LORDS
GROUP TRADING

Leading Distributor of Building Materials

A year of strategic progress

Annual report 2022

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 41 sites as local market leaders. We aim to become a **£500 million turnover group by 2024, by growing our national presence, product range and digital offering.**

This year, as part of our ongoing commitment to operating sustainability, we have taken a 'digital-first' approach, printing a minimum run of only 30 copies.

www.lordsgrouptradingplc.co.uk

Cover image: Reina, Branch Manager, Lords Builders Merchants - Beaconsfield

Alex, Trade Counter Assistant, Mr Central Heating - West Bromwich

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Sustainability

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Financial highlights

Revenue	£450.0m	+23.9%	2021: £363.3m
Adjusted EBITDA[1]	£30.0m	+34.4%	2021: £22.3m
Adjusted EBITDA margin	6.7%	+0.6%	2021: 6.1%
EBITDA	£28.6m	+45.4%	2021: £19.7m
Adjusted profit before tax[2]	£17.4m	+42.4%	2021: £12.2m
Profit before tax	£12.8m	+69.6%	2021: £7.5m
Adjusted basic earnings per share[3]	8.02p	+31.5%	2021: 6.10p (restated)
Basic earnings per share	5.68p	+67.6%	2021: 3.39p (restated)
Dividend per share	2.0p	+5.8%	2021: 1.89p
Net (debt)/cash[5]	£(19.4)m		2021: £6.5m (restated)

Financial highlights

- Record performance, with Group revenues up 23.9% to £450.0 million (FY21: £363.3 million) and on track to reach £500.0 million revenue target by 2024.
- Adjusted EBITDA[1] up 34.4% to £30.0 million (FY21: £22.3 million), representing a margin of 6.7% (FY21: 6.1%) and on track to reach 7.5% medium-term target.
- Adjusted basic earnings per share[3] up 31.5% to 8.02 pence (FY21: 6.10 pence restated).
- Cash flow generated by operations of £26.8 million (FY21: £21.1 million restated), contributing to free cash flow[4] generation of £19.1 million (FY21: £19.9 million restated).
- Net debt[5] at 31 December 2022 of £19.4 million (31 December 2021: £6.5 million net cash), reflecting cash cost of acquisitions in the year and leaving headroom for value-added acquisitions.
- Total dividend for the year up 5.8% to 2.0 pence per share (FY21: 1.89 pence per share).

See footnotes on page 3.
All year on year percentage changes throughout the report are based on underlying, not rounded, figures.

Operational highlights

Lords Group Foundation donation

£200,000

2021: £200,000

Lords Group Foundation initiative communities

13

2021: 2

Carbon emissions per £1 million of turnover

13.1 tonnes CO_2e **-5.1%**

2021: 13.8

Operational highlights

- Merchanting division delivered record revenues up 69.2% to £220.8 million (FY21: £130.5 million), with strong like-for-like[6] growth of 17.4%.
- Merchanting performance reflects the Group's ambition to be the 'local leader' in its markets, delivered by empowered and highly engaged management teams, alongside successful implementation of the Group's growth strategy.
- Plumbing and Heating ('P&H') division revenues down 1.5% to £229.3 million (FY21: £232.8 million), 9.1% lower on a like-for-like[6] basis.
- P&H performance was resilient given industry-wide boiler component shortages, which eased throughout H2-22, and benefitted from management actions, including higher margin energy efficient product range, which improved divisional EBITDA margins to 6.0% (FY21: 4.4%).
- Continued to expand existing brands and grow the customer base, opening two new branches during FY22, as well as an Advance Roofing Supplies implant in the Group's Beaconsfield branch.
- Four completed acquisitions in the year, on a blended multiple of 4.8x adjusted EBITDA, supporting the Group's strategy of product range and geographic expansion.
- Acquisitions are EBITDA margin and earnings-accretive and all are performing in line with or ahead of expectations, following successful integration.
- ESG progress delivered in FY22 including the development of Lords' ESG strategy, recruitment of the Group's first ESG Manager and the successful launch of the Lords Group Foundation.

1. Adjusted EBITDA is EBITDA (defined as earnings before interest, tax, depreciation and amortisation but excluding exceptional items and share-based payments.
2. Adjusted Profit before tax is defined as profit before tax before exceptional items, share-based payments and amortisation of intangible assets.
3. Earnings attributable to shareholders of Lords Group Trading plc adjusted for exceptional items, share based payments and amortisation of intangible assets divided by the weighted average number of shares in the year.
4. Defined as cash generated by operating activities plus exceptional items less capital expenditure, taxation and interest paid.
5. Net debt is defined as borrowings less cash and cash equivalents.
6. Like-for-like sales is a measure of growth in sales, adjusted for new, divested and acquired locations such that the periods over which the sales are being compared are consistent.

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 41 locations in the UK.

Purpose

Our purpose is to be a key partner to our trade and retail customers, helping them to 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 by expanding our geographical footprint, diversifying our product range and increasing our digital sales. We enable this by investing organically in our 3Ps – people, plant and premises – and combine this with a proactive acquisition strategy, which differentiates us from many of our peers.

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

- ① Number of sites
- Plumbing and Heating
- Merchanting

Core brands
13

Sites
41

People
902

Our two divisions

We operate through **two complementary divisions.**

Merchanting

We supply building materials and DIY goods through our network of merchant businesses and online platforms. We operate in both the 'light side' (timber and building materials) and the 'heavy side' (civils and landscaping), through 25 locations in the UK.

Revenue

£220.8m +69.2%

2021: £130.5m

Adjusted EBITDA

£16.1m +34.3%

2021: £12.0m

Read more on pages 20 to 24

Plumbing and Heating

We are a specialist distributor of plumbing and heating products to a UK network of independent merchants, installers and the general public. We have an attractive multi-channel offering for customers and our 16 locations enable nationwide next-day delivery.

Revenue

£229.3m (1.5)%

2021: £232.8m

Adjusted EBITDA

£13.8m +34.5%

2021: £10.3m

Read more on pages 25 to 28

Our equity story

We are a leading, high-growth distributor of building materials in the UK. We believe the following factors make us a compelling proposition for investors.

Unique Customer First Proposition

Customer service excellence is the central pillar of our strategy.

Our highly engaged colleagues are fundamental to providing differentiated customer service.

Our specialist and highly recognisable brands give us local and regional leadership.

Our approach creates loyal, long-term customer relationships.

Successful Value-Creative M&A History

We have a track record of acquiring specialist merchants at 4-6x EBITDA.

We have made ten acquisitions in the last five years, delivering 20%+ return on investment.

Independent merchants (£2-100m turnover) hold 40% of the market and are prime for consolidation.

We are an attractive buyer for family businesses, offering good continuity and development.

Substantial Organic & Margin Accretive Growth

We open up markets and gain customers by rolling out new stores under existing brands.

Our accelerating digital capabilities create repeat customers.

We are increasing our share of customers' wallets by offering new products.

The growing penetration of decarbonisation products drives margin expansion.

Strong Financial Profile

We are on track to deliver our £500m revenue target by 2024.

Growth levers will enhance our EBITDA margin to 7.5% in the medium term.

Our business is highly cash generative, with an attractive working capital profile.

We have a policy of progressively growing our dividend.

Well Positioned In Substantial UK RMI Market

We have less than 1% share of highly fragmented markets, giving us real scope to grow.

45% of our revenue comes from the essential and resilient 'repair' sector.

We have a track record of high revenue growth, with a five-year compound annual growth rate of 50.7% vs market growth[1] of 1.4%.

1. Office for National Statistics 2017 to 2022, All R&M.

Management Track Record

We are recognised industry leaders.

Management is aligned with fellow shareholders via a significant majority shareholding.

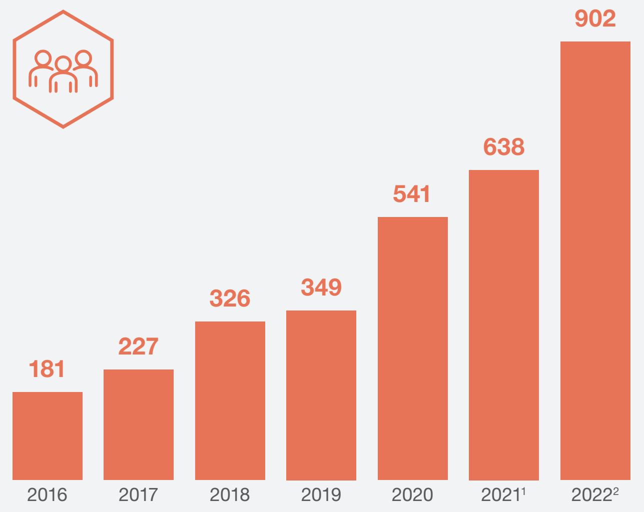
The Group has delivered growth through each of last three economic downturns experienced. CEO part of the Group through all three cycles.

Management team have in excess of 200 years' industry experience.

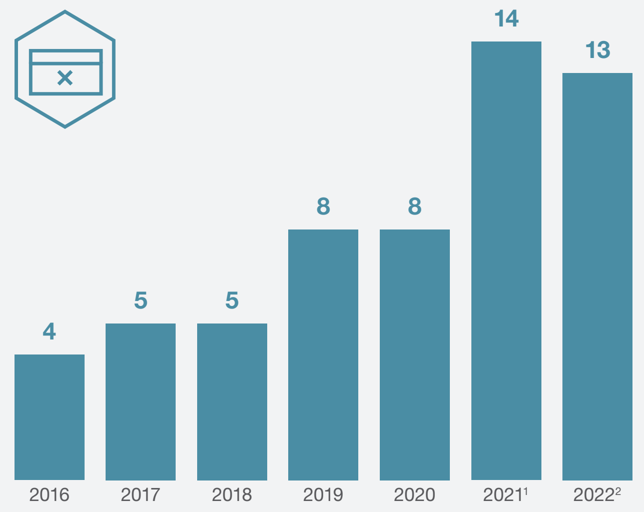
Our story so far

We have a long history of growing organically and through 13 successful acquisitions since 2016.

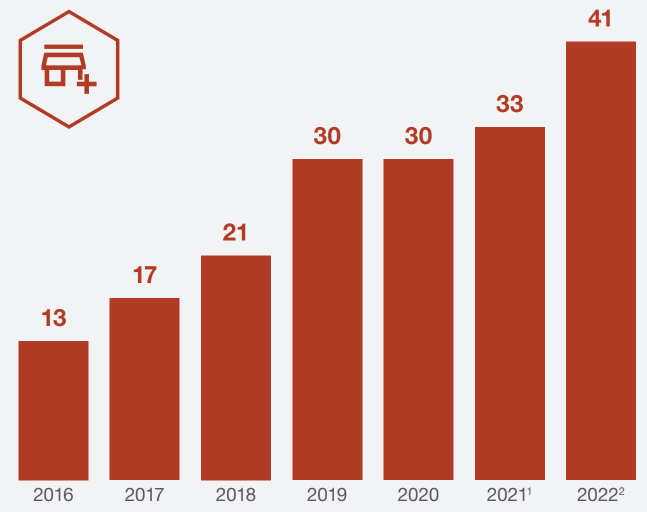
Colleagues



Brands



Sites



Key events since 2016

2016

Acquisition of George Lines (Merchants) Limited

2017

Acquisition of 75% of Hevey Building Supplies Limited

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

2018

Acquisition of Kings Langley Buildings Supplies Limited

2019

Acquisition of Huntingdon Timber Limited

Opened second George Lines branch

Acquisition of APP Wholesale Limited

2020

Established first Lords Plumbing and Heating branch

First HSS Implants opened in Lords branches

Lords Builders Merchants Kenton branch opened

2021

Acquisition of MAP Building & Civil Engineering Supplies Ltd

Acquisition of Condell Limited

Shares admitted to trading on AIM

Acquisition of Nu-Line Builders Merchants site

2022

Acquisition of Advance Roofing Supplies

Acquisition of A.W. Lumb

Opened third George Lines branch

Acquisition of Grafton Sudbury branch

Acquisition of HRP Trade/ Direct Heating

Purchase of remaining 25% of Hevey Building Supplies

LAH disposal

1. As at 31/12/21.

2. Stats are presented post LAH disposal completed in February 2023.

Chairman's statement

The Group has delivered a record performance, showing the success of our growth strategy and the strengths of our management team.

Gary O'Brien
Independent Non-Executive Chairman

I am pleased to report that the Group has delivered a record performance, showing the success of our growth strategy and the strengths of our management team.

Lords has continued to successfully navigate the difficult economic backdrop. Following Brexit and Covid-related challenges of recent years, 2022 saw the economy challenged by increasing inflationary pressures, rising interest rates and considerable political and geopolitical uncertainty. Through all this, the Group has grown its revenues, profits and margins. This is a credit to our management's strategic vision, the quality of its execution and its ability to take action to address the issues we have faced.

Performance

Our markets have remained resilient despite the challenging backdrop. Around 78% of our revenue comes from the repairs, maintenance and improvement (RMI) market, where the majority of the products we sell are essential purchases, rather than discretionary.

We have continued to expand our geographic footprint, broaden our product range and drive revenues in both divisions. This enabled Merchanting to deliver above-market like-for-like revenue growth of 17.4%. Plumbing and Heating ('P&H') saw like-for-like revenues fall by 9.1% given the industry-wide boiler component shortage, which meant we were unable to fulfil customer demand for these products. Despite this fall in like-for-like revenue it was pleasing that our actions, which included extending the product range into energy efficiency technology, ensured we were able to materially increase P&H's profits and margin in 2022.

The acquisitions in the year were an excellent strategic fit and have further enhanced our platform for organic growth in the coming years. All the acquired businesses have performed in line with or ahead of expectations and we are delighted to welcome our new colleagues to the Group.

Chairman's statement continued

Dividends

At IPO we adopted a progressive dividend policy and this is reflected in our payout for FY22. Having paid an interim dividend of 0.67 pence per share in October 2022, we have proposed a final dividend of 1.33 pence per share, to give a total for the year of 2.00 pence. This represents growth of 5.8% on the 1.89 pence paid in respect of 2021. The final dividend will be paid on 27 June 2023, to shareholders on the register at the close of business on 26 May 2023.

People and culture

Our 'unique selling point' has always been our people. Their enthusiasm and loyalty has been fundamental to our progress and making sure we continue to deliver the high levels of customer service on which this business is built. Our regular engagement surveys show that employee engagement remains strong, and this is testament to our people-oriented culture and the feeling that we are, at heart, a family business. It is important to us that we support our people wherever we can and in addition to the 2022 annual pay increase, we awarded a £500 payment to colleagues to reflect the cost of living crisis.

Dawn Moore, who has worked as a Non-Executive Director of the Group since 2020, has confirmed her intention to step-down as a director of the Company following the 2023 AGM to focus on expanding executive responsibilities. The Board would like to take this opportunity to thank Dawn and acknowledge her considerable contribution to the Board as well as her input and counsel in further strengthening the Group's culture. We wish her well in her future.

