)
Loss on disposal of property, plant and equipment	**—**	2
Defined contribution pension plan	**424**	336

1. See note 3.3 for details regarding the restatement.

11. Auditor's remuneration

For the 52 weeks ended 31 December 2021 the remuneration was provided to auditors, RSM UK Audit LLP, was as detailed below.

	2021 £'000	2020 £'000
Audit services – statutory audit of the parent and consolidated financial statements	**110**	—
Statutory audit of subsidiary companies	**215**	—
Capital market-related assurance services	**351**	—
Audit-related assurance services	**20**	—
	696	—

Fees payable to the previous auditor, PricewaterhouseCoopers LLP, in 2020 for the consolidation of the financial statements were £40,522, fees payable for the audit of individual entities were £183,978, fees relating to taxation were £40,255 and fees relating to other services were £10,750.

12. Finance income

	2021 £'000	2020 £'000
Other interest receivable	**—**	2
	—	2

13. Finance expense

	2021 £'000	2020 (restated[1]) £'000
Bank loans and overdrafts	**529**	1,003
Invoice discounting facilities	**376**	388
Lease liabilities	**1,836**	1,885
	2,741	3,276

1. See note 3.3 for details regarding the restatement.

14. Taxation

	2021 £'000	2020 (restated[1]) £'000
Corporation tax		
Current tax on profit for the year	**2,344**	1,521
Adjustments in respect of previous periods	**366**	(307)
	2,710	1,214
Deferred tax		
Origination and reversal of timing differences	**(198)**	(376)
Adjustments in respect of previous periods	**(707)**	161
Effect of changes in tax rates	**572**	(14)
	(333)	(229)
Total tax charge	**2,377**	985

1. See note 3.3 for details regarding the restatement.

Notes to the financial statements continued
for the year ended 31 December 2021

14. Taxation continued

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The difference is explained below:

	2021 £'000	2020 (restated[1]) £'000
Profit before taxation	**8,021**	3,611
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**1,524**	686
Expenses not deductible	**753**	429
Adjustments in respect of previous periods	**(341)**	(146)
Changes in tax rates	**572**	(14)
Share-based payments	**(147)**	—
Deferred tax not recognised	**16**	30
Total tax charge for the year	**2,377**	985

1. See note 3.3 for details regarding the restatement.

Factors that may affect future tax charges

In March 2021, the Chancellor announced that the tax rate would increase to 25% with effect from 1 April 2023 and the law has been substantively enacted as at the year end. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

15. Dividends

	2021 £'000	2020 £'000
Interim paid	**999**	—
	999	—

In 2021 dividends paid per share was 0.63 pence.

16. Earnings per share

	2021	2020
Basic earnings per share		
Earnings from continuing activities (pence)	**3.73**	1.94
Diluted earnings per share		
Earnings from continuing activities (pence)	**3.40**	1.77
Weighted average shares for basic earnings per share	**140,354,443**	125,925,000
Number of dilutive share options	**13,647,753**	12,179,402
Weighted average number of shares for dilutive earnings per share	**154,002,196**	138,104,402
Earnings attributable to the equity holders of the parent (£'000)	**5,231**	2,441

Both the basic and diluted earnings per share have been calculated using the earnings attributable to shareholders of the parent company, Lords Group Trading plc, of £5,231,000 (2020: earnings of £2,441,000) as the numerator, meaning no adjustment to profit was necessary in either year. The comparative earnings per share calculation has used the shares at the time of listing on 20 July 2021 as the denominator.

The Group has also presented adjusted earnings per share. Adjusted earnings per share have been calculated using earnings attributable to shareholders of the parent company, Lords Group Trading PLC, adjusted for the after-tax effect of exceptional items (see note 7), share based payments and amortisation of intangible assets as the numerator. The denominator is the shares in issue at the end of the year for 2021 and at the time of listing for 2020.

	2021 £'000	2020 £'000
Earnings attributable to the equity holders of the parent	**5,231**	2,441
Exceptional items	**2,085**	519
Share-based payments	**96**	—
Amortisation of intangible assets	**2,087**	1,841
Less tax impact of adjustments	**(811)**	(448)
Adjusted earnings	**8,688**	4,353
Closing shares at the end of the year	**158,524,872**	125,925,000
Closing number of dilutive share options	**13,647,753**	12,179,402

	2021	2020
Adjusted basic earnings per share		
Earnings from continuing activities (pence)	**5.48**	3.46
Adjusted diluted earnings per share		
Earnings from continuing activities (pence)	**5.05**	3.15

17. Intangible assets

	Software £'000	Customer relationships £'000	Trade names £'000	Goodwill £'000	Total £'000
Year ended 31 December 2020					
Opening net book value	487	12,352	1,933	5,243	20,015
Additions	24	—	—	—	24
Amortisation charge	(110)	(1,515)	(216)	—	(1,841)
Closing net book value	401	10,837	1,717	5,243	18,198
At 31 December 2020					
Cost	650	14,570	1,951	5,243	22,414
Accumulated amortisation and impairment	(249)	(3,733)	(234)	—	(4,216)
Net book value	401	10,837	1,717	5,243	18,198
Year ended 31 December 2021					
Opening net book value	**401**	**10,837**	**1,717**	**5,243**	**18,198**
Additions	**648**	**—**	**—**	**—**	**648**
Reclassification from tangible assets	**18**	**—**	**—**	**—**	**18**
Acquired through business combinations	**17**	**3,336**	**316**	**2,227**	**5,896**
Amortisation charge	**(132)**	**(1,719)**	**(236)**	**—**	**(2,087)**
Closing net book value	**952**	**12,454**	**1,797**	**7,470**	**22,673**
At 31 December 2021					
Cost	**1,333**	**17,906**	**2,267**	**7,470**	**28,976**
Accumulated amortisation and impairment	**(381)**	**(5,452)**	**(470)**	**—**	**(6,303)**
Net book value	**952**	**12,454**	**1,797**	**7,470**	**22,673**

Notes to the financial statements continued

for the year ended 31 December 2021

17. Intangible assets continued

The software intangible assets include the inventory management system of a subsidiary undertaking which was created by an external development firm for the subsidiary's specific requirements. The asset is carried at £151,449 (2020: £177,000) and has a remaining amortisation period of seven years (2020: eight years). In addition, in the year another subsidiary company implemented an ERP and stock management system costing £646,935 with a carrying value at year end of £621,841 and with a remaining amortisation period of eight years. There are no other individually material intangible assets.

Goodwill is systematically tested for impairment at each balance sheet date. The Group has no assets with indefinite lives, other than goodwill. No intangible assets were identified by management which needed to be impaired.

Cash-generating unit (CGU) assessment

The Group tests the carrying amount of goodwill annually for impairment or more frequently if there are indications that their carrying value might be impaired. The carrying amounts of other intangible assets are reviewed for impairment if there is an indication of impairment. Impairment is calculated by comparing the carrying amounts to the value-in-use derived from discounted cash flow projections for each CGU to which the intangible assets are allocated. A CGU is deemed to be the branch or group of branches acquired at the time of a business combination.

The breakdown of the net book value of intangible assets by operating segment is:

	2021 £'000	2020 £'000
Merchanting	**15,981**	11,353
Plumbing and Heating	**6,692**	6,845
	22,673	18,198

The total recoverable amount in relation to these CGUs at 31 December 2021 was £185,440,000. The value-in-use calculations are based on five-year management forecasts with a terminal growth rate applied thereafter, representing management's estimate of the long-term growth rate of the sector served by the CGUs. The recoverable amounts in both 2021 and 2020 were in excess of the carry value of goodwill and so no goodwill was impaired, or any part of the CGU was disposed of.