Environmental, social and governance (ESG)

Our approach to ESG issues has been a key focus for us this year. We have done considerable work to develop our ESG strategy during 2022, with the support of expert consultants. On the 'E' aspect of ESG, we have worked closely with H&B, our buying group, sharing our ESG workstreams to enable best practice across the membership. With more than 110 companies in the buying group, all will be able to benefit from the work we have done, improving their own ESG performance.

Responsibility for ESG ultimately rests with the Board and we have defined accountabilities all the way through the business. This has included recruiting our first ESG Manager, who is also responsible for our Lords Group Foundation. The Foundation aims to build stronger communities by supporting projects in the areas around our branches (see page 42 for more information).

As we further develop our ESG approach, we will be defining key performance indicators and targets to measure our progress. Our intention is to incorporate these into bonus schemes, to incentivise performance across the Group.

From a corporate governance perspective, we have continued to embed our structures and processes, and conducted our first evaluation of the Board and its committees. The outcomes were highly positive and more information can be found on page 59. To support our growth ambitions, we have considered the development plans for our executive directors. Since the end of the year, this has seen Chris Day take on operational responsibilities in Merchanting in addition to the CFO role, which over time will free up Shanker Patel to focus on strategy. More information can be found in my introduction to corporate governance on page 54.

Looking forward

During 2022, the Board conducted its annual review of the Group's strategy. We concluded that it remains appropriate and that continued successful execution will enable us to capture the significant growth opportunities we see in front of us.

We are mindful of the uncertain macroeconomic environment and the impact it could have on the sector in the short term. However, we have demonstrated our ability to grow the business through organic investment and acquisition, and we are therefore confident that we will fulfil our IPO objectives of becoming a £500 million revenue business by 2024 and generating an EBITDA margin of 7.5% in the medium term.

Gary O'Brien
Independent Non-Executive Chairman
2 May 2023

Chief Executive Officer's review

We had a successful year with all aspects of our strategy in 2022 and we are well placed to reach our revenue and margin targets.

Shanker Patel
Chief Executive Officer

This was an excellent year for the Group, as we continued to deliver on our IPO commitments and successfully grew the business in a tough trading environment. I am proud of our progress and want to thank our teams for their magnificent job in ensuring customers receive the standard of service they value so highly.

Performance

Our revenue reached a new high in FY22 at £450.0 million, an increase of 23.9% (FY21: £363.3 million). Like-for-like revenue rose modestly, reflecting Merchanting's very strong performance (+17.4%) and the impact of boiler component shortages in P&H (-9.1%), as the Chairman has explained in his statement on page 8. P&H was resilient in difficult circumstances and our actions to extend the product range (see below) and adjust our pricing structure helped it to deliver strong profit and margin growth. Our digital revenues continue to increase rapidly and were up 90.2% in Merchanting, meaning they now account for 2.5% of the division's revenue. Total ecommerce revenues were £2.6 million higher in FY22.

Adjusted EBITDA was £30.0 million, up 34.4% (FY21: £22.3 million), with the margin increasing by 60 basis points to 6.7% (FY21: 6.1%), despite substantial product and overhead cost inflation. We remain focused on further increasing our EBITDA margin towards our 7.5% target, through operational leverage, product range extensions, expanding our digital channels, optimising our site network and further accretive acquisitions.

Our cash flow was excellent, with adjusted cash generated by operating activities (cash generated by operating items plus exceptional items less taxation) of £24.1 million (FY21: £21.9 million adjusted), while free cash flow[1] was £19.1 million (FY21: £19.9 million adjusted). We convert a high percentage of our profit into cash, which allows us to continually reinvest in our 3Ps – people, plant and premises. Free cash flow[1] conversion (free cash flow/EBITDA) was 66.9% (FY21: 89.1% restated), reflecting the opportunity we have for disciplined capital investment in our 3Ps to deliver further growth. In FY22 the Group invested £3.5 million in capital investment including refurbishing our Beaconsfield branch and opening two new branches.

1. Free cash defined as cash generated by operating activities plus exceptional items less capital expenditure, taxation and interest paid.

Chief Executive Officer's review continued

The Group has a robust and prudent balance sheet, with year-end net debt of £19.4 million (31 December 2021: £6.5 million net cash), reflecting our acquisitions in the year. We have significant headroom in our £70.0 million of debt facilities, as well as £16.0 million of accessible cash at the year end, and we will continue to carefully manage our balance sheet in the coming year.

Strategy

Our strategy is to expand our geographical presence via new branches, broaden our product range and increase our digital capabilities. This is underpinned by our organic investment in our 3Ps and by our approach to acquisitions. We had a successful year on all fronts in 2022. In addition, we spent considerable time during the year formulating our new ESG strategy (see page 34), which will help us to further improve our operations and benefit stakeholders.

Expanding our geographical presence

We have opportunities to expand several of our brands by opening new locations in response to customer demand. During the year, we added a third location for George Lines and the tenth branch for Mr Central Heating, the first of 40 new sites we are planning for this brand in the next five years. Our acquisitions also gave us broader geographical coverage and we have opened a third branch for one of these brands, Advance Roofing Supplies, as an implant within our Beaconsfield site.

Broadening our product range

Expanding our product range helps us to capture a greater share of customers' wallets and enhance our service by giving them a greater choice. In P&H we extended its range during the year into higher-margin products that support decarbonisation, such as air source heat pumps and underfloor heating. We also benefited from our combined acquisition of HRP Trade and Direct Heating, which expanded our product offering further and gave us relationships with new suppliers.

In Merchanting, Advance Roofing Supplies has given us a significant roofing materials offer for the first time and is highly complementary with the rest of our product range. A.W. Lumb also extends our range to include specialisms in drylining and insulation for the new build market.

Investing in our digital capabilities

Digital plays an important part in our strategy, allowing us to acquire new customers and achieve higher margins across a broader range of products. We can also use the insights we gain, such as customer locations, to inform our brand expansion plans. In 2022, we benefited from investment in our in-house expertise in the prior year, which we are leveraging across the Group to advance our digital capabilities across multiple brands.

Our 3Ps – People, Plant and Premises

As the Chairman has discussed in his statement, our people are a key source of advantage for us. We work hard to ensure they are engaged, feel valued and are fairly rewarded for their efforts. This is reflected in our continued high engagement scores. Enabling people to grow within the business is important and we were particularly pleased to see a record number of internal promotions this year. We have also had many talented people join us through our acquisitions.

Plant includes technology to improve our efficiency and offer even better customer service, and we have continued to invest during the year, such as the warehouse management system we have rolled out in P&H. More generally, our plant is well invested and the average age of our delivery fleet is less than five years.

We continued to invest in our premises in FY22. In addition to the branches we opened (see above), we completed the rebuilding of our Beaconsfield branch, moved Advance Roofing Supplies' Aylesbury branch to our multi-brand facility (Lords Builders Merchants, George Lines, Advance Roofing) in Aylesbury and started to relocate the Glasgow branch of Mr Central Heating, to support its growth and improve the customer and colleague experience.

Enhancing our business through acquisitions

The businesses we acquired in 2022 are performing well and contributed £74.3 million to our FY22 revenues. We are an attractive buyer for independent businesses looking for a responsible custodian, and our colleague and customer-focused approach resonates strongly with vendors. We are also highly disciplined in allocating capital, paying a blended 4.8x EBITDA for our acquisitions in FY22.

Outlook

We enter 2023 in a strong financial position, which will enable us to continue to invest in our 3Ps, as we pursue organic and acquisition-led growth opportunities.

We are focused on the challenges to our business, notably the impact on the trading environment of reduced housing transactions, and the impact on household balance sheets from inflation, increased energy costs and rising interest rates. We are responding through our ongoing expansion into new geographical markets and product lines, and by implementing our ESG strategy, a key part of which is to enhance our energy efficiency.

As a relatively small player with a 1% share of a large market, we also have considerable scope to take share through further acquisitions that expand our geographical presence and product range. With around 40% of UK builders merchants still independently run, we have considerable scope for further consolidation. We therefore see good opportunities to continue our track record of growth.

Shanker Patel
Chief Executive Officer

2 May 2023

Market opportunity

We are strongly positioned for further growth, with a significant market share opportunity.

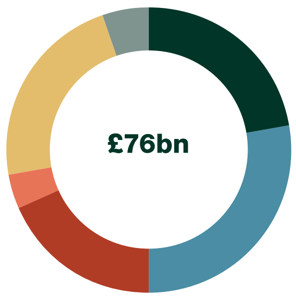
We operate in a large, **growing** and highly fragmented market, with important **defensive characteristics.**

The building materials market

The UK building materials market totals £76 billion. We operate in the general merchants, specialist merchants, direct-to-site via merchant and pure play online merchanting segments, so our addressable market is around £55 billion.

Long-term drivers of demand for building materials include the need for more homes to meet the UK's significant housing shortage, as well as investment in commercial properties. UK construction activity grew at an average of 2% per annum between 2018 and 2021 and is forecast to grow by an average of 0.25% between 2023 and 2024.

The building materials market[1]



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

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

Market opportunity continued

Lords holds 1% of £55 billion addressable market.

The repairs, maintenance and improvements (RMI) market

The RMI segment accounts for around 78% of our revenues. Housing transactions, employment rates and interest rates are short-term lead indicators for RMI spend. Longer term, the outlook for RMI remains favourable, with demand likely to be driven by:

- the age of the UK's housing stock, with only 37% of the UK's 27.8 million homes maintained to a satisfactory level;
- the need to create home workspaces, due to the increase in working from home post-pandemic;
- energy efficiency improvements, such as insulation, double glazing and low-carbon heating, to reduce energy costs and carbon emissions; and
- the continuing housing stock shortage and demand for new homes.

The UK merchanting market

The market is highly fragmented, with 2,300 merchants listed in the national directory. The national chains (Travis Perkins, Jewson, Wolseley) make up 37% of the market by turnover, with 40% attributable to independent merchants, which are often family run. We currently account for 1% of the market.

Private equity have entered the merchanting market at scale, consolidating multiple regional merchant brands over a 5+ year period. Lords customer-centric and localised approach has allowed market share growth to continue through this changing market dynamic.

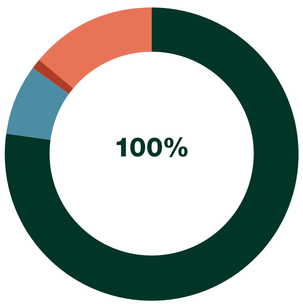
The national chains have found it difficult to increase their market share and some have divested business units. Few independent merchants are pursuing a buy-and-build strategy like ours, and we therefore believe we are very well placed to take further market share through consolidation, offering vendors a unique colleague and customer-first approach.

The plumbing and heating market

Our P&H division supplies the independent plumbers merchant network, competing alongside one other national competitor. We also sell directly to installers and homeowners, which is a more competitive market. Our digital presence and deep stock cover give us an advantage over some national competitors, who sell through more traditional channels.

Boilers account for around 77% of our P&H's revenues. Their natural replacement cycle means there is consistent demand, and we typically deliver around 0.22 million of the 1.2 million replacement boilers annually. We rely on a small number of boiler suppliers but we are a key route to market for them. Lower-carbon technology offers growth potential for us and we are well placed to benefit from potential legislative changes regarding the carbon efficiency of the UK's housing stock.

Lords Group turnover by demand segment[1]



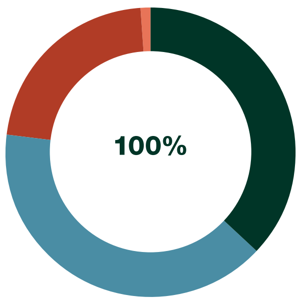
A Repairs, maintenance and improvements market turnover | 78%

B Infrastructure turnover | 7%

C Commercial turnover | 1%

D New house build turnover | 14%

Industry market share by turnover[2]



A Nationals | 37%

B Independents | 40%

C Private equity backed | 22%

D Lords Group Trading | 1%

1. Source: Management information.

2. Source: National Merchant Buying Society.

Business model

Our business model delivers outstanding service for customers through highly engaged colleagues, which creates value for all our stakeholders.

The inputs to our business model

Our business depends on the following resources:

People
At the year end, the Group employed 902 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 41 sites, supported by physical plant (including our delivery fleet) 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 acquisitions.

How we create value

Customer service

Lords 'customer-obsessed product specialists' focus on offering the best customer experience, as this builds long-term relationships and differentiates us from our competitors. We pride ourselves on flexibility and offer our customers access to thousands of different 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 in store or increasingly by mixing digital and offline channels in their purchasing journey.

The breadth of our customer base means we are not reliant on any particular customer for our revenue.

Colleague engagement score

4.5 out of 5.0

2021: 4.6 out of 5.0

Link to ESG

Social

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, frequently promote from within and focus on health and safety. As a result, our average length of service is 6.0 years.

Colleague average length of service

6.0 years

2021: 5.8 years

Link to ESG

Social

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, to serve a growing customer base.

We have invested heavily in our digital platforms, so we stand out from traditional merchants, and continue to enhance the digital experience. We now have seven transactional websites, developed and managed in-house.

Our investment in technology also drives our productivity and efficiency, as well as environmental performance, for example through solar panels on our sites.

Digital revenues reduced in 2022 due to the P&H industry-wide boiler availability issue that impacted revenue on mrcentralheating.co.uk

Digital revenues

4.6% or £20.7m

2021: 6.3% or £22.6m

Link to ESG

Environmental

Governance

Business model continued

We continue to integrate sustainability into all parts of our operations (see pages 33 to 42).

How we create value continued

Long-term supplier relationships

We build strong relationships with our suppliers, which help us to maintain continuity of supply for our customers and to source new products.

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

13.4 years

2021: 11.9 years

Link to ESG

Governance

Track record of successful acquisitions

Our track record of successful acquisitions with high returns on investment is a key strength. Vendors frequently approach us, as they see us as the ideal home for their businesses.

We look for acquisitions that expand our geographical footprint, our product range or our digital sales, and have a strong cultural fit. We then look to grow and improve them through investment and synergies with our other operations. We often acquire businesses with strong brands and we can also rebrand them under one of our existing businesses.

Number of acquisitions completed

4

2021: 3

Link to ESG

Governance

For the key challenges facing our business model, see the Outlook section of the Chief Executive Officer's review on page 11.

The value we create

Customer satisfaction score

4.7 out of 5.0

2021: 4.7 out of 5.0

Customers

Customers benefit from the best buying experience we can give them, which is reflected in our consistently high customer satisfaction score.

Timber FSC or PEFC certified

100%

2021: 100%

Suppliers

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

Employee engagement score

4.5 out of 5.0

2021: 4.6 out of 5.0

Colleagues

Our colleagues can 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.

Number of community initiatives

13

2021: 2

Communities

The communities around our locations benefit from our contribution to the local economy, through the jobs we provide and our sales to local tradespeople and companies, and through our donations to community projects through the Lords Group Foundation.

Annual donation to the Lords Group Foundation: £0.2 million

Dividend

2.00p

2021: 1.89p

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 while maintaining a prudent balance sheet.

Financial outcomes

ESG-led outcomes

Our strategy

We grow our business by expanding our geographical presence, broadening our product range and investing in our digital capabilities, underpinned by our investment in our '3Ps' – people, plant and premises.

Geographical expansion

We gain customers by opening new locations for our existing brands. We also acquire businesses that broaden our geographical reach.

Progress in 2022 – organic

- Opened new branches for George Lines (Horsham) and Mr Central Heating (West Bromwich).
- Added an Advance Roofing Supplies implant to our Beaconsfield branch.

Progress in 2022 – acquisitions

- Added eleven new locations through acquisitions, strengthening our positions in the South East, East and expanding into the North of England for the first time.

Priorities in 2023

- Continue to add new branches for Mr Central Heating, including opening the new Edinburgh branch, and utilise insights from our online analytics to support the choice of locations.
- Continue to add further locations for George Lines and implants for Advance Roofing Supplies.

Broadening our product range

We look to increase our share of the customer wallet, further improve service and enhance margins by offering new products. We also acquire businesses with products that complement our existing ranges and bring new supplier relationships.

Progress in 2022 – organic

- Focused on growing revenues from energy efficiency products in P&H (see case study on page 28).
- Launched Lords Bathrooms in two of our existing locations, leveraging P&H's capabilities in Merchanting.

Progress in 2022 – acquisitions

- Extended our product range and supplier base in:
  - merchanting through the acquisition of Advance Roofing Supplies, a specialist in roofing materials, and A.W. Lumb, a general merchant that also offers roofing, drylining and insulation; and
  - P&H through the acquisition of DH&P (trading as HRP Trade and Direct Heating), securing extended product range enabling customer cross-sell.

Priorities in 2023

- Continue to broaden our product range organically, including growing revenues of the Renewables range, and consider complementary acquisitions.

Investing in our digital capabilities

Our combined online and in-store service model drives deeper customer engagement and long-term trading relationships.

Progress in 2022 – organic

- Leveraged our strong in-house capabilities and the web development team in P&H, to enhance the online presence of our Merchanting brands.
- Developed a new website for the Lords brand, which was launched in February 2023.
- Optimised the Condell website ahead of a planned rebuild in 2023, growing revenue by 78.1% v FY21.

Priorities in 2023

- Rebuild the website for the Condell and George Lines brands and progress digital projects in P&H.
- Continue to leverage our in-house digital capabilities and collaborate across the Group.
- Enhance our understanding of the customer journey.
- Continue to invest in technology to enhance our internal accounting and controls environment.

Our strategy continued

Enabling growth through the '3Ps'

We drive organic growth by investing in people, plant and premises, to give customers the best experience when buying from us.

People

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

Progress in 2022

- Continued to achieve high employee satisfaction ratings in our quarterly surveys.
- Josh Guest (Lords Builders Merchants) awarded Young Merchant Achiever 2022 by the Builders Merchant Federation.
- Recruited our first Group Human Resources Director, who joined in February 2023.
- Reviewed our organisational structure and considered succession planning for senior roles.
- Maintained our focus on continuous improvement for health and safety, including creating a Group-level Safety Board and engaging specialist safety consultants.

Priorities in 2023

- Implement the people-related aspects of our new ESG strategy (see page 40), specifically by continually improving colleague morale and increasing diversity.
- Deliver continuous improvement in health and safety performance.

Plant

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

Progress in 2022

- Invested in technology, including rolling out the warehouse management system in P&H and starting a project to implement a new ERP system in that division.
- Further invested in energy efficiency and reducing carbon emissions, for example by continuing to replace diesel forklift trucks with electric vehicles.
- Progressed our fork lift fleet to 54% electric (19% in FY21).
- Record 76% of company car fleet is now electric.

Priorities in 2023

- Complete implementation of the P&H ERP system and the launch of PODFather electronic proof of delivery, for an improved customer experience.
- Continue to ensure our other plant is well invested.
- Integration of Hevey Building Supplies onto existing Lords Builders Merchants ERP system, enabling customer cross-sell and operational efficiency between brands.

Premises

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

Progress in 2022

- Opened new branches, as described under geographical expansion above.
- Completed the rebuild of our Beaconsfield branch.
- Co-located Advance Roofing Supplies' Aylesbury branch with our existing site nearby and started the relocation of the Mr Central Heating branch in Glasgow, to provide capacity to grow.

Priorities in 2023

- Complete relocation of Mr Central Heating in Glasgow.
- Continue to invest in existing premises to maximise use of space and further improve the customer experience.
- Commencement of a medium-term strategy to install solar panels onto suitable premises across our estate.

Key performance indicators

We use the following KPIs to measure progress with our strategy.

Financial KPIs

Revenue growth

2022	**£450.0m**
2021	£363.3m
2020	£287.6m

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
This was a record year overall, with revenue growth of 23.9%. Merchanting revenue rose 69.2%, due to strong like-for-like growth and acquisitions. P&H revenues were 1.5% lower due to boiler component shortages.

Adjusted EBITDA

2022	**£30.0m**
2021	£22.3m
2020	£15.9m

Definition
Earnings before interest, tax, depreciation and amortisation, excluding exceptional items and share-based payments.

Relevance to strategy
This is an important indicator of our profit generation, which is also directly linked to operating cash flow and our ability to invest in the business.

Performance in the year
Adjusted EBITDA was 34.4% higher, with good growth in Merchanting and a particularly strong performance in P&H, reflecting management action and increased sales of higher-margin products.

Adjusted EBITDA margin

2022	**6.7%**
2021	6.1%
2020	5.5%

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
The adjusted EBITDA margin increased by 60 basis points to 6.7%. This was driven by P&H and partially offset by a lower Merchanting margin as expected, primarily due to the customer mix and a lag in some cost inflation recovery.

Adjusted basic earnings per share (EPS)[1]

2022	**8.02p**
2021	6.10p
2020	3.36p

Definition
Earnings attributed to equity holders adjusted for exceptional items, share-based payments and amortisation of intangible assets divided by weighted average number of shares in the year. For further information, see note 16.

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
The strong growth in revenues and the higher adjusted EBITDA margin enabled us to increase adjusted EPS by 31.5% to 8.02 pence.

Free cash flow[1]

2022	**£19.1m**
2021	£19.9m
2020	£14.1m

Definition
Cash generated by operations plus exceptional items less capital expenditure, taxation and interest paid.

Relevance to strategy
Free cash flow provides a good measure of the cash we generate, which can subsequently be reinvested to grow the Group.

Performance in the year
Free cash flow was £19.1 million (2021: £19.9 million), with the modest reduction primarily reflecting our increased capital expenditure, including the refurbishment at Beaconsfield and new branches for George Lines and Mr Central Heating.

Return on capital employed (ROCE)[1]

2022	**22.8%**
2021	27.5%
2020	18.2%

Definition
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
We continued to generate a robust ROCE of 22.8% (2021: 27.5% restated). The performance in 2022 reflects the full-year impact of the increased equity base following the IPO in July 2021.

1. Prior year figures have been restated, see note 3.3.

Key performance indicators continued

Non-financial KPIs

Colleague engagement

2022	4.5 out of 5.0
2021	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 enabler of our organic growth strategy and fundamental to our ability to deliver excellent customer service.

Performance in the year
We achieved high levels of colleague engagement in 2022, although our score was modestly lower than the exceptionally high score in 2021, largely due to the impact on morale of the increased cost of living.

Customer satisfaction

2022	4.7 out of 5.0
2021	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
Our score of 4.7 shows that we continue to deliver high levels of customer service.

Lost time injury rate

2022	0.8
2021	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
The LTI increased slightly during the year, although this was primarily due to improved data collection rather than an increase in incidents. We remain rigorously focused on continuous improvement in health and safety. Enhanced reporting may cause the rate to rise further in the coming year.

Carbon emissions per £1.0 million turnover

2022	13.1 tonnes CO_2e
2021	13.8 tonnes CO_2e

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 this area and cutting emissions can also reduce energy costs.

Performance in the year
The reduction reflects our continued focus on environmental initiatives as part of our ESG strategy. Improved efficiency has been achieved in both the fleet and the energy consumption of our sites.

Tim, Warehouse Manager, Mr Central Heating

Operational review

Merchanting

Through our customer focus, exceptional service, superior product knowledge and highly engaged management teams, we aim to be local leaders across our locations.

Revenue	Adjusted EBITDA margin
£220.8m	**7.3%**
2021: £130.5m	2021: 9.2%

Adjusted EBITDA	Branches
£16.1m	**25**
2021: £12.0m	As at 1 January 2023

Mitch, Branch Manager; Darrell, HGV Driver; Joel, Assistant Branch Manager; Paul, Yard Manager; Sean, Assistant Yard Manager, George Lines - Aylesbury

Operational review

Merchanting continued

Financial performance

The division had another year of strong growth. Revenue increased by 69.2% to £220.8 million in 2022 (2021: £130.5 million), with like-for-like growth of 17.4%.

The significant revenue growth reflects our increased market share and three value-added acquisitions during the year. We have continued to grow our share of the customer wallet by broadening our product range, entered new local markets through both organic investment and our acquisitions, and secured new customers through our relentless focus on customer service and our teams' product knowledge. In addition, we benefited from our careful timing of stock purchases, which enabled us to fulfil customer orders when local competitors lacked availability.

Adjusted EBITDA grew by 34.3% to £16.1 million (2021: £12.0 million), representing an adjusted EBITDA margin of 7.3% (2021: 9.2%). This was in line with our expectations and reflected the customer mix and management discretion in not immediately recovering cost inflation for certain customer segments.

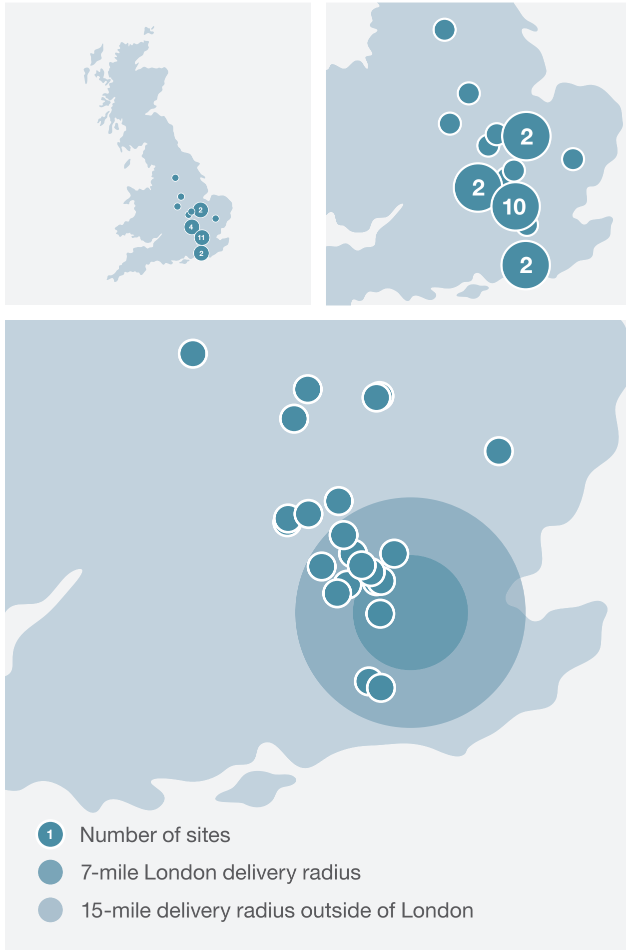
Driving operational performance

During 2022, we continued to enhance our operations, with the aim of further improving our customer service and our efficiency. For example, the electronic proof of delivery system we have introduced includes a tracking service that provides live updates to customers on their delivery, including a text message 15 minutes before the delivery arrives. We are also in the process of implementing scheduling software which will enable us to maximise the efficient use of our lorry fleet, helping to reduce costs and the associated carbon emissions. In addition, we have trialled a 15-minute 'click and collect' service at one branch, which enables customers to place orders using a dedicated WhatsApp number. We will be reviewing the scope for rolling this out to other branches in 2023.

Given the rapid growth in the division in recent years, we created an operating board for Merchanting in Q1 2022, with managing directors for each of the brands. This has allowed our divisional managing director to focus on driving performance, while ensuring our branch teams have additional management support and oversight. Since the end of the year, we have recruited an Operations Director with significant industry knowledge, to further enhance our operational performance.

We continued to broaden our product range during the year. Having added plumbing supplies to a number of our larger locations in 2021, we extended the offer in 2022 by launching Lords Bathroom Showrooms, which leverages the capabilities of P&H. We now have two Lords Bathroom Showrooms, including a flagship implant at our Beaconsfield branch, which opened in November and has shown promising early performance. We also opened a Condell implant in our Lords branch in Kings Langley, supporting growth in sales of products such as Velux windows.

Growing our online revenues is an important part of our strategy. During 2022, we started to leverage the specialist resource in the P&H division, notably its web development team, to improve the web presence for our Merchanting brands. This enabled us to launch a new website for the Lords brand shortly after the year end and we will rebuild the Condell website during 2023.



Operational review

Merchanting continued

Our sales growth of 69.2% reflects our market share opportunity through new locations, new customers and a greater share of customer wallets.

Extending our product range and geographical reach through value-adding acquisitions

During the year, we completed three margin-accretive acquisitions. These are now fully integrated with our existing businesses and to date have delivered ahead of our expectations.

In January 2022, we purchased Advance Roofing Supplies Limited, which sells pitched and flat roofing products to customers locally and nationally. This product range is highly complementary to our general merchanting offer. We have focused on driving service delivery and we are now developing the business's web presence. For more information, see the case study on page 23.

In March 2022, we acquired the business and assets of A.W. Lumb, a leading independent builders merchant operating from Dewsbury and Tamworth. The business has a general merchanting service and 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.

We also completed the acquisition of the Sudbury branch from Grafton Merchanting GB Limited. The business is a general merchant and has enabled us to extend the geographical presence of our Hevey Building Supplies brand.

Disposal of Lords at Home

After the year end, we announced the sale of Lords at Home, our homewares retailer, for £0.8 million. The business was non-core and the disposal reflects our capital discipline and our focus on our core areas of building, plumbing, heating and DIY goods.

Adam, Internal Sales Assistant
Hevey Building Supplies, Kettering

Operational review
Merchanting continued

Advance Roofing Supplies:

Strengthening our customer offer

Link to strategy:

- Geographical expansion
- Broadening our product range

In January 2022 we acquired Advance Roofing Supplies, which specialises in pitched and flat roofing sales to customers locally and nationally. The business had revenue of around £7 million and £0.6 million of EBITDA.

Bringing Advance Roofing into the Merchanting division has two strategic benefits. First, it expands our customer base, particularly in the South East of England, through its Aylesbury and Tring locations. Second, it broadens our product range and gives us a credible roofing offer for our general builder customers, increasing our share of the customer wallet.