The key assumptions, which are equally applicable to each CGU, in the cash flow projections used to support the carrying amount of goodwill were as follows:

	Plumbing and Heating	Merchanting
Five-year sales growth	5.3%	1.5% – 5.8%
Terminal sales growth	2.0%	2%
Discount rate	13.3%	13.3%

Sensitivity analysis

A reasonable change in a key assumption would not cause the carrying value of either CGU to exceed its recoverable amount; the table below shows the amount of headroom and the revised assumptions required to eliminate the headroom in full at 31 December 2021. The headroom relates to the excess of the recoverable amount over the carrying value of the goodwill, intangible assets and other applicable net assets of the CGUs.

	Plumbing and Heating	Merchanting
Recoverable amount of CGU (£'000)	107,559,000	77,882,000
Current headroom (£'000)	70,175,000	37,047,000
Five-year sales growth	<0%	<0[1]
Terminal sales growth	<0%	<0[1]
Discount rate	27%	14.5%-60%

1. One CGU within the Merchanting and other services division is more sensitive that this and breakeven occurs with five year sales growth limited to 2.9% and terminal sales growth limited to 1.3% The recoverable amount of the CGU is £9,123,000 and the base headroom is £1,022,000.

18. Property, plant and equipment

	Land and buildings freehold £'000	Land and building leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Office equipment £'000	Total £'000
Year ending 2020							
Opening net book value	703	2,218	607	90	1,307	129	5,054
Additions	—	60	70	45	169	74	418
Disposals	—	—	—	(22)	—	—	(22)
Depreciation charge	(16)	(425)	(174)	(50)	(283)	(85)	(1,033)
Closing net book value	687	1,853	503	63	1,193	118	4,417
At 31 December 2020							
Cost	796	4,078	1,389	86	2,593	444	9,386
Accumulated depreciation and impairment	(109)	(2,225)	(886)	(23)	(1,400)	(326)	(4,969)
Net book amount value	687	1,853	503	63	1,193	118	4,417
Year ended 31 December 2021							
Opening net book value	687	1,853	503	63	1,193	118	4,417
Additions	**—**	**537**	**222**	**16**	**296**	**266**	**1,337**
Disposals	**—**	**—**	**—**	**(40)**	**—**	**—**	**(40)**
Reclassification to intangible assets	**—**	**—**	**—**	**—**	**—**	**(18)**	**(18)**
Reclassification acquired through business combinations	**—**	**270**	**—**	**—**	**(270)**	**—**	**—**
Acquired through business combinations	**1,201**	**1,598**	**689**	**56**	**101**	**49**	**3,694**
Depreciation charge	**(43)**	**(641)**	**(108)**	**(20)**	**(395)**	**(133)**	**(1,340)**
Closing net book value	**1,845**	**3,617**	**1,306**	**75**	**925**	**282**	**8,050**
At 31 December 2021							
Cost	**1,997**	**6,483**	**2,300**	**118**	**2,720**	**741**	**14,359**
Accumulated depreciation and impairment	**(152)**	**(2,866)**	**(994)**	**(43)**	**(1,795)**	**(459)**	**(6,309)**
Net book value	**1,845**	**3,617**	**1,306**	**75**	**925**	**282**	**8,050**

19. Leases and right-of-use assets

Nature of leasing activities

The Group leases a number of assets with all lease payments fixed over the lease term. The Group has property leases, plant and machinery and motor vehicles in the scope of IFRS 16, including retail branches, warehouses, lorries and other vehicles.

	2021	2020 (restated[1])
Number of active leases	**210**	200

1. See note 3.3 for details regarding the restatement.

19. Leases and right-of-use assets continued

Description of payments

	2021 £'000	2020 (restated[1]) £'000
Principal lease payments	**6,750**	6,565
Interest payments on leases	**1,836**	1,885
Short-term and low-value lease costs	**148**	168
	8,734	8,618

1. See note 3.3 for details regarding the restatement.

Short-term and low-value lease costs relates to individual vans which are rented on a monthly basis by subsidiaries of the Group.

Right-of-use assets

	Leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
At 31 December 2019 (restated[1])				
Cost	32,832	5,149	4,252	42,233
Accumulated amortisation and impairment	(4,153)	(1,095)	(1,147)	(6,395)
Net book amount	28,679	4,054	3,105	35,838
Year ended 31 December 2020 (restated)				
Opening net book value	28,679	4,054	3,105	35,838
Additions	363	684	860	1,907
Disposals	—	—	(18)	(18)
Amortisation charge	(3,196)	(902)	(1,542)	(5,640)
Closing net book value	25,846	3,836	2,405	32,087
At 31 December 2020 (restated[1])				
Cost	33,195	5,833	5,094	44,122
Accumulated amortisation and impairment	(7,349)	(1,997)	(2,689)	(12,035)
Net book value	25,846	3,836	2,405	32,087
Year ended 31 December 2021				
Opening net book value	**25,846**	**3,836**	**2,405**	**32,087**
Additions	**906**	**61**	**2,618**	**3,585**
Acquired through business combinations	**2,080**	**52**	**359**	**2,491**
Lease modifications	**1,039**	**9**	**(3)**	**1,045**
Disposals	**(3)**	**—**	**—**	**(3)**
Amortisation charge	**(3,352)**	**(928)**	**(1,654)**	**(5,934)**
Closing net book value	**26,516**	**3,030**	**3,725**	**33,271**
At 31 December 2021				
Cost	**37,217**	**5,955**	**8,068**	**51,240**
Accumulated amortisation and impairment	**(10,701)**	**(2,925)**	**(4,343)**	**(17,969)**
Net book value	**26,516**	**3,030**	**3,725**	**33,271**

1. See note 3.3 for details regarding the restatement.

Lease liabilities

	Leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
At 1 January 2020 (restated[1])	30,274	4,203	2,912	37,389
Additions	364	682	798	1,844
Interest expenses	1,516	222	147	1,885
Lease payments (including interest)	(3,678)	(1,211)	(1,676)	(6,565)
At 31 December 2020 (restated[1])	28,476	3,896	2,181	34,553
At 1 January 2021	28,476	3,896	2,181	34,553
Additions	**841**	**63**	**2,619**	**3,523**
Acquired through business combinations	**2,080**	**52**	**359**	**2,491**
Disposals	**(71)**	**—**	**—**	**(71)**
Lease modifications	**1,048**	**7**	**(5)**	**1,050**
Interest expenses	**1,480**	**203**	**153**	**1,836**
Lease payments (including interest)	**(3,789)**	**(1,242)**	**(1,719)**	**(6,750)**
At 31 December 2021	**30,065**	**2,979**	**3,588**	**36,632**

1. See note 3.3 for details regarding the restatement.

Reconciliation of minimum lease payments and present value

	2021 £'000	2020 (restated[1]) £'000
Within one year	**6,200**	6,140
Later than one year and less than five years	**19,236**	16,895
Later than five years and less than ten years	**11,534**	8,493
Later than ten years and less than 15 years	**8,550**	7,489
After 15 years	**2,272**	2,016
Total including interest cash flows	**47,792**	41,033
Less interest cash flows	**(11,160)**	(6,480)
Total principal cash flows	**36,632**	34,553

1. See note 3.3 for details regarding the restatement.

Reconciliation of current and non-current lease liabilities

	2021 £'000	2020 (restated[1]) £'000
Current	**5,114**	4,180
Non-current	**31,518**	30,373
Total	**36,632**	34,553

1. See note 3.3 for details regarding the restatement.

20. Investments

	2021 £'000	2020 £'000
Cost or valuation		
Listed investments	**1**	1
Other investments	**83**	3
	84	4

21. Inventories

	2021 £'000	2020 £'000
Raw materials and consumables	**175**	167
Finished goods and goods for resale	**38,606**	39,837
	38,781	40,004

The difference between the purchase price or production cost of stock and their replacement cost is not material.

Group inventories are stated after a provision for impairment of £2,304,000 (2020: £2,446,000). Inventory provisions are based on estimates and assumptions by management and include consideration of slow-moving items, damaged items and possibility of theft.

Movement in the inventory provision is recognised in cost of sales in the statement of comprehensive income.

22. Trade and other receivables

	2021 £'000	2020 (restated[1]) £'000
Amounts falling due after one year		
Other receivables	**304**	78
	304	78
Amounts falling due within one year		
Trade receivables	**50,930**	46,962[1]
Related parties	**—**	44
Taxation and social security	**—**	560
Other receivables	**5,333**	3,264[1]
Prepayments	**1,481**	1,803[1]
	57,744	52,633

1. Supplier rebates receivable within trade receivables and prepayments in the prior year have been reclassified as other receivables to be consistent with the classification in the current year.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The majority of trade and other receivables are non-interest bearing. Where the effect is material, trade and other receivables are discounted using discount rates which reflect the relevant costs of financing. The carrying amount of trade and other receivables approximates fair value.

The Group has recognised a loss of £323,000 (2020: £523,000) in the profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

Analysis of trade receivables based on age of invoices:

	<30 days £'000	31-60 days £'000	61-90 days £'000	>90 days £'000	Total gross £'000	ECL £'000	Total net £'000
31 December 2020	18,612	24,292	2,074	2,507	47,485	(523)	46,962
31 December 2021	**22,101**	**23,283**	**3,686**	**2,183**	**51,253**	**(323)**	**50,930**

Movements in the allowance for expected credit losses are as follows:

	2021 £'000	2020 £'000
Opening balance	**523**	283
Additional provisions recognised	**215**	523
Receivables written off during the year as uncollectable	**(144)**	(283)
Unused amounts reversed	**(271)**	—
Closing balance	**323**	523

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. The ECL balance has been determined based on historical data available to management in addition to forward-looking information utilising management knowledge.

23. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank available on demand	**11,402**	16,342
	11,402	16,342

24. Trade and other payables

	2021 £'000	2020 (restated[1]) £'000
Amounts falling due within one year		
Trade payables	**57,991**	59,228
Other taxation and social security	**4,113**	1,682
Other payables	**1,931**	2,385
Accruals	**6,424**	2,379
	70,459	65,674

1. See note 3.3 for details regarding the restatement.

	2021 £'000	2020 £'000
Amounts falling due in more than one year		
Other payables	**3,621**	2,840
	3,621	2,840

1. See note 3.3 for details regarding the restatement.

Other payables comprise of deferred consideration relating to various acquisitions. Deferred consideration due after one year is discounted using discount rates which reflect the relevant costs of financing when material.

The directors consider that the carrying value of trade and other payables approximates to their fair value.

25. Borrowings

	2021 £'000	2020 £'000
Current		
Bank loans	—	2,388
Other loans	**2,783**	18,350
Total current borrowings	**2,783**	20,738
Non-current		
Bank loans	**2,125**	18,522
Total non-current borrowings	**2,125**	18,522
Total borrowings	**4,908**	39,260

A maturity analysis of the Group's borrowings is shown below.

	2021 £'000	2020 £'000
Less than one year	**2,783**	20,738
Later than one year and less than five years	**2,125**	18,522
Total borrowings	**4,908**	39,260

Total transaction costs were £225,000 at the date of issue and unamortised transaction costs of £187,000 (2020: £280,000) have been offset against the bank loans.

Unrestricted access was available at the reporting date to the following lines of credit:

	2021 £'000	2020 £'000
Total facilities		
Revolving credit facility	**30,000**	12,500
Term loans	—	6,250
CBILS	—	15,000
Invoice drawdown facility	**10,000**	40,000
	40,000	73,750
Used at 31 December		
Revolving credit facility	**2,312**	5,910
Term loans	—	—
CBILS	—	15,000
Invoice drawdown facility	**2,783**	18,349
	5,095	39,259
Unused at 31 December		
Revolving credit facility	**27,688**	6,590
Term loans	—	6,250
CBILS	—	—
Invoice drawdown facility	**7,217**	21,651
	34,905	34,491

On 20 July 2021, the CBILS, revolving credit facility, term loans and invoice financing that existed at 31 December 2020 were repaid with the funds raised in the restructuring and replaced with the following financing arrangements from HSBC UK Bank plc:

- an invoice financing facility available for three years of £10.0 million attracting an interest rate of SONIA + 1.80%; and
- a revolving credit facility of £30 million repayable after three years and attracting a base interest rate of SONIA + 2.25% with fixed tiers up to 3.00% based on leverage. The unused commitment fee is 40% of the drawn fee.

The loans are secured by fixed and floating charges over the land, tangible assets, insurances and shares in subsidiary undertakings.

26. Reconciliation of liabilities arising from financial activities

	Current liability		Non-current liability		Total	
	Borrowings £'000	Lease liability £'000	Borrowings £'000	Lease liability £'000	Borrowings £'000	Lease liability £'000
At 1 January 2020 (restated[1])	21,782	4,339	11,016	33,050	32,798	37,389
Proceeds from borrowings	(1,044)	—	7,506	—	6,462	—
Principle lease payments	—	(4,021)	—	—	—	(4,021)
New leases	—	163	—	744	—	907
Modifications / remeasurement and transfers from current to non-current	—	3,699	—	(3,421)	—	278
At 31 December 2020 (restated[1])	20,738	4,180	18,522	30,373	39,260	34,553
At 1 January 2021 (restated[1])	20,738	4,180	18,522	30,373	39,260	34,553
Acquired through business combinations	**821**	**596**	**—**	**1,894**	**821**	**2,490**
Proceeds from borrowings	**1,962**	**—**	**2,125**	**—**	**4,087**	**—**
Repayment of borrowings	**(20,738)**	**—**	**(18,522)**	**—**	**(39,260)**	**—**
Principle lease payments	**—**	**(4,359)**	**—**	**—**	**—**	**(4,359)**
New leases	**—**	**450**	**—**	**3,002**	**—**	**3,452**
Modifications / remeasurement and transfers from current to non-current	**—**	**4,247**	**—**	**(3,751)**	**—**	**496**
At 31 December 2021	**2,783**	**5,114**	**2,125**	**31,518**	**4,908**	**36,632**

1. See note 3.3 for details regarding the restatement.

27. Other provisions

	2021 £'000	2020 (restated[1]) £'000
Amounts falling due within one year		
Lease liability dilapidations	**987**	817
	987	817

1. See note 3.3 for details regarding the restatement.

	Leasehold property £'000
At 31 December 2020	817
Additions	**127**
Interest	**43**
As at 31 December 2021	**987**

1. See note 3.3 for details regarding the restatement.

As part of the Group's property leasing arrangements there is an obligation to repair damages which incur during the life of the lease, such as wear and tear. The cost is charged to profit and loss as the obligation arises. The provision is expected to be utilised between 2022 and 2039 as the leases terminate. The provision has been calculated using historical experience of actual expenditure incurred on dilapidations and estimated lease termination dates.