Since acquisition, we have begun to deliver the synergies with our existing business. We are upskilling people across our branches, using the Advance Roofing team's expertise, while that team supports our branches with quotation and supply for more complex customer enquiries. Advance Roofing also gives us preferential access to suppliers who traditionally would not supply a general merchant.

In addition, we are taking advantage of synergies around locations. Advance Roofing's Aylesbury site was already at capacity, so we have relocated it to our large existing site in the town, to give it space for growth. We have also opened an implant in our Beaconsfield branch and we are now considering where else across the division would be suitable for an Advance Roofing implant.

Operational review
Merchanting continued

Paul, Yard Manager, George Lines - Aylesbury

George Lines:

Capturing the organic growth opportunity

Link to strategy:

- Geographical expansion

George Lines is our specialist civils and landscaping merchant, offering building materials, paving and kerbs, landscaping products, drainage and ducting.

When we acquired the business in 2016, it had only one branch at Colnbrook, near Heathrow, giving us significant scope for growth. Expanding this business organically is particularly attractive for us, as it has low fit-out costs compared with a general merchant and strong returns on investment. We opened a second George Lines site in Aylesbury in 2018 and our third, in Horsham, West Sussex, in 2022. We had identified Horsham as a strong market, which we were already servicing from our existing depots and where our market intelligence showed a favourable level of competition.

The new branch has made an excellent start, with a profit from its very first month. This is testament to the strong local team we recruited, who know their customers and their market. Our plan now is to grow George Lines to eight to ten locations nationwide in the medium term, to reach an even larger pool of customers.

Operational review

Plumbing and Heating

P&H offers its customers specialist product knowledge, outstanding service and an attractive in-store and online proposition.

Revenue

£229.3m

2021: £232.8m

Adjusted EBITDA margin

6.0%

2021: 4.4%

Adjusted EBITDA

£13.8m

2021: £10.3m

Branches

16

As at 1 January 2023

Operational review

Plumbing and Heating continued

Financial performance

P&H delivered a resilient performance in 2022. While customer demand remained strong, the shortage of boiler components affected revenues, particularly in the first half of the year. However, our actions to mitigate the top-line impact (see below) supported strong growth in profitability.

Revenue for 2022 was £229.3 million, down 1.5% (2021: £232.8 million). On a like-for-like1 basis, revenue was 9.1% lower.

Adjusted EBITDA grew by 34.5% to £13.8 million (2021: £10.3 million), representing an adjusted EBITDA margin of 6.0% (2021: 4.4%), up 1.6 percentage points.

Driving operational performance

Responding to the shortage of boilers was a key challenge for P&H during 2022, with these products generating 77% of the division's revenues in 2022. As the natural replacement cycle for boilers results in consistent demand year to year, we focused on looking after our customers by ensuring they received a fair allocation of the available boilers, while also adjusting pricing to reflect the lower availability.

Our sales teams also responded by looking to grow our revenues in higher-margin lines, notably energy efficiency products that support decarbonisation (see case study on page 28). The acquisition of DH&P on 31 March 2022 (see right) also gave us relationships with a broader range of suppliers, allowing us to distribute additional brands such as Honeywell.

The availability of boilers improved during the second half, with manufacturers dual-sourcing components to improve their resilience. Selling prices for boilers normalised as volumes increased.

As discussed in the case study on page 27, we opened a tenth branch for Mr Central Heating during the year. We also began the relocation of our Glasgow branch and the new, larger premises will enable more efficient stock handling and a wider product range.

We have invested significantly in our systems and processes and this continued in 2022. During the year, we rolled out our new warehouse management system (WMS) to the majority of our warehouses, with the remaining sites completed during Q1 2023. The WMS is streamlining our stock management processes and driving efficiencies.

In addition, we have begun a project to integrate our ERP system with bolt-on technologies, to improve our customer proposition. The new system will fully integrate with our electronic point of sale and online platforms, increasing efficiency. It will also enhance customer service, for example by enabling us to display real-time stock levels online, and will give us the opportunity for merchant customers to key orders directly into our system. Once the ERP system is integrated, we intend to implement the PODFather electronic proof of delivery platform. This will automatically update customers on order progress and delivery slots, and allow them to sign for deliveries on a device. PODFather also includes route optimisation and scheduling, which will improve our efficiency and reduce carbon emissions.

We continue to enhance our digital proposition, for example by improving the targeting of online advertising and optimising our websites, to make it easier to attract potential customers through search engines.

Extending our geographical presence through DH&P

On 31 March 2022, we acquired DH&P Trade Counters Holdings Limited and DH&P HRP Holdings Limited (together DH&P), for total consideration of £9.3 million. The businesses trade as HRP Trade and Direct Heating respectively.

Direct Heating is a leading plumbing and heating merchant, with branches in Ipswich, Chelmsford, Southend, Benfleet and Colchester. It further extends our plumbing and heating branch network, adding to the ten branches under the Mr Central Heating brand. HRP Trade is a national distributor of plumbing and heating spares, servicing 400 customers, and has strong alignment to our APP Wholesale business.

Since acquisition, the businesses have traded well and we are focusing on upskilling and empowering the branch managers. We have also benefited from highly experienced new colleagues joining the Group, with DH&P's minority owner joining P&H's leadership team as Sales Director.

Operational review
Plumbing and Heating continued

Mr Central Heating:

Growing our network

Link to strategy:

- Geographical expansion
- Growing our digital revenues
- Product range extension

Mr Central Heating sells boilers, radiators and plumbing supplies to installers and directly to the public. At the start of the year, it had nine locations, including seven co-located with our APP wholesale business.

The business has strong growth prospects and our plan is to have 50 locations nationwide in the medium term. As part of this, we opened our tenth location in West Bromwich in Q3 2022, with the eleventh scheduled to open in Edinburgh in Q3 2023. We have modelled a network of locations for future branches and used our ecommerce data to inform this work. In the case of West Bromwich, we saw a concentration of online orders and deliveries to the area, demonstrating demand was there. We benefit here from Mr Central Heating having a substantial online presence that generates around 25% of its revenues, one of the highest proportions in the industry.

The economics of growing the business are compelling, with margins above the Group average. The costs to fit out a trade counter are low compared to a retail outlet, resulting in high returns on investment, and the cash-only nature of the business limits the working capital requirement. The West Bromwich branch has started well and we look forward to delivering further growth in the coming years.

Operational review

Plumbing and Heating continued

The Renewables Range:

Growing in a key product category

Link to strategy:

- Broadening our product range

High energy prices and the need to decarbonise to tackle climate change are accelerating customer demand for energy efficient technology, such as air source heat pumps, underfloor heating, electric boilers and 'smart home' automation systems.

We believe we are uniquely positioned to meet this demand. We can reach a wide range of customers, through our distribution, merchanting and direct-to-consumer channels, and deliver to them through our existing infrastructure. At the same time, suppliers recognise our track record of offering new products to the market and we secured new supply agreements during 2022 to support our efforts.

This is a highly attractive market for us, with accretive margins and rapid growth. In 2022, our like-for-like revenue was up 48.9% across all categories, and we see excellent prospects in the years ahead.

Air source heat pumps +267%	**Underfloor heating** +185%
Smart home +44%	**Electric boilers** +34%

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 and truthful 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 branches regularly.
- We hold regular business development meetings with customers.
- We run frequent surveys of customer satisfaction.
- We offer advice on products and energy efficiency.

How the Board is kept informed

- Customer KPIs are reported in management and Board packs.

Engagement outcomes

- Maintained a strong customer satisfaction score of 4.7 out of 5.0.
- Rapid growth in customer uptake of new products in our Renewables range.

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 40.
- 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

- Maintained a high colleague engagement score of 4.5 out of 5.0.
- Supported colleagues through a £500 cost of living payment.

Suppliers

We rely on our suppliers for the products we sell. We therefore need to maintain strong relationships with suppliers and manufacturers worldwide, who meet our high standards.

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.
- Our divisional teams build strong day-to-day relationships with their suppliers.

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

- Strong supplier relationships, with average length of relationship of 13.4 years for the top 20 suppliers.
- Continued expansion of our product range, through suppliers who recognise our track record of taking new products to market.

Engaging our stakeholders continued

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 for local workforce.
- Environmental impact.
- Fair tax.
- Volunteering in local community initiatives.
- Supporting local community events.
- Sponsoring local community sports teams.

How we engage

- We invite community groups to apply to the Lords Group Foundation for funding for their projects (see page 42).
- Our branches are embedded in their local communities, for example Lords Ladbroke Grove branch created planter covers for Thomas Jones Primary School playground to protect the planted seeds from foxes and to support children to learn about gardening.

How the Board is kept informed

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

Engagement outcomes

- Formally launched the Lords Group Foundation during 2022 and have begun to provide grants to local organisations.
- During 2022, the Foundation identified and made donations to 13 initiatives in our local communities.

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.
- Governance, Board and management.
- Sustainability and responsible business.
- Management pay and incentives.
- Dividend policy.

How we engage

- One-to-one and group meetings, and results presentations, including retail investor engagement on the Investor Meet Company platform.
- Annual General Meeting.
- Publication of news flow, 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

- Engaged with shareholders to understand their ESG concerns and to communicate our progress in addressing these issues through our ESG strategy (see page 34).

Fred, Counter Sales, Lords Builders Merchants - Sutton

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 29 and 30.

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. These included approving the four acquisitions made in 2022, the purchase of the minority interest in Hevey Building Supplies, the final dividend for 2021 and the interim dividend for 2022.
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 appoint a Group Human Resources Director. The Group's employees are vital to its success. Key examples of the directors considering colleagues' interests in the year include their considerable focus on health and safety, the appointment of a Group HR Director and the £500 award to reflect the cost of living and employees' interests and commitment.
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 P&H where we are a key route to market for a relatively small number of boiler manufacturers. Strong relationships with suppliers enabled us to continue to expand our product range during the year.
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. In 2022, we developed our new ESG strategy (see page 34) and formally launched the Lords Group Foundation, to support community projects around our locations.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	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 33-42% of the Company's shares. At the time of the IPO, he therefore entered into a relationship agreement (see page 70), so the Company can carry on its business at arm's length. The independent directors form a majority on the Board, ensuring the interests of all shareholders are fully considered in decisions.

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 2022.

Key Board decision: acquisition approval

In April 2022, we announced the acquisition of DH&P Trade Counters Holdings Limited and DH&P HRP Holdings Limited (together DH&P). The businesses trade as HRP Trade and Direct Heating respectively.

Long-term implications of the decision

The long-term implications of the acquisition should be beneficial for Lords Group. DH&P is a strong fit with our strategy, since it extends our geographical presence by adding five branches in the East of England and further extends our product range, as noted above. It also services around 400 customers through the distribution business, giving it strong alignment to our APP Wholesale business and offering opportunities to cross-sell into this expanded customer base.

More information on DH&P can be found on page 26.

In approving the acquisition, the Board took account of the following potential impacts on stakeholders:

Customers

A core element of our growth strategy is to broaden our product range over time. This improves service for customers, by offering greater choice under one roof, and enables us to capture a greater share of the customer wallet. HRP Trade distributes heating spares and controls, making it highly complementary to our existing customer offer in P&H.

Colleagues

The transaction was beneficial for DH&P's employees, all of whom transferred to the Group on completion of the acquisition. This has made the financial and non-financial benefits of being a Lords Group employee available to them, as well as opening up opportunities for career progression. Two former members of the DH&P team are now in the roles of Sales Director and Financial Controller within our P&H division.

Suppliers

The acquisition has given us relationships with a wider range of suppliers. They stand to benefit as we look to grow the acquired businesses, giving them scope to increase their sales to us.

Shareholders

The purchase was on attractive terms, making it accretive for shareholders, and DH&P has traded well and in line with our expectations under our ownership.

Sustainability

Sustainability is an important **focus** for us and increasingly for our **stakeholders**

Environmental

Read more on pages 38 to 39

Social

Read more on pages 40 to 42

Governance

Read more on pages 52 to 71

Sustainability Strategy

Sustainability is an important focus for us and our stakeholders. One of our key workstreams this year was the development of our ESG strategy, to give us an effective framework for driving our ESG performance.

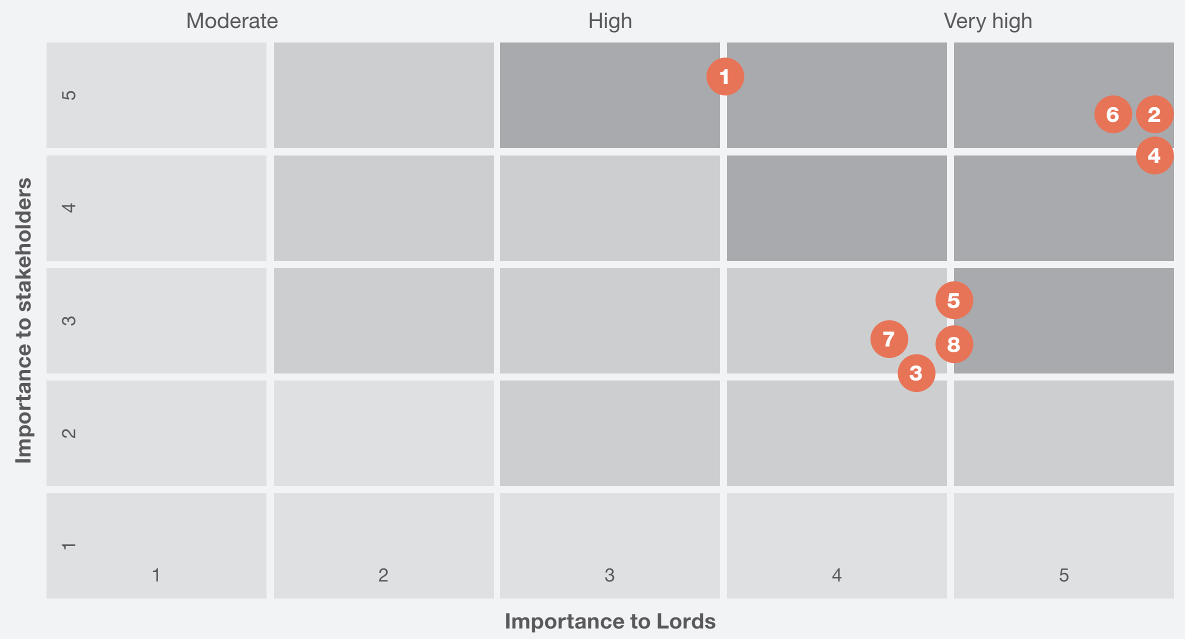
Developing our ESG strategy

We are a member of the H&B Buying Group. In February 2022, it appointed Mazars to work with us and three other members to develop individual ESG strategies, with a view to creating a blueprint that other members can apply to their businesses, in addition to sharing feedback and lessons learned.

Our strategy development with Mazars has followed a five-stage process:

- **materiality assessment:** understanding our ESG risks and opportunities and our impact on the planet, people and society;
- **business model and strategy:** how we need to adapt our business model and strategy to become sustainable;
- **governance and organisation:** the role of governance in delivering the strategy and how our organisation needs to evolve;
- **implementation:** the policies, action plans, targets and resources needed to implement the strategy; and
- **performance measurement:** how to set targets and track our progress against them.

Materiality matrix



Key

1 Waste and packaging
2 Energy
3 Productivity and efficiency
4 Green product strategy
5 Supply chain
6 Colleague morale
7 Diversity
8 Community

Sustainability Strategy continued

Developing our ESG strategy continued

As a starting point, Mazars conducted an ESG health check on our business. This showed that we were already operating above the legal and social requirements, and identified opportunities for value creation that we have woven into our final strategy.

Assessing our material issues

We held several materiality workshops with senior stakeholders across the Group, to identify the material ESG risks and opportunities for each business. We then consulted with key stakeholders (customers, colleagues and suppliers) on these materiality areas through a series of questionnaires. The findings of these two stages were overlaid to create a materiality matrix, shown opposite.

Our ESG strategy

Following further internal workshops, we developed the materiality matrix into an overarching ESG strategy for the Group, under the three key pillars:

- Environmental – towards net zero;
- Social – making Lords the best place to work and at the heart of our communities; and
- Governance – ensuring ESG is central to our wider business strategy.

Within these three areas are individual strategies for eight material topics, as shown in the table on page 36.

The ESG strategy itself will run on a five-year cycle, in line with our business plan. Where relevant, we will link KPIs to the bonus scheme, to incentivise performance.

Governance and organisation

The governance structure for ESG mirrors our risk management structure. In summary:

- the Board has overall responsibility for ESG, validating our strategy and overseeing its execution;
- the ESG committee is responsible for developing the strategy, setting KPIs and reporting to the Board on progress;
- the Executive Board sets ESG priorities for our divisions and functions, reviews progress against them and escalates compliance issues to the ESG committee when necessary;
- our Group ESG Manager assists with implementing ESG initiatives and measuring KPIs; and
- delivery of ESG projects and initiatives is devolved to our divisional leads.

Sustainability Strategy continued

Environmental – towards net zero

Climate change mitigation and adaptation, sustainable water use and protection, transition to a circular economy, pollution prevention, biodiversity and eco systems.

Read more on pages 38 to 39

	01 Waste and packaging	02 Energy	03 Productivity and efficiency	04 Green product strategy	05 Supply chain
Strategy	Reduce the volume of waste created and improve recycling rates.	Reduce Scope 1 and 2 energy use and increase our capacity for renewable energy generation across the Group.	Improve productivity and reduce inefficiencies, in terms of absenteeism, stock and transport.	Develop an energy-saving product range, where relevant, across the Group.	Work with our suppliers and partners within the industry to ensure that the negative environmental and social impact of our supply chain is continually monitored and incrementally reduced.
Example projects for 2023	We are auditing waste and recycling rates across the Group and will be working with our supply chain to reduce unnecessary packaging. We are also developing a robust waste management policy.	In 2023 we are working with Mazars to develop a Route to Net Zero plan and Environmental Policy framework.	We are using telematics to monitor driver efficiency and reduce fuel usage.	In 2023 we are expanding our range of air source heat pumps and energy efficient products in P&H.	We have appointed Mazars to work with us to further enhance our approach to modern slavery. We are working collaboratively with the BMF and H&B on an industry-wide project to address how we audit the supplier network.

Sustainability Strategy continued

Social – making Lords the best place to work

Health and safety, labour rights, community indicators, stakeholder engagement, diversity and inclusion.

Read more on pages 40 to 42

	06 Colleague morale	07 Diversity	08 Community
Strategy	Seek to continually improve colleague morale by making the Group a desirable place to work.	To make Lords a place where everyone can fit in and enjoy working.	Support our local communities through the Lords Group Foundation.
Example projects for 2023	Our colleagues are key to our customer-first proposition. We have appointed a Group HR Director who will support programmes across engagement, training and development.	We will set up a consultation across the business, to assess the barriers and opportunities to improve diversity in our branches, to ensure they reflect the communities we serve.	We are committed to donating £200,000 per annum to the Lords Group Foundation. In 2023 we want to expand our impact by reaching more local projects that strive to build stronger communities.

Sustainability

Environment

We have continued to implement initiatives to address our environmental impacts, in particular by reducing our energy consumption and the associated carbon emissions. This section of the report includes the required disclosures under Streamlined Energy and Carbon Reporting (SECR).

Our vehicle fleet contributes 87% of our Scope 1 carbon emissions and we continue to look at ways to increase its energy efficiency. For example, the automated scheduling software we will be introducing in Merchanting will help us to maximise the use of every delivery lorry journey. We intend to implement similar functionality in P&H (see below).

In P&H, all our forklift trucks are electric and our programme in Merchanting to convert our diesel forklifts to electric vehicles is ongoing, as they come up for renewal. At the year end, 54% of the Group's forklift fleet was electric, up 35% over the year. Our company car policy also encourages us to replace the car fleet with hybrid or fully electric cars as they come up for renewal, and 76% are now hybrid or fully electric.

P&H has launched a 'Go Paperless' project across its business. The first step was implementing the new warehouse management system, which completed in Q1 of 2023. Upgrading the division's core ERP system will then enable the business to launch a driver delivery app, PODFather. This will complete the Go Paperless project by providing electronic proof of delivery and further reducing carbon usage, as it optimises routes and scheduling and tracks the movement of vehicles. See page 26 for more information.

To address the indirect impact of P&H's products when they are in use, we are looking at offering our customers low-carbon alternatives. The rapid growth of our Renewables range (see the case study on page 28) will help customers to improve their environmental performance and contribute to the UK's decarbonisation goals.

As we invest in our premises, we look for opportunities to improve energy efficiency and to generate renewable electricity. For example, this includes installing solar panels and electric charging points when refurbishing branches.

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 plant 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

Three of our subsidiaries meet the criteria for reporting under SECR – APP Wholesale Limited, Carboclass Limited, A.W. Lumb and Hevey Building Supplies Limited – and the analysis is therefore based on their emissions.

We have used miles driven to establish our baseline energy consumption and the CO_2 emissions of our 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.

Lee, Warehouse Manager; Reina, Branch Manager, Lords Builders Merchants - Beaconsfield

Sustainability

Environment continued

	2022		2021		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	**20,711,856**	**5,015**	17,812,079	4,219	16%	19%
Gas	**372,928**	**68**	546,497	100	(32%)	(32%)
Scope 2						
Electricity	**1,582,709**	**306**	1,837,041	409	(14%)	(25%)
Scope 3						
Business travel in employee-owned vehicles	**181,536**	**44**	158,963	39	14%	13%
Total	**22,849,029**	**5,433**	20,354,580	4,767	12%	14%
Intensity ratios						
Tonnes CO_2e per employee		**7.1**		8.5		(16%)
Tonnes CO_2e per £million of turnover		**13.1**		13.8		(5%)

Our absolute energy consumption and carbon emissions increased in 2022, reflecting the rapid growth in the business, both organically and through the acquisitions in the year.

However, we continued to see the benefits of our actions to increase energy efficiency and reduce emissions, with emissions per employee reducing by 16% and emissions per £1 million of turnover declining by 5%.

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.

We are currently working on strengthening our waste management policy, with a view to decreasing waste overall and increasing recycling rates. Waste audits have been carried out and we are working with our waste management providers to monitor outputs across the Group. We are intending to work proactively with our supply chain to reduce unnecessary packaging where possible.

Responsible sourcing

Ensuring we responsibly source products is important to us and all of our timber is FSC or PEFC certified.

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.

Sustainability

Social

As a fast-growing business, we welcome many new colleagues to the Group each year. In 2022, the total number of colleagues increased from 725 at the start of the year to 902 by the year end. Of these, 146 joined us through our acquisitions and there was a net increase of 31 through recruitment, as we continue to scale the business.

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. During the year, we recruited our first Group Human Resources Director, who joined us in February 2023, with a remit to further enhance the way we manage and engage our people.

Engaging our people

We run a programme of regular engagement surveys. All colleagues are offered the chance to take part and we continue to encourage an increased response rate. The surveys give us insight into how our people are feeling and identifies where we are doing well and any issues to address. The surveys select five questions each time from the 14 provided by the Gallup employee engagement survey model, as well as one or two questions specific to the Group.

The surveys have continued to show excellent levels of engagement, with a score of 4.5 out of 5 in the most recent survey. This is modestly lower than the 4.6 out of 5 at the end of last year, which largely reflects the impact on morale of the broader economic environment and cost of living pressures. During the year, we gave colleagues a £500 payment to support them with the cost of living. Other issues we identified through the surveys included some colleagues not being aware of the mental health support available to them, requiring an increase in communication on this topic. We have also refreshed some branch facilities such as restrooms and breakout areas, in response to feedback.

Developing talent

Enabling our people to develop their careers within the Group helps us to retain talent and supports our growth strategy. We have already had notable successes, with all of our divisional managing directors having been internally promoted. Assisting our people's careers through training, apprenticeships and succession planning will be an important focus for us over the next few years. Josh Guest (Lords Builders Merchants) was awarded Young Merchant Achiever 2022 by the Builders Merchant Federation.

Josh Guest, Winner of the
2022 BMF Young Merchant Achievers

John, Yard Mill Supervisor,
Hevey Building Supplies - Kettering

Sustainability

Social 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	3	23
Other employees	154	717
	158	**744**

Approximately 18% of our workforce is female. This low level of representation is standard in the industry and we continue to look to recruit more women into roles at all levels across the Group.

Ethnic diversity is also an essential consideration for us. At the year end, 76% of our workforce identified as white and 24% 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.

Our people policies

We have a full suite of 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.

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. We have an in-house programme called 'Safety – Take the Lead', which is designed to ensure our colleagues and customers return home safely every day. We also operate a single health and safety management system across the Group, called Safety Cloud. The system contains all of our certifications, licences, training and reporting.

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 the Board.

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.

Our health and safety initiatives in 2022

During 2022, we established a Safety Board, to lead on safety across the Group, ensure we adopt a consistent approach and share best practices. The Safety Board meets each month and its members are the Chief Financial Officer, our divisional and regional managing directors and representatives from our specialist safety consultancy.

We brought new safety consultants on board in 2022, as part of our approach to continuous improvement. Inspire Safety will assist us by delivering training, conducting our branch safety audits, and enhancing our risk assessments and safe ways of working, by tailoring them to each site. This will help us to further embed our strong health and safety culture and ensure appropriate behaviours, while promoting ongoing improvement by continuing to raise the bar for our safety audits.

All branch managers have been through our safety leadership training and our intention is to put our assistant managers and supervisors through the course in 2023. This helps to reinforce health and safety culture across our colleagues. As a result of these initiatives, we have seen an improvement in lost time injury reporting across the Group, allowing lessons to be applied and shared across the Group to reduce frequency rates in the future.

P&H implemented several health and safety initiatives during the year, as part of aligning its approach with Merchanting. This included introducing 'golden safety rules', which cover everyday safety situations; introducing a customised manual handling course; installing defibrillators at all sites; and implementing driver telematics to reduce the risk of road accidents, which also contributed to a reduction in the division's fleet insurance costs.

Health and safety performance

Our key performance indicator for health and safety is the lost time injury frequency rate, with the Group recording a lost time injury rate of 0.8 (2021: 0.5). While this is slightly higher than in 2021, this reflects enhancements we have made to our reporting system and the number of incidents we are therefore capturing. We have also enhanced our investigation process for safety incidents, ensuring we communicate the findings and lessons learned across the Group through our safety bulletins.

We closely monitor the outcomes of our bi-annual safety audits, with the results forming part of the bonus calculation for all colleagues. All sites in Merchanting and P&H scored over the 90% target on these audits.

Sustainability

Social continued

Maintaining an ethical culture

Our values and culture are the foundation of our strategy and we are committed to conducting all of our business honestly, ethically and professionally. To reinforce our approach, we have the following long-standing policies in place:

- Anti-Bribery and Corruption Policy;
- Whistleblowing Policy;
- Anti-Money Laundering Policy;
- Share Dealing Policy; and
- various HR policies, including anti-discrimination and anti-bullying policies.

The audit committee is responsible for overseeing our whistleblowing arrangements and ensuring appropriate follow-up.

Communities

We look to be a good neighbour and to have a positive impact on the communities 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.

It is also important to us to support charities that play an important role in the communities around our locations. In 2022, we formally launched the Lords Group Foundation, which we had established prior to our IPO in 2021. See the case study opposite for more information.

Case study: The Lords Group Foundation

Giving back to our communities

Tum Kazunga, National Director, Habitat for Humanity Great Britain

Being local leaders in our markets is fundamental to our business. This comes with the responsibility to give back to and support the surrounding communities. The Group has a long history of charitable giving and we have established the Lords Group Foundation to build on this. We are committed to donating £200,000 per annum to the Foundation and will work with our colleagues, suppliers and customers to raise even more.

The Foundation aims to build stronger communities by supporting projects and helping to provide facilities for community groups who need them, with the objective of improving people's quality of life. This could include supporting youth groups, older people, people with infirmities or disabilities, or those facing financial hardship or difficult social circumstances.

The Foundation particularly welcomes applications from community centres, having identified a lack of funding for these much-needed hubs.

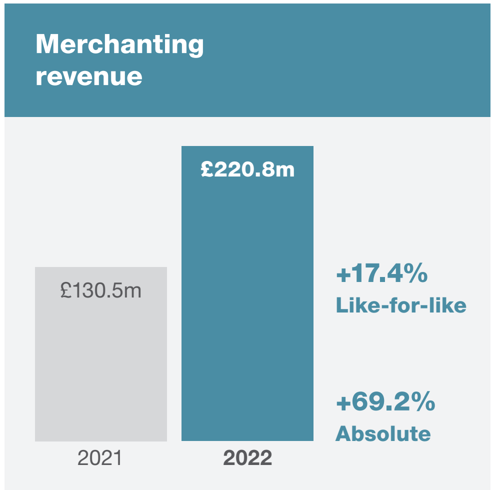
The Foundation's trustees meet once a quarter to consider applications. Projects supported to date include providing cookers for a community association's lunch club, a grant to a community centre towards new solar panels to reduce its utility costs, and a grant to a project providing vocational training to young people.

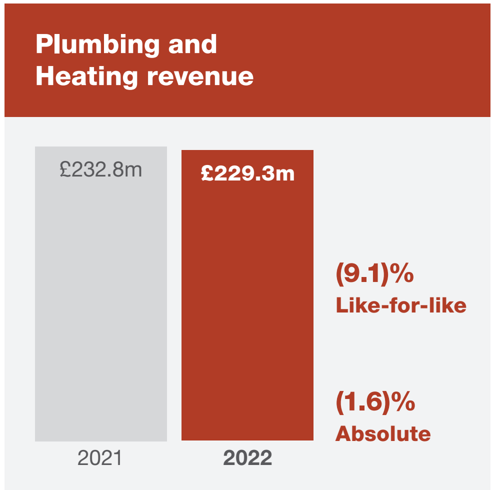
The Foundation welcomes applications from projects within five miles of its branches or two miles within the M25. More information can be found at **https://www.lordsgrouptradingplc.co.uk/about-us/lords-group-foundation.**

Financial review

> The Group had an excellent year in 2022, with the continued successful execution of our strategy resulting in record financial performance.