28. Deferred taxation

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021 £'000	2020 (Restated[1]) £'000
Accelerated capital allowances / IFRS 16	**3,034**	2,628
Losses	**(198)**	(195)
Share options	**104**	—
Net deferred tax liability	**2,940**	2,433

1. See note 3.3 for details regarding the restatement.

Movement in period

	2021 £'000	2020 (Restated[1]) £'000
At beginning of the year	**2,433**	2,662
Arising from business combinations	**840**	—
Charged to income statement	**(333)**	(229)
Net deferred tax liability	**2,940**	2,433

1. See note 3.3 for details regarding the restatement.

29. Share capital

Allotted, called up and fully paid	2021 £'000	2020 £'000
157,505,000 ordinary shares of £0.005 each	**788**	—
9,900,000 ordinary class A1 to F1 shares of £1.00821212 each	**—**	9,981
1,087,500 ordinary class G shares of £0.01 each	**—**	11
9,997,825 ordinary class H shares of £1 each	**—**	9,998
	788	19,990

In preparation for listing on AIM on 20 July 2021, the share capital of Lords Group Trading plc was reorganised so that, in line with AIM rules, there was only one class of shares. The movement in share capital was as follows:

Issued shares by value	Date	A1 to F1 shares (£1.00821212 each) £'000	G shares (£0.01 each) £'000	H shares (£1 each) £'000	New A1 to F1 shares (£0.05 each) £'000	New H shares (£0.05 each) £'000	New ordinary shares (£0.005 each) £'000	Total £'000
As at January 2021 and 1 January 2020		9,981	11	9,998	—	—	—	19,990
Capital reduction of A1 to F1 shares	10 June	(9,981)	—	—	495	—	—	(9,486)
Cancellation of H shares	10 June	—	—	(7,523)	—	—	—	(7,523)
Capital reduction of H shares	10 June	—	—	(2,475)	—	124	—	(2,351)
Share capital reorganisation	14 July	—	619	—	(495)	(124)	—	—
Share capital reorganisation (ordinary shares)	14 July	—	(630)	—	—	—	630	—
As at admission to AIM on 20 July 2021		—	—	—	—	—	630	630
Placing on 20 July 2021		—	—	—	—	—	158	158
As at 31 December 2021		—	—	—	—	—	788	788

Issued shares by quantity	Date	A1 to F1 shares (£1.00821212 each) '000	G shares (£0.01 each) '000	H shares (£1 each) '000	New A1 to F1 shares (£0.05 each) '000	New H shares (£0.05 each) '000	New ordinary shares (£0.005 each) '000
As at 1 January 2021 and 1 January 2020		99,998	1,088	9,900	—	—	—
Capital reduction of A1 to F1 shares	10 June	(99,998)	—		9,900	—	—
Cancellation of H shares	10 June	—	—	(7,523)	—	—	—
Capital reduction of H shares	10 June	—	—	(2,377)	—	2,475	—
Share capital reorganisation	14 July	—	61,875	—	(9,900)	(2,475)	—
Share capital reorganisation (ordinary shares)	14 July	—	(62,963)	—	—	—	125,926
As at admission to AIM on 20 July 2021		—	—	—	—	—	125,926
Placing on 20 July 2021		—	—	—	—	—	31,579
As at 31 December 2021		—	—	—	—	—	157,505

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

30. Share-based payments

A share option plan has been established by Lords Group Trading plc whereby at the discretion of the remuneration committee it may grant options over ordinary shares in the Company to certain key management personnel. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the remuneration committee.

Set out below are summaries of options granted under the plan:

2020						
Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Forfeited	Balance at end of year
27/06/2019	26/12/2029	0.005p	12,936,670	—	—	12,936,670
			12,936,670	—	—	12,936,670
Weighted average exercise price			0.005p			0.005p

2021						
Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Forfeited	Balance at end of year
27/06/2019	26/12/2029	0.005p	12,936,670	—	—	12,936,670
30/09/2021	30/09/2031	0p	—	1,020,925	(33,680)	987,245
01/10/2021	01/10/2031	0p	—	481,106	—	481,106
			12,936,670	1,502,031	(33,680)	14,405,021
Weighted average exercise price			0.005p	—	—	0.004p

No options were exercisable at the end of the financial year (2020: nil).

The weighted average share price during the year since listing on AIM on 20 July 2021 was 123.4 pence.

The weighted average remaining contractual life of the remaining options outstanding at the end of the financial year was 8.2 years (2020: 9.0 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price pence	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date pence
01/10/2021	01/10/2031	1.350	—	43.10%	0.90%	0.39%	1.321
30/09/2021	30/09/2031	1.365	—	43.10%	0.0%	0.43%	1.365

31. Reserves

Share premium

The share premium account represents the excess of the amount raised from issuing shares above their nominal value less costs associated with the capital raise.

Merger reserve

Merger reserve relates to non-distributable amounts in excess of the nominal value of ordinary shares issued in connection with the share-for-share exchange with Lords Builders Merchants Holdings Limited.

Capital redemption reserve

Capital redemption reserve relates to amounts transferred following the redemption or purchase of the Company's own shares.

Share-based payment reserve

The share-based payment reserve relates to the fair value, at the date of grant, of share-based payments to directors and employees which are expensed to profit and loss on a straight-line basis over the vesting period, with the corresponding credit going to the share-based payment reserve.

Retained earnings

Retained earnings relate to cumulative net gains and losses less distributions made.

32. Non-controlling interests

A complete list of subsidiary companies with non-controlling interests is included in note 45.

	2021 £'000	2020 £'000
At 1 January	**3,499**	3,244
Total comprehensive income	**413**	185
Arising on business combinations	**425**	—
Capital contributions	**—**	70
At 31 December	**4,337**	3,499

The Group has non-controlling interests in Hevey Building Suppliers Limited, Condell Limited and Weldit LLP. Of these only Hevey Building Supplies Limited is material to the Group.

A summary of Hevey Building Supplies Limited, which has a 25% non-controlling interest, is as follows:

	2021 £'000	2020 £'000
Summarised statement of financial position		
Non-current assets	**5,036**	7,433
Current assets	**13,275**	9,505
Total assets	**18,311**	16,938
Current liabilities	**(11,835)**	(9,038)
Non-current liabilities	**(496)**	(812)
Total liabilities	**(12,331)**	(9,850)
Net assets	**5,980**	7,088
Summarised statement of profit or loss and other comprehensive income		
Revenue	**42,138**	25,718
Expenses	**(39,732)**	(24,673)
Profit before tax	**2,406**	1,045
Taxation	**(591)**	(190)
Profit after tax	**1,815**	855
Other comprehensive income	**—**	—
Total comprehensive income	**1,815**	855
Statement of cash flows		
Net cash from operating activities	**1,966**	2,076
Net cash from investing activities	**(4,897)**	(305)
Net cash used in financing activities	**1,380**	144
Net increase in cash and cash equivalents	**(1,551)**	1,915
Other financial information		
Opening accumulated profit attributable to non-controlling interests	**902**	689
Profit attributable to non-controlling interests	**408**	213
Closing accumulated profit attributable to non-controlling interests	**1,310**	902

Notes to the financial statements continued
for the year ended 31 December 2021

33. Retirement benefit scheme

	2021 £'000	2020 £'000
Defined contribution scheme		
Charge to income statement	**424**	336
	424	336

The Group operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The outstanding pension contributions at each year end were £145,422 (2020: £50,358).

34. Contingent liabilities

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible as at 31 December 2021 to predict the outcome of any of these matters or reliably estimate any financial impact. As such, at the reporting date no provision has been made for any of these cases within the financial statements.

In May 2021, the Group Chief Financial Officer wrote to the HMRC Anti-Money Laundering division to bring to their attention that it had identified a historic breach of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 by A P P Wholesale Limited, a company that was acquired by Lords Group Trading plc in December 2019. The Group has identified a number of occasions where cash banked in a single transaction was in excess of €10,000 or where smaller sums of cash were banked which could be regarded as linked transactions in breach of the regulations. The breaches occurred over a ten-year period from August 2010, cumulatively amounting to up to nearly £3,000,000. The Board is unable to predict the outcome of this reporting to HMRC and therefore the level of any potential fines. Our legal advice is that penalties for breaches of the regulations varies between nominal fines to fines which can equate to the full amount of the cash sum received in contravention of the regulations, depending on the level of culpability. The Board is confident that any potential fine levied would be covered by the warranties contained in the sale and purchase agreement for A P P Wholesale Limited.