Chris Day
Chief Financial Officer and Chief Operating Officer





Revenue

Group revenue was £450.0 million in 2022 (FY21: £363.3 million), representing growth of 23.9%. Like-for-like (LFL) revenue growth, which excludes acquisitions and new locations, was 0.2%. Acquisitions contributed revenue of £74.3 million in FY22.

The charts on the left show revenue performance by division.

Depreciation and amortisation

Depreciation and amortisation increased to £12.3 million (FY21: £9.4 million). £6.9 million of the depreciation and amortisation relates to right-of-use assets (FY21: £5.9 million), £3.3 million to intangible assets (FY21: £2.1 million) and £2.1 million to property, plant and equipment (FY21: £1.3 million), reflecting our continued investment in growth opportunities.

Capital allocation

The Group has a wide range of organic and inorganic investment opportunities, which are well defined and attainable in the delivery of our revenue and EBITDA margin targets. We take a rigorous approach to allocating capital to these opportunities and target a return on investment of at least 20%. We carefully review the investment case for each proposal and ensure the planned returns are deliverable and that we have effectively mitigated the risks. The success of this approach was an important driver of our FY22 performance.

Exceptional items

Exceptional costs in FY22 totalled a net £0.9 million. A breakdown can be found in note 7 to the financial statements, with the largest component being diligence costs associated with acquisitions. The exceptional costs were partially offset by compensation received for business disruption at our Park Royal branch, due to the HS2 infrastructure project in the immediate area surrounding the branch.

Exceptional items in FY21 totalled £2.5 million (restated). These comprised costs associated with our admission to AIM and the costs incurred in relation to acquisitions in the year, less a reduction in contingent consideration.

Financial review continued

Profitability

Reported EBITDA for FY22 was £28.6 million (FY21: £19.7 million restated). Adjusted EBITDA, which also excludes the exceptional items set out above and share-based payments, was £30.0 million, up 34.4% from £22.3 million in 2021. The adjusted EBITDA margin improved to 6.7% (2021: 6.1%).

Overall, the adjusted EBITDA margin increased by 0.6% to 6.7% in FY22, with the improvement in the margin achieved through P&H margin growth driven by higher-margin products and increased Merchanting segmental mix. These two factors offset a reduction in Merchanting, as a result of management's decision to pass through product price inflation in an orderly manner.

P&H delivered a strong adjusted EBITDA margin of 6.0%, representing a 1.6 percentage point improvement in FY22. This was achieved via extended product range initiatives, including our Renewables range, which attract higher margins alongside lower cost to serve when supplied to existing customers.

The table below shows adjusted EBITDA by division:

	2022		2021	
	£m	margin	£m	margin
Plumbing and Heating	**13.8**	**6.0%**	10.3	4.4%
Merchanting and other services	**16.1**	**7.3%**	12.0	9.2%
Total Group	**30.0**	**6.7%**	22.3	6.1%

Net finance costs

Net finance costs were £3.6 million (FY21: £2.8 million restated) with the increase mainly due to increased debt levels following the four 2022 acquisitions. The interest expense associated with the Group's leases was £1.9 million (FY21: £1.8 million).

Profit before tax and adjusted profit before tax

Adjusted profit before tax, which excludes exceptional items, share-based payments and amortisation of intangible assets, was £17.4 million (FY21: £12.2 million restated). The Group generated profit before tax for the year of £12.8 million (FY21: £7.5 million restated).

Prior year adjustment

In October 2017 and April 2021 the Group acquired majority shares in Hevey Building Supplies Limited and Condell Limited respectively. In both instances a put and call agreement was put in place with the non-controlling interest for the acquisition of the remaining shares. The options were not accounted for by the Group.

These errors have been corrected by restating each of the affected financial statements line items for the prior periods as at 31 December 2020 and 31 December 2021 respectively and as such have been corrected via a prior year restatement. The adjustments are non-cash in nature with no impact on adjusted EBITDA. Full details are contained in note 3.3.

Tarik, Interbranch Delivery Driver, Mr Central Heating

Financial review continued

Earnings per share and adjusted earnings per share

Basic earnings per share was 5.68 pence (FY21: 3.39 pence restated). Adjusted earnings per share (as defined in note 16) was 8.02 pence (FY21: 6.10 pence restated).

Dividend

The Board has recommended a final dividend of 1.33 pence per share. Combined with the interim dividend of 0.67 pence per share, this gives a total dividend for the year of 2.0 pence per share (FY21: 1.89 pence).

Cash flow

Adjusted cash generated by operating activities was £24.1 million (FY21: £21.9 million restated) while free cash flow was £19.1 million (FY21: £19.9 million restated). Free cash flow conversion, which is free cash flow as a percentage of EBITDA, was 66.9% (FY21: 89.1% restated). The decline compared to the prior year was due to the planned increase in capital investments of £3.5 million (FY21: £1.3 million), as discussed below.

The Group used £26.9 million for business acquisitions in 2022, relating to the purchase of Advance Roofing Supplies, A.W. Lumb, DH&P and Buildbase Sudbury. In addition, in October 2022 we exercised the option to acquire the 25% minority interest in our Hevey Building Supplies subsidiary for £6.2 million, with 40% paid on completion and the remainder due in seven equal quarterly instalments over the next two years.

Liquidity and debt facilities

The Group had two financing facilities with HSBC totalling £70.0 million. In March 2022, we agreed with HSBC to enlarge our facilities to support our growth plans, with the RCF increasing to £50.0 million (from £30.0 million) and the invoice financing facility increasing to £20.0 million (from £10.0 million).

At 31 December 2022, the Group had net debt (defined as borrowings less cash and cash equivalents, and before recognising lease liabilities) of £19.4 million (FY21: net cash of £6.5 million). The movement primarily reflects the cash cost of the acquisitions during the year. The Group therefore had ample headroom of £34.6 million (31 December 2021: £35.1 million) within its debt facilities at the year end, and a further £16.0 million of accessible cash (31 December 2021: £11.4 million).

Net cash/debt

The Group's net cash/debt position, before recognising lease liabilities, transitioned from net cash of £6.5 million at 31 December 2021 to a net debt position of £19.4 million at 31 December 2022; including non-contingent deferred consideration payable within twelve months, this rises to £23.3 million in respect of the Group's acquisition of APP Wholesale, Hevey Building Supplies and Advance Roofing.

The Group used £26.9 million for business acquisitions in 2022, which alongside the 25% minority interest purchase in our Hevey Building Supplies subsidiary, covers the full movement in net cash/debt in FY22.

The Group's policy is to maintain its credit rating status while investing in organic developments and acquisition opportunities that are expected to generate attractive returns and maintain a progressive dividend policy.

Working capital[1]

Inventory increased by £14.4 million to £53.2 million at the year end, largely due to P&H inventory returning to more normal levels, as the boiler shortage eased towards the end of the year, and the impact of price inflation on inventory.

Current trade and other payables were £21.4 million higher at £94.3 million (31 December 2021: £72.9 million restated), while current trade and other receivables rose by £13.3 million to £71.0 million (31 December 2021: £57.7 million). These movements reflect the Group's organic growth and the acquisitions in the year, with working capital increasing to 9.2% of revenue (FY21: 8.7%) due to the inventory increase discussed above.

Capital expenditure and investment in intangible assets

We maintained capital discipline during the year, with capital expenditure on plant, property and equipment of £3.5 million (FY21: £1.3 million). Notable investments included the transformational refurbishment of the Beaconsfield branch, the new branches for Mr Central Heating in West Bromwich and George Lines in Horsham, and further additions to our fleet.

Intangible assets rose to £45.3 million (31 December 2021: £22.7 million) as a result of the acquisitions during FY22.

1. Working capital is defined as trade receivables and inventories less trade payables.

Financial review continued

Non-current liabilities

Trade and other payables relate to deferred consideration liabilities. The liability has reduced by £3.2 million as at 31 December 2022 to £4.7 million (31 December 2021: £7.9 million) reflecting those liabilities falling due in 2023 relating to the acquisitions of APP Wholesale Ltd, Hevey Building Supplies Ltd and Condell Ltd.

IFRS 16 Leases

Leases that are recorded on the balance sheet principally relate to properties, cars and distribution vehicles. IFRS 16 increased EBITDA by £7.3 million and the finance (interest) expense by £1.9 million in the year.

The right-of-use asset in the balance sheet at 31 December 2022 was £39.0 million (31 December 2021: £33.3 million). The increase is driven mainly by the inclusion of a 100 year long leasehold plus leases acquired through the 2022 acquisitions.

IFRS 16 does not alter the Group's overall cash flows or the economic effect of the leases to which it is a party. Similarly, Lords' banking covenants are measured on a pre-IFRS basis.

Post balance sheet events

Since the end of FY22, we have:

- agreed to purchase the freehold of George Lines' Heathrow site for £6.3 million, with £2.2 million paid on signing and the remainder due to be paid by 5 July 2024. The Group will continue to lease the site until completion, which is the date on which the remaining consideration is paid, and with any rental payments before that date being deducted from the final consideration;
- disposed of the non-core Lords at Home homewares subsidiary for £0.8 million. During the year ended 31 December 2022, Lords at Home generated £3.0 million in revenue and contributed £0.08 million of EBITDA. The sale supports our focus on our core markets of building, plumbing, heating and DIY goods;
- on 31 March 2023 the Group acquired Chiltern Timber Supplies Limited ('Chiltern Timber') for a total consideration of up to £1.65 million on a net cash free/debt free basis. The consideration payable is £1.175 million on signing and up to a further £0.475 million deferred equally over 12, 24 and 36 months on a contingent basis subject to Chiltern Timber delivering certain earnings targets;
- the Group amended its banking facilities on 5 April 2023. The Group's existing £70 million lending facilities with HSBC, consisting of a £50 million revolving credit facility ('RCF') and a £20 million receivables financing facility ('RFF') (together the "Existing Facilities"), have been cancelled and repaid pursuant to the Refinancing with such repayment being funded by drawings under new £95 million facilities provided by HSBC, NatWest and BNP Paribas consisting of a £70 million RCF (the "New RCF") and a £25 million RFF each with an initial three-year term (together, the "New Facilities");
- the New RCF includes: (i) a £20 million uncommitted accordion option which would, subject to lender approval, allow the Group to increase the New RCF facility limit if required, and (ii) two uncommitted extension options of one year each which would, subject to lender approval, extend the tenor of the New RCF to four years and five years if exercised;
- the New Facilities are on improved commercial terms compared to the Existing Facilities and are expected to result in material interest cost savings for the Group over the three-year term of the facilities; and
- Dawn Moore, Non-Executive Director, has advised the Board that she intends to step down as a director of the Group immediately following the Company's 2023 Annual General Meeting to focus on expanding executive responsibilities.

Chris Day
Chief Financial Officer and Chief Operating Officer

2 May 2023

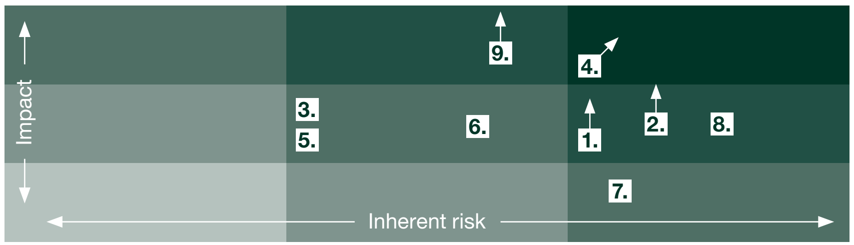
Principal risks and uncertainties

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 (see page 60), guided by the Chief Financial Officer and the Group Financial Controller. The committee receives reports from management on risk management and controls, approves the external audit scope and receives reports from the auditor on internal controls. The committee also monitors emerging risks.
Executive management team	Our executive management team implements 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 for sharing and identifying risk and reporting anything that concerns them.

Risk heatmap:



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.

The Board's assessment of the Group's principal risks and uncertainties and the mitigations in place are 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 households' willingness to spend on home improvements. Economic conditions can therefore affect demand. Our customers are mainly 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:** • Management has a clear mitigation strategy, which incorporates proactive growth levers and cost controls in response to changing market conditions. • Our business is intentionally exposed to the less cyclical element of our market, RMI. Demand for boilers, which provide 77% 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.

Principal risks and uncertainties continued

2. Colleagues

Inherent risk:
Medium

Trend:
Rising

Impact:
Adverse effect on customer service, leading to reduced financial performance

Description:
We have 902 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 and invest in our people, particularly in the current tight labour market, ensure they are appropriately incentivised, and help them where possible with the rising cost of living.

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 6.0 years and look to promote from within, including all five current managing directors.
- The remuneration committee reviews all key aspects affecting the workforce.
- We recruited a Group Human Resources Director who started in February 2023, to enhance our people strategy.

3. Competition in our markets

Inherent risk:
Medium

Trend:
Stable

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 recognition 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:
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.

Mitigation:
- We developed our ESG strategy in 2022, with external guidance from Mazars, and have established an ESG committee from 2023.
- We have launched the Lords Group Foundation, which raised £200,000 in 2022 for the benefit of charitable causes in the 46 local communities we serve.
- We have Group-wide policies in place for anti-bribery, modern slavery and timber sourcing. All our timber has FSC and PESC accreditation.
- For 2023, our focus is on:
  - setting targets for medium/long-term delivery across our ESG KPIs; and
  - environmental and TCFD requirements, with continued support from Mazars.

5. Technology and IT infrastructure

Inherent risk:
Medium

Trend:
Stable

Impact:
Adverse effect on customer service and financial performance

Description:
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.

Mitigation:
- We implemented improvements to our cyber security and network infrastructure in 2022, following a review in 2021.
- 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.
- Colleague training on information security completed in 2022 to raise awareness of the potential threats posed.

Principal risks and uncertainties continued

6. Health and safety

Inherent risk:
Medium

Trend:
Stable

Impact:
Adverse effect on customer service, leading to reduced financial performance

Description:

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.

Mitigation:

- Health and safety is a Board priority and an agenda point at all of its meetings.
- We appointed new external advisers in 2022, to drive improved reporting, risk assessment and safety control across the Group.
- We have a Group-wide training programme on health and safety, incorporating culture and change, risk management, accident investigation and governance.
- 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:
High

Trend:
Stable

Impact:
Adverse effect on financial performance

Description:

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.

Mitigation:

- 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.

Principal risks and uncertainties continued

8. Supplier management and rebates

Inherent risk:
High

Trend:
Stable

Impact:
Adverse effect on customer service and financial performance

Description:

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.

Mitigation:

- 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.
- Rebate management software is being implemented from 2023 to further enhance and automate the reconciliation process.

9. Finance and liquidity

Inherent risk:
Medium

Trend:
Rising

Impact:
Adverse effect on financial performance

Description:

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; and
- interest rate risk – increases in interest rates would raise the cost of servicing debt.

The rising trend in this risk reflects increased credit risk, as a result of current economic conditions, and greater interest rate risk. Our liquidity risk is unchanged.

Mitigation:

- 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.

This strategic report has been approved by the Board and signed on its behalf:

Chris Day
Chief Financial Officer

2 May 2023

Governance

What's in this section

Board of Directors

We have a strong and experienced Board, with an appropriate balance of backgrounds, knowledge and skills.

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

Gary O'Brien
Non-Executive Chairman

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

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.

Board of Directors continued

Dawn Moore
Non-Executive Director

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.
- Non-executive director, NWF plc.

Past appointments
- Director of Human Resources for Morgan Sindall, Vesuvius, Tarmac and Keepmoat.
- Non-executive director, Sheffield Teaching Hospitals NHS Foundation Trust.
- Non-executive director, SARAS.

Andrew Harrison
Senior Independent Director

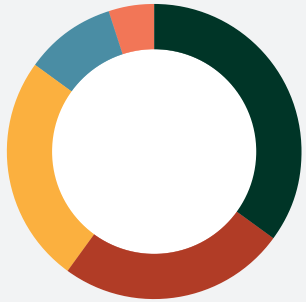
Appointed to the Board: 1 March 2021

Skills and experience
- Highly experienced in the merchant industry, with an executive career spanning more than 40 years.
- 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	35%
B	Business updates	25%
C	Governance	25%
D	Financial performance and budgeting	10%
E	Investor relations	5%

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

Chairman's introduction to corporate governance

We continued to refine our approach to corporate governance in 2022, including further developing our risk management framework.

Gary O'Brien
Chairman

Although Lords Group has only been a public company since mid-2021, we have long had a clear understanding of the importance of strong corporate governance, which supports the successful implementation of our strategy through an appropriate framework of oversight and controls. We therefore follow the QCA Corporate Governance Code (the 'QCA Code'), which is specifically designed for small to mid-sized companies with ambitions to grow. We complied with the QCA Code's requirements during the year. More information on how we have met the QCA Code's principles can be found on page 57 and a full statement on our compliance with each principle is available from the corporate governance section of our website.

We continued to refine our approach to corporate governance in the last twelve months. Our priorities for the year included further developing our risk management framework and we have engaged KPMG to support this work, as described on page 62.

We had also identified the need to review our organisational structures, to ensure we define the roles we need and have the right people to support our growth ambitions. As part of this, we considered plans to develop our executive directors, who have a key part to play in achieving our ambitions. Since the end of the year, Chris Day has taken on a broader position as Chief Operating Officer, making him responsible for operations within the Merchanting side of the business, as well as retaining his previous responsibilities as Chief Financial Officer. This will free up capacity for Shanker Patel to focus on the Group's strategic direction.

We also made several other changes to our organisational structure during the year, including creating the roles of Group Human Resources Director and ESG & Foundation Manager and successfully recruiting for them. ESG has been an important focus for the Group this year (see pages 33 to 42) and we discussed ESG in detail at our Board meetings in 2022.

Chairman's introduction to corporate governance continued

Given the importance of having the right leadership in place, we have established a nomination committee from the start of 2023. This work had previously been done by the remuneration committee. The new structure will ensure we can devote sufficient time and focus to Board composition and succession planning, while having the same membership for the two committees means we are fully aware of the workstreams and overlaps between these two areas.

Another of our objectives for the year was for the Board as a whole to visit a selection of the Group's branches. While we did not visit as many branches as intended during the year, with one taking place, we already have three planned for 2023. As the Executive Board members are in our branches every week, these visits primarily benefit the non-executive directors, enabling us to see first-hand what is happening on the ground and gain a feeling for the Group's culture in action. I also believe it is equally important for the whole Board to be a visible presence out in the business and to demonstrate the strong interest we have in our people and their welfare.

During 2022, we undertook our first formal evaluation of the Board and its committees (see page 60). This produced excellent results, as well as identifying areas where we would like to do more, including stepping up training for the directors.

Although we discussed the Group's culture in detail during our Board meetings in 2022, the evaluation also identified our desire to take a more formalised approach to overseeing the culture. We are very clear that our people are a key strength for the Group, which is reflected in people being one of the 3Ps in our strategy. Our culture in turn engenders their commitment and loyalty. This is vital for having engaged people who provide excellent customer service and build the long-term relationships with customers and suppliers that are central to our business model and underpin our growth ambitions.

Our culture includes being dynamic and entrepreneurial, while having a bedrock of sound business principles, policies and procedures which assist in embedding a culture of ethical behaviour. We act ethically and professionally (see page 42), have a measured approach to risk and take care to consider all our stakeholders. Importantly, the Group retains the feeling of a family business, which we believe is attractive to current and potential employees and reflects the efforts of our Executive Board members, in particular Shanker Patel. The Board also pays close attention to the results of the employee engagement surveys and to key metrics such as churn rates, which can highlight any cultural issues.

In addition to our work on culture and training, the Board's priority for 2023 is to focus on the Group's strategy and the targets of £500 million of revenue by 2024 and a 7.5% margin in the medium term. We will also continue our initiative with KPMG to develop the Group's risk management framework.

Gary O'Brien
Chairman

2 May 2023

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.

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

Purpose	page 4
Business model	pages 14 and 15
Strategy	pages 16 and 17
Challenges to strategy and business model	page 11

Principle 2

Seek to understand and meet shareholder needs and expectations

Stakeholder engagement	page 29
Relations with shareholders	page 29

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder engagement	page 29
s172 statement	page 31
Sustainability	pages 33 to 42

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Principal risks and uncertainties	pages 47 to 51
Internal controls	page 60
Audit committee report	pages 61 and 63

Principle 5

Maintain the Board as a well-functioning, balanced team led by the Chair

Board biographies	pages 53 and 56
Chairman's introduction to corporate governance	page 55
Board composition	page 58
Directors' roles	page 58
Directors' time commitment	page 59
Provision of information to the Directors	page 59

Principle 6

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Board biographies	pages 53 and 56
Chairman's introduction	page 55
Company Secretary and advice for directors	page 59
Directors' training	page 59
Board composition and diversity	page 60

Principle 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board effectiveness	page 60
Succession planning	page 60

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

Maintaining an ethical culture	page 42
Chairman's introduction to corporate governance	page 55

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Corporate governance statement	pages 58 to 60

Principle 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Stakeholder engagement	page 29
Relations with shareholders	page 29
Audit committee report	pages 61 and 63
Remuneration committee report	pages 64 to 68

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. There were no changes to the Board's membership during the year.

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.

The Board's role

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

Board committees

During the year, the Board had audit, remuneration and disclosure committees in place, with formally delegated duties and responsibilities. The composition and work of the audit and remuneration committees are described in their respective reports on pages 61 to 68.

The disclosure committee supported 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 committee comprises Gary O'Brien (Chair) and Chris Day, and meets as necessary.

Since the end of the year, the Board has also established a nomination committee. It is responsible for reviewing the Board's structure, size and composition (including the directors' skills, knowledge and experience) and considering succession planning. The committee will also recommend new appointments to the Board and the other committees, identify suitable candidates for Board membership and monitor the Board's performance. The committee is chaired by Gary O'Brien and its other members are Dawn Moore and Andrew Harrison. It will meet at least once a year and otherwise as necessary.

The directors' roles

The respective roles of the directors are set out in the table opposite. 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.

Corporate governance statement continued

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. In addition, the disclosure committee met twice in 2022.

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

Director	Board	Audit committee	Remuneration committee
Gary O'Brien	9/9	4/4	2/2
Shanker Patel	9/9	—	—
Chris Day	9/9	—	—
Dawn Moore	9/9	4/4	2/2
Andrew Harrison	9/9	4/4	1/2[1]

1. Andrew Harrison was unable to attend one meeting of the remuneration committee, as he had an existing commitment overseas.

Provision of information to the directors

The directors receive appropriate and timely information in advance of Board and committee meetings. A calendar of meetings and the 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

ONE Advisory Limited is the 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.

During 2022, the audit committee received advice from KPMG in relation to the Group's risk management framework. See page 47 for more information.

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

Under the Company's Articles of Association, one third of the Board are required to stand for re-election each year. However, the QCA Code recommends as best practice that all directors are re-elected on an annual basis and as a result, all the directors will be standing for re-election at the 2023 AGM.

Directors' training

The Board evaluation process (see page 60) gives the directors the opportunity to identify their training needs for the year ahead. In the 2022 evaluation, the directors requested additional training on developments in corporate governance and stakeholder views, which will be addressed in 2023.

More generally, the directors are also expected to maintain their own professional skills through continuing professional development, where necessary.

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 Group also has a finance procedures manual, which all subsidiaries are required to follow.

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, recognising a journey of continuous improvement is required particularly due to the addition of new Group companies via acquisition. 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 70.

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.

Board effectiveness

We carried out our first evaluation of the Board and the committees during the year. This was an internally facilitated evaluation, using a series of online questionnaires provided by the Company Secretary. The evaluation focused on board composition, responsibilities, culture, quality of information and individual performance. The Chairman collated and scored the responses, and afterwards held individual meetings with the directors to discuss their feedback. The evaluation showed that the Board and the committees ranked in the top quartile for their performance.

There were two areas identified for further development. These were:

- additional training for the directors, to ensure they remain current with developments in corporate governance and stakeholder views; and
- considering a more systematic approach to monitoring and overseeing the Group's culture.

We will report on our progress with these matters in our 2023 annual report.

Board composition and diversity

The Board reviewed its composition during the year and also included a question on this topic in the evaluation questionnaires. Our conclusion was that given the Group's current size, we have sufficient directors on the Board and that the skill base is very strong across most of the skill sets we require.

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 non-executive directors had several meetings to discuss the development of the CEO and CFO and their personal objectives, resulting in the evolution of Chris Day's role as discussed in the Chairman's introduction on page 55. This process required the Board to consider the roles, strengths and weaknesses of the next level of management. The new Group HR Director will further develop this work during 2023. Given the short time since the Company's IPO, the Board does not yet consider it necessary to conduct succession planning for the non-executive directors.

Annual General Meeting (AGM)

The AGM provides opportunities for dialogue between the Board and the Company's shareholders. The AGM will be held on 20 June 2023 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.

Audit committee report

I am pleased to present the audit committee report for 2022. The committee plays an important part in the Group's governance, through its focus on the integrity of financial reporting and the quality and effectiveness of external audit, risk management and the system of internal control.

Gary O'Brien
Audit committee Chair

Committee meeting attendance

Gary O'Brien (Chair)	4/4
Dawn Moore	4/4
Andrew Harrison	4/4

Priorities for 2023

- Monitoring the integrity of financial statements and formal announcements relating to financial performance.
- Assessment of effectiveness and maturity of risk management and internal control.

Committee membership

All the committee members are independent non-executive directors. I chair the committee and its other members are Dawn Moore and Andrew Harrison. 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. Mr Harrison has deep knowledge of the industry and the control environment that is necessary to operate successfully in our sector. Mrs 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 Company's website.

Audit committee report continued

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 59.

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

Key activities in 2022

In last year's report, we identified two priorities for 2022: reviewing the Group's risk management framework and reviewing accounting policies across the Group.

We appointed KPMG to work with us on our risk management framework, to identify the areas to focus on and to develop our risk registers across the Group. This work has begun at divisional level, with KPMG conducting interviews in the divisions to identify the range of possible risks, and providing tools to our management teams to help them determine the critical risks and our appetite for those risks, when balanced with the opportunities they may present. This work will continue in 2023, with the divisional risks filtering up to allow us to collate a risk register at Group level. Our intention will then be to assess the status of those risks and whether we remain within our risk appetite twice a year, with the risk registers being reviewed and updated as necessary and at least annually.

As part of the Group's work on risk management, we drafted an Enterprise Risk Management (ERM) Framework and ERM Policy. These were approved at the March 2023 Board meeting. The responsibility for ongoing oversight of the ERM Framework and ERM Policy lies with the Audit Committee.

We have also carried out our first formal evaluation of the committee and its effectiveness during 2022. The areas identified for further development can be found on page 60. We will continue this evaluation on a yearly basis going forward.

During 2022, the committee reviewed and approved the Group's accounting policies and procedures manual to help ensure consistency across the Group and that accounting policies in acquired businesses are aligned with the Group's. The policies and procedures manual will support further enhancement of the Group's internal control environment in the coming years.

In addition, we considered the strengths of our finance team, to ensure that it has sufficient resource and expertise to support the Group effectively as it grows.

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.

For 2022, the key areas were as follows:

Inventory

Inventory is a significant asset for the Group, representing £54.1 million of the Group's total assets of £239.7 million at 31 December 2022. Calculating inventory provisions, to ensure stock is held at the lower of cost and net realisable value, involves significant estimation and judgement, including consideration of expected future losses on the sale of inventory and any inventory obsolescence. In addition, due to the number of locations which hold inventory, there is a risk of a mismatch between physical stock and the Group's stock records.

Business combinations

The Group completed four acquisitions during the year. Assigning fair values to the separately identifiable intangible assets at the acquisition date requires a significant degree of management estimation and judgement. Determining the value of any contingent purchase consideration, and accounting for any call/put options over any non controlling interests and service contacts also requires management estimation and judgement.

Supplier rebates

The Group accrues for rebates due from its suppliers at the year end. Typically, some rebates are not received before the audit sign-off date, requiring management to estimate the value of rebates which are yet to be received. This can be complex to calculate and there is a degree of estimation uncertainty in arriving at the value to be accrued.

Audit committee report continued

Financial reporting and significant judgements continued

Put and call options

During 2022, the Group purchased the remaining 25% minority shareholding in Hevey Building Supplies Limited for £6.2 million. As part of the acquisition of 75% of Hevey in October 2017, the Group agreed a put and call option over the remaining 25% interest. The defined value of the option included a share of the market value at the date of exercise, plus a share of the retained earnings increase between the acquisition and exercise date, which is linked to employment. However, the option was not accounted for at the date of the acquisition and was not included in the 31 December 2021 financial statements. A prior year adjustment is therefore required to account for this. The Group also has a put and call option in respect of the acquisition of Condell Limited in April 2021 which was not accounted for at 31 December 2021. This is linked to market value only, with no links to employment.

The committee's conclusions

The committee discussed the areas outlined above with management and with the auditor. In considering the treatment of these items, the committee also took into account where necessary advice from internal and external advisers, common practice within the industry and its knowledge of the business. The committee concluded that the treatment of these items was appropriate.