The Group has since conducted training for certain staff members within A P P Wholesale Limited and has updated and implemented improved systems and controls which were overseen by the Board and supported by professional advisers. The Board is confident that the situation has been remedied and the risks in the business are now being appropriately managed. We continue to engage and fully co-operate with our regulators in relation to these matters. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

There has been no correspondence with HMRC since the Group wrote to them in May 2021.

35. Financial instruments

Financial assets

Financial assets measured at amortised cost comprise trade receivables, other receivables, accrued income and cash. It does not include prepayments.

	2021 £'000	2020 £'000
Trade receivables	**50,930**	48,513
Other receivables	**5,333**	134
Cash at bank and in hand	**11,402**	16,342
	67,665	64,989

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market-observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items;
- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs, thus not derived from market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Financial assets measured at fair value include derivative financial assets, as follows:

	Level	**2021 £'000**	2020 £'000
Forwards	1	**—**	575
Listed investments	1	**1**	1
Unlisted investments	3	**83**	3
		84	579

One of the Group's subsidiaries sometimes makes international purchases in foreign currencies; the subsidiary may seek to reduce the foreign exchange risk by entering into forward contracts. At year end, the Group had no forward contracts with sterling equivalent.

Financial liabilities

Financial liabilities measured at amortised cost comprise trade payables, other payables, accruals and borrowings. It does not include deferred income and other taxation and social security.

	2021 £'000	2020 (Restated[1]) £'000
Trade payables	**57,991**	59,228
Other payables	**5,552**	5,225
Accruals	**6,425**	2,379
Lease liabilities	**36,632**	34,553
Borrowings	**4,908**	39,260
	111,508	140,645

1. See note 3.3 for details regarding the restatement.

Financial risk management

The Group is exposed through its operations to the following financial risks: credit risk, interest rate risk, foreign exchange risk and liquidity risk. Risk management is carried out by the directors of the Group. The Group uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed.

The Group finances its operations through a mixture of debt finance, cash and liquid resources and various items such as trade debtors and trade payables which arise directly from the Group's operations.

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. In order to minimise the risk, the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the gross debt before provisions of trade and other receivables and cash and cash equivalents as disclosed in notes 22 and 23.

The Group seeks to obtain charging orders over the property of trade receivables, where appropriate. The receivables' age analysis is also evaluated on a regular basis for potential doubtful debts, considering historic, current and forward-looking information. Further disclosures regarding trade and other receivables are provided in note 22.

Credit risk also arises on cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating B+ are accepted.

Currently, all financial institutions whereby the Company holds significant levels of cash are rated from AA- to A+.

35 Financial instruments continued

Interest rate risk

The Group's current borrowings are at interest rates between SONIA + 1.8% and SONIA + 3.0%, therefore interest rate risk exposure for the Group is minimal. See note 25 for more detail.

Foreign exchange risk

Foreign exchange risk arises when the Group enters into transactions in a currency other than its functional currency. The Group's policy is, where possible, to settle liabilities denominated in a currency other than its functional currency with cash already denominated in that currency.

Liquidity risk

The Group seeks to maintain sufficient cash balances. Management reviews cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

A maturity analysis of the Group's trade and other payables, loans and leases is shown below:

	2021 £'000	2020 £'000
Less than one year	**74,244**	88,910
Due after one year	**37,264**	51,735
	111,508	140,645

A maturity analysis of borrowings is shown in note 25.

Capital disclosures

The capital structure of the business consists of cash and cash equivalents, debt and equity. Equity comprises share capital, share premium and retained profits and losses and is equal to the amount shown as 'Equity' in the balance sheet. Cash and cash equivalents comprise cash and bank accounts and marketable securities that can be converted into cash within 90 days. Debt comprises various items which are set out in further detail above and in the notes to the accounts.

The Group's current objectives when maintaining capital are to:

- safeguard the Group's ability to continue as a going concern so that it can continue to pursue its growth plans;
- provide a reasonable expectation of future returns to shareholders; and
- maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In the year the Company has listed on AIM and raised capital and has also refinanced its lending to meet its capital needs.

These capital management policies have remained unchanged from the prior year.

36. Business combinations

MAP Building & Civil Engineering Supplies Ltd

On 3 March 2021, the Group concluded the 100% share capital purchase of MAP Building & Civil Engineering Supplies Ltd (MAP) for £5,495,000 through Hevey Building Services Limited (Hevey). Consideration was via an initial payment of £4,825,000 and deferred consideration of £500,000. MAP is a £16,000,000 turnover, single-site operation based in Ikleston, Derbyshire. The principal reason for the acquisition was to acquire the customer base of MAP. The assets and liabilities of the business were subsequently hived into Hevey. The acquired business contributed revenues of £13,859,000 and profit before tax of £325,000 to the consolidated entity for the period from 3 March 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, the full-year contributions would have been revenues of £16,471,000 and profit before tax of £649,000.

The following table summarises the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	2,590
Intangible asset – trade names	190
Property, plant and equipment	1,782
Right-of-use assets	39
Inventories	524
Trade and other receivables	2,935
Investments	3
Cash	127
Trade and other payables	(3,229)
Lease liabilities	(39)
Deferred tax liability	(626)
Total provisional fair value	4,296
Consideration	5,495
Goodwill	**1,199**

The fair values include recognition of an intangible asset relating to customer relations of £2,590,000 and trade names of £190,000, which will be amortised over 11.75 years on a straight-line basis. The goodwill of £1,199,000 comprises the potential value of additional new customers which is not separately recognised. Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate of 19%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £396,000 and are disclosed within the statement of comprehensive income within exceptional items.

Purchase consideration	£'000
Cash	4,924
Directors' loan account repaid	84
Deferred consideration	487
Total consideration	**5,495**

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	4,924
Less cash acquired at acquisition	(127)
Net cash movement	**4,797**

The deferred consideration of £500,000 has been discounted to a present value of £487,000 using an interest rate of 2.62%. The deferred consideration was paid on 30 March 2022.

36. Business combinations continued

Condell Limited

On 6 April 2021, the Group concluded a 75% share capital purchase of Condell Limited for £2,300,000. Condell is a £9,000,000 turnover, two-site operation based in Sutton and Horsham. The principal reason for the acquisition was to acquire the customer base of Condell. The Group has elected to measure the non-controlling interest at fair value using the partial goodwill method. The acquired business contributed revenues of £6,994,000 and profit before tax of £2,000 to the consolidated entity for the period from 6 April 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, the full-year contributions would have been revenues of £9,535,024 and loss before tax of £64,000. The following table summarises the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	679
Intangible asset – trade names	126
Intangible asset – software	17
Property, plant and equipment	1,767
Right-of-use assets	962
Inventories	857
Trade and other receivables	611
Cash	948
Trade and other payables	(2,286)
Borrowings	(821)
Lease liabilities	(962)
Deferred tax liability	(202)
Total provisional fair value	1,696
Non-controlling interests @ 25%	(424)
Consideration	2,300
Goodwill	**1,028**

The provisional fair values include recognition of an intangible asset relating to customer relations of £679,000 and trade names of £126,000, which will be amortised over 13.75 years on a straight-line basis. The goodwill of £1,028,000 comprises the potential value of additional new customers which is not separately recognised. Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate of 19%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £93,000 and are disclosed within the statement of comprehensive income within exceptional items. The non-controlling interest valuation has been calculated using the partial goodwill fair value method.

Purchase consideration	£'000
Initial consideration – cash	1,943
Contingent consideration	357
Total consideration	**2,300**

A contingent consideration arrangement was agreed during the purchase of Condell Limited. An additional cash payment of £375,000 is payable if the entity meets an agreed EBITDA target in the two years following acquisition. The deferred and contingent consideration has been discounted to a present value of £357,000 using an interest rate of 3.31%. The contingent consideration is repayable if targets are met.

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	1,943
Less cash acquired at acquisition	(948)
Net cash movement	**995**

Acquisition of certain of the assets and business of Nu-Line Builders Merchants Limited's Malton Road branch

On 31 August 2021, the Group acquired the business and assets of the Malton Road, London W10 branch of Nu-Line Builders Merchants Limited for a consideration of £433,000. Under the transaction, the Group had the Malton Road property leases assigned to it and took on circa 25 of Nu-Line's employees (the 'Malton Branch').

The acquired business contributed revenues of £1,620,000 and a loss before tax of £202,000 to the consolidated entity for the period from 1 September 2021 to 31 December 2021. The Group has no reliable information about the performance of the branch in the period prior to acquisition. The following table summarises the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	67
Property, plant and equipment	145
Right-of-use assets	1,490
Inventories	233
Lease liabilities	(1,490)
Deferred tax liability	(12)
Total provisional fair value	433
Consideration	433
Goodwill	**—**

	£'000
Cash paid as consideration on acquisition	433
Less cash acquired at acquisition	—
Net cash movement	**433**

Purchase consideration	£'000
Initial consideration – cash	433
Deferred and contingent consideration	—
Total consideration	**433**

37. Forward currency contracts

The Group's local currency is sterling but due to international purchases in foreign currencies, the Group may seek to reduce the foreign exchange risk by entering into forward contracts during the financial year if a future need for foreign currency is expected.

At 31 December 2021, there were no outstanding contracts. In the prior year the Group was committed to buy US$900,000 and pay a fixed sterling amount of £684,143. In the prior year, all contracts matured within five months of the year end.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD. The fair value movement of the forward foreign currency contracts at year end was £nil (2020: loss of £26,590).

38. Commitments and contingencies

At 31 December, the Group and Company had the following capital commitments:

Contracts for future capital expenditure not provided in the financial statements	**2021 £'000**	2020 £'000
Property, plant and equipment	**—**	207

39. Related party transactions

Parent entity

Lords Group Trading plc is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 45.

Key management personnel

Disclosures relating to key management personnel are set out in note 9.

Transactions with related parties

Gempoint 2000 Limited, a company of which Shanker Patel is also a director, owns properties leased by operating branches of the Group. In total, the Group paid Gempoint £892,430 in lease payments (2020: £887,750). At 31 December 2021, the Group owed Gempoint £164,196 (2020: £174,250).

Shanker Patel, as well as being a director of the Company, is a significant shareholder of the Company. When the Company listed on AIM he sold 10,526,315 shares for £10 million, reducing his shareholding in the Company to 29.01%. When the Group paid an interim dividend on 28 September 2021 he received a dividend of £290,100. Of the other directors, Gary O'Brien received a dividend of £900 and Andrew Harrison received a dividend of £300 based on their shareholdings from the interim dividend.

On 11 August 2021, the Group announced that Gempoint, at the Group's request, would make an aggregate of £1.26 million to site improvements at the Group's Beaconsfield and Huntingdon sites; the Group has agreed to an increase in rents at these two locations such that aggregate annual payments across the two leases will increase from £306,600 to £411,600 with effect from completion of the site improvements. No site improvements had begun as at 31 December 2021.

The following transactions occurred between Group companies and companies that are not wholly owned within the Group:

Condell Limited paid management fees of £291,000 (2020: £nil), and at 31 December 2021 owed £591,000 (2020: £nil) to wholly owned Group companies. Condell made purchases of £153,000 (2020: £nil) and sales of £274,000 (2020: £nil) from wholly owned Group companies and was owed a net balance of £39,000 (2020: £nil) on these transactions.

Hevey Building Supplies Limited paid management fees of £108,000 (2020: £165,000) and interest of £50,000 (2020: £72,000) to wholly owned Group companies. At 31 December 2021, Hevey Building Supplies Limited owed £51,000 (2020: £282,000).

Weldit LLP paid management fees of £18,000 (2020: £18,000), interest of £26,322 (2020: £26,000) and made purchases of £nil (2020: £3,000) to wholly owned Group companies. At 31 December 2021, Weldit LLP owed £737,000 (2020: £765,000) to wholly owned Group companies.

40. Post-balance sheet events

Advance Roofing Supplies Limited

On 5 January 2022, the Group acquired Advance Roofing Supplies Limited (Advance Roofing Supplies), a supplier of roofing materials, for a consideration of £3.74 million, of which £3.49 million has been paid on completion and the balance of £0.25 million is payable twelve months after completion. As at completion, Advance Roofing Supplies had excess cash of £0.74 million.

Established in 1994, Advance Roofing Supplies specialises in pitched and flat roofing sales to customers locally and nationally. Advance Roofing Supplies operated from two locations, Aylesbury in Buckinghamshire and Long Marston in Hertfordshire. The acquisition of Advance Roofing Supplies will offer attractive synergies with the Group's Merchanting segment, increasing product range, and expanding the Group's customer base, particularly in the South-East of England.

For the year ended 31 March 2021, Advance Roofing Supplies generated EBITDA of £0.6 million on revenues of £6.8 million.

As the acquisition of Advance Roofing Supplies Limited only completed on 5 January 2022, the initial accounting for the acquisition was incomplete at the time these accounts were authorised for issue. On this basis, no assessment has yet been performed to determine the fair value of assets and liabilities and the fair value of the consideration. The Group intends to disclose the required information within its interim accounts for the period ended 30 June 2022.

Banking facilities

The Group amended its banking facilities on 28 February 2022 and increased its invoice drawdown facility to £20 million and its revolving loan facility to £50 million. This represents an overall increase in facilities of £30 million over those available at 31 December 2021. The facilities are available to the Group until 21 July 2024.

A.W. Lumb

On 28 February 2022, the Group acquired A.W. Lumb through the acquisition of the entire issued share capital of AWLC Limited (AWLC) for a total consideration of £23.1 million (the 'Acquisition'). The Acquisition is in line with Lords' stated strategy at the time of IPO in July 2021. The Acquisition is to be immediately earnings accretive.

Total Acquisition consideration of £23.1 million, payable in cash, consists of £19.5 million due on completion and deferred consideration of £3.6 million payable in equal annual instalments over the next five years. Consideration is to be funded from Lords' existing cash resources and debt facilities.

The Acquisition provides the Group with an extension of its product offering and geographical reach into the North of England. Both key senior management from A.W. Lumb and its 77 employees will be joining the Group, ensuring continuity of local knowledge and customer relationships, as well as continuing the family values core to Lords' success.

Established in 1964 and family owned until a management buyout in 2017, A.W. Lumb is a leading independent builders merchant operating in the North of England from depots in Dewsbury and Tamworth. A.W. Lumb has a general merchanting service, with offerings in building materials, garden landscaping, timber & joinery, and roofing products. The business also provides a specialist offering in drylining and insulation to housebuilders. A.W. Lumb's customers include several well-known housebuilders, civil engineering contractors, local authorities, plasterers and smaller developers.

In the year to 30 June 2021, AWLC generated revenues of £43.3 million, EBITDA of £3.9 million and a profit before tax of £3.8 million.

As at 30 June 2021, AWCL had pro forma net assets of £10.1 million, £1.9 million of pro forma net cash and freehold property with a market value of £4.6 million.

As the acquisition of A.W. Lumb only completed on 28 February 2022, the initial accounting for the acquisition was incomplete at the time these accounts were authorised for issue. On this basis, no assessment has yet been performed to determine the fair value of assets and liabilities and the fair value of the consideration. The Group intends to disclose the required information within its interim accounts for the period ended 30 June 2022.

DH&P Plumbing and Heating

On 31 March 2022, the Group acquired a 90% interest in the leading plumbing and heating businesses, DH&P Trade Counters Holdings Limited and DH&P HRP Holdings Limited (together 'DH&P'), for a total consideration of £9.3 million.

The remaining 10% interest in DH&P's issued share capital will be retained equally by the business' current vendors, who will remain in their management roles with the business.

DH&P Trade Counters Holdings Limited is a leading plumbing and heating merchant, consisting of five branches located with a strong regional focus in Ipswich, Chelmsford, Southend, Benfleet and Colchester. The business further extends the Group's existing plumbing and heating network of nine branches represented under the Mr Central Heating brand.

The DH&P HRP Holdings Limited business is a national distributor of plumbing and heating spares servicing 400 customers, whose operations align strongly with the Group's APP Wholesale division that distributes plumbing and heating products nationwide to 2,400 customers.

For the year ended 30 July 2021, DH&P generated revenues of £27.6 million and underlying EBITDA of £2.0 million.

The acquisition consideration was satisfied by an initial £8.93 million cash payment and a deferred cash element of £357,000 to be paid in twelve months, on a cash-free, debt-free basis. Simultaneous call and put options over the remaining 10% of DH&P's issued share capital will be held by the Group and DH&P's vendors, respectively, which will not be exercisable prior to 31 March 2025 and the price subject to DH&P's EBITDA performance.

As the acquisition of DH&P Plumbing and Heating only completed on 31 March 2022, the initial accounting for the acquisition was incomplete at the time these accounts were authorised for issue. On this basis, no assessment has yet been performed to determine the fair value of assets and liabilities and the fair value of the consideration. The Group intends to disclose the required information within its interim accounts for the period ended 30 June 2022.

Branch acquisition

On 31 March 2022, the Group acquired a Buildbase branch from Grafton Merchanting GB Limited, previously part of its timber and building materials business. The Buildbase branch purchased is a single site located in Sudbury, Suffolk (the 'Sudbury Branch').

The acquisition offers additional expansion for the Sudbury Branch and the wider Lords Merchanting segment across product range, acquired customers and digital presence whilst also further enhancing Hevey's growing East of England presence.

The total gross consideration payable was £2.2 million. The Sudbury Branch generated revenues of £5.1 million and adjusted EBITDA of £0.5 million in the year to 31 December 2021.

As the acquisition of the Sudbury Branch only completed on 31 March 2022, the initial accounting for the acquisition was incomplete at the time these accounts were authorised for issue. On this basis, no assessment has yet been performed to determine the fair value of assets and liabilities and the fair value of the consideration. The Group intends to disclose the required information within its interim accounts for the period ended 30 June 2022.

Parent company statement of financial position

for the year ended 31 December 2021

Fixed assets	Note	2021 £'000	2020 £'000
Investments	45	**47,381**	47,287
		47,381	47,287
Current assets			
Debtors	46	**7,530**	3,751
Cash at bank and in hand	47	**98**	70
		7,628	3,821
Creditors: amounts falling due within one year	48	**(1,416)**	(3,860)
Net current assets / (liabilities)		**6,212**	(39)
Total assets less current liabilities		**53,593**	47,248
Creditors: amounts falling due after more than one year	49	**(1,458)**	(27,255)
Net assets		**52,135**	19,993
Capital and reserves			
Called up share capital	29	**788**	19,990
Share premium		**28,293**	—
Share-based payment reserve	31	**96**	—
Retained earnings	31	**22,958**	3
Total equity		**52,135**	19,993

The Company has taken advantage of the exemptions under section 408 of the Companies Act 2006 from presenting its own income statement in these financial statements. The Company's profit after tax for the financial period was £4,594,000 (2020: £2,000).

The parent company financial statements on pages 110 to 116 were approved and authorised for issue by the Board and were signed on its behalf on 23 May 2022.

C Day

Director

Registered number: 11633708

The notes on pages 112 to 116 form part of these parent company financial statements.

Parent company statement of changes in equity

for the year ended 31 December 2021

	Called up share capital £'000	Share premium £'000	Share-based payments £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2020	19,990	—	—	1	19,991
Profit for the financial period and total comprehensive income	—	—	—	2	2
As at 31 December 2020	19,990	—	—	3	19,993

	Called up share capital £'000	Share premium £'000	Share-based payments £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2021	**19,990**	**—**	**—**	**3**	**19,993**
Profit for the financial period and total comprehensive income	**—**	**—**	**—**	**4,594**	**4,594**
Transactions with owners in their capacity as owners					
Reclassification of share capital	**(19,360)**	**—**	**—**	**19,360**	**—**
Capital raise	**158**	**29,842**	**—**	**—**	**30,000**
Cost of capital raise	**—**	**(1,549)**	**—**	**—**	**(1,549)**
Share-based payments	**—**	**—**	**96**	**—**	**96**
Dividends paid	**—**	**—**	**—**	**(999)**	**(999)**
As at 31 December 2021	**788**	**28,293**	**96**	**22,958**	**52,135**

The notes on pages 112 to 116 form part of these parent company financial statements.

Notes to the parent company financial statements

for the year ended 31 December 2021

41. General information

Lords Group Trading plc is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The registered office is Unit 1, Radford Industrial Estate, Goodhall Street, London, NW10 6UA. The Company's principal activity is to act as the holding company of the Group.

42. Accounting policies

42.1 Statement of compliance

These financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland (FRS 102) and the requirements of the Companies Act 2006.

42.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 43.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions.

The Company has taken advantage of the following exemptions in its individual financial statements:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;
- from the financial instrument disclosures, required under FRS 102 paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), as the information is provided in the consolidated financial statement disclosures;
- from disclosing the Company key management personnel compensation and share option information, as required by FRS 102 paragraph 33.7; and
- from section 26 'Share-based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements.

The following principal accounting policies have been applied consistently.

42.3 Going concern

At 31 December 2021, the Group had £34.9 million of undrawn facilities, as disclosed in note 25, and £11.4 million of cash. The Group has further increased its facilities to ensure it has the resources to pursue its consolidation strategy as described in the strategic report. The Group amended its banking facilities on 28 February 2022 and increased its invoice drawdown facility to £20 million and its revolving loan facility to £50 million, as disclosed in the post-balance sheet events in note 40. This represents an overall increase in facilities of £30 million over those available at 31 December 2021 and which are available to the Group until 21 July 2024. Banking covenants are breached if the last twelve months' adjusted EBITDA / interest (interest ratio) falls below 5.0 or the last twelve months' net debt / adjusted EBITDA exceeds 2.5. At 31 December 2021, the interest ratio was over 21 and there was no net debt.

Accounting standards require that the foreseeable future covers a period of at least twelve months from the date of approval of the financial statements, although they do not specify how far beyond twelve months a board should consider. The Board has considered cash flow facilities out to an extended period coinciding with the expiry of the banking facilities on 21 July 2024. The Group is expected to have at least £27.8 million of headroom over its facilities at all times until 21 July 2024.

The cash flow forecasts have been stress tested by considering the most likely risks impacting the Group. These are considered to be growth below forecast, increased working capital requirements through increased debtors and increased cost to serve. The Group's cash flow projections indicate covenants on facilities will not be breached unless, instead of the anticipated growth, the Group's projected EBITDA falls by £6.7 million, debtors increase by 24%, or there is an increase in cost to serve of £8.2 million above the base model. While none of these are likely to occur, the Group has mitigating actions at its disposal that it can take in downside scenarios, such as delaying capital expenditure and maintaining a strong credit control function across the Group supported by credit insurance and restructuring the Group to reduce costs. Cash flow forecasts are reforecast in the event of a potential acquisition not already in the forecast. The Group prepares weekly cash flow projections, daily sales flashes and monthly management accounts compared to budget with key performance indicators, which together will provide an early warning system to indicate whether any mitigating actions are necessary in any part of the Group.

In all reasonable scenarios, the Group is projected to be compliant with its banking covenants and therefore the directors are satisfied that the Group has adequate resources to continue operations for the foreseeable future.

After reviewing the Group and Company's forecasts and risk assessments and making other enquiries, the Board has formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence until at least 21 July 2024, when the existing banking facilities expire.

Accordingly, the directors continue to adopt the going concern basis in preparing the Group and Company the financial statements.

42.4 Share-based payments

The Company issues from time-to-time equity-settled share-based payments to certain directors and employees of the Company and its subsidiaries. These are measured at fair value at the date of grant, which is expensed to profit and loss on a straight-line basis over the vesting period, with the corresponding credit going to equity.

Non-market vesting conditions are not taken into account in determining grant date fair value. Instead, they are taken into account by adjusting the number of equity instruments to vest. At the end of each reporting period the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. Any revisions, if any, are recognised in profit and loss with an adjustment to equity.

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the binomial model.

42.5 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- deferred tax balances are not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

42.6 Investment in subsidiaries

Interests in subsidiary undertakings are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary undertaking is an entity controlled by the Company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

42.7 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

42.8 Impairment of investment in and loans to subsidiary undertakings

Interests in subsidiaries are assessed for impairment at each reporting date. If an indication of impairment is identified, the Company performs an impairment test to assess the recoverable amount of the subsidiary. An impairment loss is recognised for the amount by which the subsidiary undertaking's carrying amount, being the sum of investments and loans, exceeds its recoverable amount.

Recoverable amount is the higher of the subsidiary undertaking's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the subsidiary undertaking using a pre-tax discount rate.

42.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

42.10 Creditors

Short-term creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

42. Accounting policies continued

42.11 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Borrowings are initially recognised at the transaction price, including transaction costs (unless the arrangement constitutes, in effect, a financing transaction, in which case it is initially recognised at the present value of future payments discounted at a market rate of interest for a similar debt instrument) and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar expenses.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Trade, group and other creditors (including accruals) payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being transaction price less any amounts settled.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

42.12 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

42.13 Equity

Equity comprises the following:

- 'called up share capital' represents the nominal value of equity shares;
- 'share premium' represents amounts paid for shares in excess of nominal value;
- 'retained earnings' represents retained earnings less retained losses; and
- 'share-based payment reserve' represents charges in relation to equity-settled share-based payments.

43. Critical accounting judgements and estimation of uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

43.1 Critical judgements in applying the accounting policies

There are no critical judgements in the parent company financial statements.

43.2 Key accounting estimates and assumption

Impairment of investment in and loans to subsidiary undertakings of the Company

Each year the Company considers whether there are any indications that the investments or loans in its subsidiary undertakings are impaired. Some indications of impairment are both external, such as changes in technology and interest rates on the subsidiary undertaking, and internal, such as losses incurred in the year. In the event indicators of impairment are identified the Company performs stress-tested net cash flow assessments on the forecasted cash flow projections of the subsidiary undertaking and provides for any shortfall in the carrying value of the subsidiary undertaking against future cash flow projections. See note 45 for the carrying amount of the asset, note 46 for amounts owed by Group undertakings and note 42.7 for the accounting policies. No impairment has been recognised as a result of the Company's assessment.

44. Staff numbers

Lords Group Trading plc has no direct employees; the directors are remunerated through Carboclass Limited, a subsidiary undertaking. Details of the directors' remuneration can be found in the directors' remuneration report.

45. Investments

	2021 £'000	2020 £'000
Subsidiary undertakings	**47,381**	47,287
	47,381	47,287

The movement on the investment in subsidiary undertakings relates to the share-based payment charge which is a capital contribution to the Company's subsidiary undertakings.

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Entity type	Class of shares	Holding
APP Wholesale Limited	Trading	Ordinary	100%
Carboclass Limited[2]	Trading	Ordinary	100%
Lords at Home Ltd[2]	Trading	Ordinary	100%
Ebuildingsupplies Limited[2]	Trading	Ordinary	100%
Hevey Building Supplies Limited[3]	Trading	Ordinary	75%
Weldit LLP[3]	Trading	Ordinary	75%
Lords Group Ventures Limited	Trading	Ordinary	100%
Lords Builders Merchants Holding Limited	Non-trading	Ordinary	100%
Fastlane Investments Limited[1]	Non-trading	Ordinary	100%
Huntingdon Timber Limited[4]	Dormant	Ordinary	100%
E. Hussey and Sons Limited[3]	Dormant	Ordinary	100%
George Lines (Merchants) Limited[3]	Dormant	Ordinary	100%
Kings Langley Building Supplies Limited[3]	Dormant	Ordinary	100%
Newstore Limited[3]	Dormant	Ordinary	100%
Bomax Limited[3]	Dormant	Ordinary	100%
Condell Limited[3]	Trading	Ordinary	75%
MAP Building and Civil Engineering Supplies Limited[4]	Dormant	Ordinary	100%

1. Subsidiary of Lords Builders Merchants Holding Limited.
2. Subsidiaries of Fastlane Limited.
3. Subsidiaries of Carboclass Limited.
4. Subsidiaries of Hevey Building Supplies Limited.

APP Wholesale Limited is within the Plumbing and Heating segment. All other trading companies are within the Merchanting segment.

All companies are incorporated in England and Wales with their registered office at Unit 1, Radford Industrial Estate, Goodhall Street, London, NW10 6UA.

The directors believe that the investment in subsidiaries is supported by their value-in-use and no impairment has therefore been recognised.

Notes to the parent company financial statements continued
for the year ended 31 December 2021

46. Debtors

Due after more than one year	2021 £'000	2020 £'000
Amounts owed by Group undertakings	**7,503**	3,751
Prepayments	**27**	—
	7,530	3,751

All amounts owed by Group undertakings are repayable on 31 December 2024. All amounts owed are unsecured borrowings and are non-interest bearing.

47. Cash at bank and in hand

	2021 £'000	2020 £'000
Cash at bank	**98**	70
	98	70

48. Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Bank loans and overdrafts	**—**	2,387
Corporation tax	**148**	2
Other taxation and social security	**2**	35
Other creditors	**1,167**	1,167
Accruals and deferred income	**99**	269
	1,416	3,860

On 20 July 2021, the CBILS, revolving credit facility, term loans and invoice financing that existed at 30 June 2021 were repaid with the funds raised in the restructuring.

49. Creditors: Amounts falling due after more than one year

	2021 £'000	2020 £'000
Bank loans and overdrafts	**—**	18,522
Amounts owed to Group undertakings	**—**	6,400
Other creditors	**1,458**	2,333
	1,458	27,255

50. Employee share schemes

On 31 October 2021 and 1 November 2021, employees of the Company's subsidiaries were granted awards in the form of nil cost options over ordinary shares in Lords Group Trading plc. Refer to note 30 of the consolidated financial statements for more detail on these schemes. The cost of the share-based remuneration is passed to the relevant subsidiary in the form of a capital contribution.

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Financial calendar

24 May 2022
Final results

29 June 2022
Annual General Meeting

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