Internal audit and controls

The Board recognises the need to continuously improve its financial reporting and the effectiveness of the internal control processes across the Group. When the Group initiated the IPO in July 2021 there were several control issues highlighted which the Company has been addressing. In this respect, the external auditor has highlighted a number of control environment weaknesses still requiring attention primarily stemming from the lack of one central group reporting system. As is the case with many groups in the early stages of coming to market and particularly that are growing from acquisitions, our businesses operate on a variety of accounting and business systems across the Group. Our CFO is committed to addressing the control environment by ensuring our finance functions are more closely aligned in policy, procedure and controls structure. The Board is fully aware of the weaknesses highlighted and expects the control environment to be addressed in the short to medium term, whilst acknowledging the continuous improvement aspect driven by new acquisitions joining the Group in 2023 and beyond.

The committee discussed the need for an internal audit function during the year, including as part of KPMG's review of risk, and concluded that given the current size of the Group, the cost outweighed the potential benefit. The Group carries out internal checks, by requiring the Group finance function to review divisional balance sheets on a biannual basis. We will consider the need for an internal audit again during 2023.

External auditor

The Group appointed RSM as external auditor in 2021. The auditor attends at least two of our committee meetings during the year. This allows us to:

- discuss its audit plan, the overall planning materiality and its assessment of the audit risks; and
- review its findings from the audit.

As part of these meetings, we receive a report from RSM that formally confirms its independence, which we have the opportunity to challenge. RSM's only non-audit work for the Group during the year was its review of our interim report and financial statements. While we do not have a formal policy regarding the auditor providing non-audit services and can consider any proposed work on a case-by-case basis, in practice we do not ask RSM to tender on other consultancy projects. We are therefore satisfied that the auditor remains independent.

Priorities for 2023

Our priorities for 2023 are to oversee the effective implementation of our work on risk and to review the initiative in our Plumbing and Heating division to integrate its ERP platform, as described on page 17.

Gary O'Brien

Audit committee Chair

2 May 2023

Remuneration committee report

We look to offer fair and attractive packages, that align executive and shareholder interests and are clearly linked to performance.

Dawn Moore
Remuneration committee Chair

Committee meeting attendance

Dawn Moore (Chair)	2/2
Gary O'Brien	2/2
Andrew Harrison	1/2

Priorities for 2023

- Continue to ensure that remuneration packages remain competitive and aligned to our principles.
- Align incentive payments to appropriate ESG criteria.
- Review all of the incentive plans in place, including for the wider workforce, to ensure a suitable balance between immediate and deferred rewards, and allow the whole workforce to have the chance to share in the Group's success.
- Ensure the committee's activities align effectively with the introduction of the new nomination committee.

Annual statement

I am pleased to present the remuneration report for 2022. The following pages set out our remuneration policy and explain how we implemented it during the year. As an AIM company, we are not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 or the principles in respect of directors' remuneration in the UK Corporate Governance Code. However, we believe it is important to be transparent about our remuneration arrangements and the principles underlying them, and we therefore follow the Quoted Companies Alliance Remuneration Committee Guide.

The committee's responsibilities include determining, and agreeing with the Board, the remuneration framework for all of the directors and other designated senior management, and ensuring that remuneration packages for any new appointments are objective. We also monitor and provide guidance on remuneration across the Group, although we are not responsible for determining pay for the workforce as a whole.

Remuneration policy

The committee's policy 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 Group's overall strategic objectives.

Advisers to the remuneration committee

The committee is authorised to obtain outside professional advice and expertise where necessary and will also receive support and information from the Chief Executive Officer and Chief Financial Officer.

Remuneration committee report continued

Our remuneration objectives

We aim to design executive remuneration packages that:

- are appropriate to our business, with an appropriate mix of annual bonus and longer-term structures that support stretching performance, ongoing motivation and retention;
- reward performance against our business plan;
- are cost effective in delivery; and
- are simple, inclusive and transparent.

By offering fair and attractive packages, we want to ensure we can recruit and retain high-quality executives and align their interests with those of long-term shareholders, while also making sure that executive pay is clearly linked to performance and is not misaligned with the wider workforce.

Committee meetings

The committee meets formally at least twice a year and we also have several ad hoc meetings each year, 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.

All decisions on pay and other benefits are made with reference to and guidance from independent advisers as appropriate.

Our key activities in 2022

In last year's report, we set two key objectives for 2022. The first was to continue to focus on succession planning for key roles, in particular at Board level. We considered development and succession plans for the CEO and CFO, and more information can be found on page 60 and in the Chairman's introduction to corporate governance on page 56.

The second objective was to ensure that our incentive arrangements remain competitive in the market. We carried out an internal evaluation of remuneration and also benchmarked our packages externally. As part of this, we assessed how well the executive directors' remuneration packages aligned with the principles outlined above and whether they supported the Group's growth plans, and concluded that they were appropriately structured.

We have also carried out our first formal evaluation of the committee and its effectiveness during 2022. This has provided good verification of the committee's effectiveness and we will continue this evaluation on a yearly basis going forward.

Finally, we have evaluated the effectiveness of all our remuneration across the Group and continued to evaluate opportunities for all colleagues to cost effectively share in the Group's success.

Remuneration outcomes for 2022

The Group has delivered another strong set of results, again demonstrating the successful execution of its strategic plan and its growth potential. In determining remuneration outcomes for the year, the committee took into account the Group's financial and operational performance and the remuneration principles outlined above.

As a result of the Group's strong performance and their achievement against personal objectives, Shanker Patel and Chris Day received annual bonuses of £305,000 and £150,000 respectively, reflecting the maximum payouts in relation to base salary allowed under our remuneration policy.

During the year, the committee also reviewed the executive directors' base salaries, taking into account independent benchmarking against peer companies, the need for remuneration to remain competitive and the Group's increased scale and complexity. As a result, Chris Day's base salary increased from £200,000 to £225,000 with effect from July 2022. Shanker Patel chose to waive his salary increase in 2022, with an uplift in his base salary now planned to take place in 2023.

In 2022, the Group also introduced a Long-Term Incentive Plan (LTIP), which is designed to reward executives in a manner that aligns their interests with shareholders and motivates and retains them to deliver superior long-term value for the business. The plan takes the form of discounted options of up to 100% of salary, dependant on business performance. Chris Day participates in the LTIP and was awarded options over 238,950 shares during 2022, with 179,212 of the options having an exercise price of 83.7 pence per share and the remaining 59,737 options being nil cost share options.

The performance targets for the LTIP are as follows:

- 50% based on the Group's adjusted EPS achieving a 5% compound growth rate from 2022 to 2024; and
- 50% based on total shareholder return from 2022 to 2024, against an AIM index comparator group. This element will not vest if the Group performs below the median, with full vesting for outperforming the upper quartile, and straight-line vesting between those points.

The awards will vest and be exercisable any time from 1 April 2025 until 30 June 2027.

Our priorities for 2023

For 2023, our priorities will be to:

- continue to ensure that remuneration packages remain competitive and aligned to our principles;
- align incentive payments to appropriate ESG criteria;
- review all of the incentive plans in place, including for the wider workforce, to ensure a suitable balance between immediate and deferred rewards, and allow the whole workforce to have the chance to share in the Group's success; and
- ensure the committee's activities align effectively with the introduction of the new nomination committee.

Remuneration committee report continued

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, along with those of the wider workforce.

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.

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 10% 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		Remuneration for qualifying services		Pension benefit		Gain on share options exercised		Total	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Shanker Patel	**400**	262	**305**	—	**8**	7	**713**	269	**—**	—	**—**	—	**713**	269
Chris Day	**213**	188	**150**	100	**8**	12	**371**	300	**15**	13	**2,083**	—	**2,469**	313
Gary O'Brien	**85**	60	**—**	250	**—**	—	**85**	310	**—**	—	**—**	—	**85**	310
Andrew Harrison	**45**	31	**—**	—	**—**	—	**45**	31	**—**	—	**—**	—	**45**	31
Dawn Moore	**45**	31	**—**	—	**—**	—	**45**	31	**—**	—	**—**	—	**45**	31
	788	572	**455**	350	**16**	19	**1,259**	941	**15**	13	**2,083**	—	**3,357**	954

Remuneration committee report continued

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

Director	Number at 1 January 2022	Awarded in year	Exercised in year	Lapsed in year	Number at 31 December 2022	Date of grant
Chris Day[1]	4,975,590	—	(2,619,835)	—	2,355,755	27/06/2019
Chris Day[2]	2,105	—	—	—	2,105	20/09/2021
Chris Day[3]	13,158	—	—	—	13,158	01/10/2021
Chris Day[4]	—	238,950	—	—	238,950	30/06/2022
	4,990,853	**238,950**	**(2,619,835)**	**—**	**2,609,968**	

1. 2016 Company Share Option Plan.
2. 2021 Share Incentive Plan.
3. 2021 Deferred Bonus Plan.
4. 2022 Long-Term Incentive Plan.

2016 Company Share Option Plan (CSOP)

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 the executive director options under the CSOP vested on 28 June 2022.

2021 Share Incentive Plan

On listing on AIM, all employees with over six months' service were awarded 2,105 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 30 January 2024 as long as they are still employed by the Group. The options must be exercised before 1 October 2031.

2022 Long-Term Incentive Plan

The options vest from 1 April 2025 subject to continued service and achieving certain market and non-market conditions relating to earnings per share and total shareholder return.

Remuneration committee report continued

Directors' interests in the Company's shares

At 31 December 2022, the Directors had the following interests in the Company's shares:

Director	Number of shares
Shanker Patel[1]	53,282,925
Gary O'Brien[2]	136,842
Chris Day	1,695,177
Andrew Harrison	52,909
Dawn Moore	nil

1. Includes ordinary shares held by his related trust and children and a potential interest in a conditional gift of 6,296,250 ordinary shares from a member of the concert party. Subject to the satisfaction of conditions to the gift, the gift may become unconditional on 24 June 2023.
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 Mr O'Brien will remain as the beneficial owner.

Dawn Moore

Remuneration committee Chair

2 May 2023

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 is the ultimate holding company of the Group. The Group's principal activities are described in the strategic report on pages 14 to 28.

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:

- engagement with suppliers, customers and others with business relationships with the Company, pages 29 to 30;
- engagement and communication with employees, pages 29 to 30 and page 40, share incentive plan, page 67;
- financial results and dividends, pages 43 to 46;
- future developments, page 11;
- carbon reporting disclosures, page 38;
- corporate governance statement, pages 58 to 60;
- directors' names and biographies, pages 53 and 56;
- directors' interests in shares, page 68;
- financial risk management, page 70;
- financial instruments, note 36, pages 117 to 119;
- share capital, note 30, pages 111 and 113;
- events subsequent to the year-end date, note 40, page 124;
- annual general meeting, inside back cover; and
- price risk, credit risk, liquidity risk and cash flow, pages 118 to 119.

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

The Company's shares were admitted to trading on AIM on 20 July 2021. Certain individuals who were shareholders in the Company prior to the IPO 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 51.69% of the Company's shares as at 31 December 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 2022, 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[1]	53,282,925	32.80
Rajen Patel	21,500,790	13.23
Allan Pierce	19,420,841	11.95
Premier Miton Group	15,700,000	9.66
Nilesh Patel	15,204,540	9.36
Charles Stanley	10,501,916	6.46
Schroders	8,400,000	5.17
Slater Investments	7,050,000	4.34

1. Includes ordinary shares held by his related trust and children and a potential interest in a conditional gift of 6,296,250 ordinary shares from a member of the concert party. Subject to the satisfaction of conditions to the gift, the gift may become unconditional on 24 June 2023.

Directors

The directors who held office during the year and up to the date of signature of the financial statements are set out on pages 53 and 54.

Directors' report continued

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 83, 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 £3,087,000 were paid in the year (2021: £999,000). A final dividend of £2,161,000 is recommended (2021: £1,985,000).

Financial risk management

Information about the Company's financial risk management objectives and policies is set out in note 36 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 2 May 2023.

Chris Day
Chief Financial Officer

2 May 2023

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

2 May 2023

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 2022 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 2022 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. • Accounting for business combinations. • Accounting for supplier rebates. • Accounting for goods received not invoiced (GRNI). **Parent company** • None.
Materiality	**Group** • Overall materiality: £961,000 (2021: £953,000). • Performance materiality: £720,000 (2021: £714,000). **Parent company** • Overall materiality: £950,000 (2021: £943,000). • Performance materiality: £712,000 (2021: £707,000).
Scope	Our audit procedures covered 95% of revenue, 93% of total assets and 87% of adjusted EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Independent auditor's report to the members of Lords Group Trading plc continued

Key audit matters continued

Valuation of inventory

Key audit matter description	At 31 December 2022, the Group Consolidated statement of financial position records inventory of £53.2 million (2021: 38.8 million). This amount is net of an inventory provision of £2.0 million (2021: £2.3 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 when sales were last made in relation to each item of inventory held and also when purchases were last made. The cost of inventory, pre any provision, is determined on the first-in, first-out (FIFO) method or an average cost basis. Inventory values are also reduced by the amount of supplier rebates receivable in proportion to the value of purchases still in inventory to total purchases. Due to the factors explained above, 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 based on sales made in the year and sales post year end, using data analytics techniques, and other data available; • performed substantive testing in respect of the cost of inventory by verifying to a sample of stock items to purchase invoices; • performed substantive testing in respect of rebates held against inventory at the year end by re-calculating this for a sample of stock items to supplier rebate agreements; • assessed the accuracy of the prior year inventory provision estimate for the largest component in the Group; and • assessed the disclosures in the financial statements to ensure appropriate disclosure of the judgements and estimates involved in the Group's inventory provisioning.

Accounting for business combinations

Key audit matter description	The Group completed four acquisitions during the year. Details of these acquisitions are given in note 37 to the financial statements. Judgement and estimation is applied by management in assessing the fair value of the assets and liabilities acquired in the business combinations, including any identified intangibles in accordance with IFRS 13: Fair Value Measurement. Judgement is also applied by management in determining the accounting for call and put options over non-controlling interests linked to an acquisition. As noted in note 3.3 to the financial statements a prior year adjustment has been made in respect of call and put options not previously accounted for as part of the acquisition of Hevey Building Supplies Limited and Condell Limited. We therefore identified business combinations as a key audit matter.
How the matter was addressed in the audit	Our audit work included: • obtaining and auditing management's accounting paper and sale and purchase agreements in relation to these business combinations in the year to verify that the acquisition accounting and fair value adjustments are appropriate and in accordance with IFRS 3 – Business Combinations; • agreeing the consideration paid to purchase agreements and bank statements; • critically challenging management's judgements in relation to fair value adjustments and recognition of separately identifiable intangible assets; • obtaining management's independent valuation of separately identifiable intangible assets and engaging with our internal valuations team to review the reasonableness of the assumptions within the model adopted; • obtaining management's assessment of the accounting treatment to be adopted for the call and put options and engaging a financial reporting specialist to assist the audit team in auditing management's assessment in respect of the call and put options; and • considering whether the financial statement disclosures in relation to the business combinations provide users with an accurate and balanced understanding of the transaction and are accordance with IFRS 3 – Business Combinations.
Key observations	Our audit work in respect of accounting for business combinations in the current year identified material errors in the prior year financial statements in accounting for call and put options over non-controlling interests in previous acquisitions. These have subsequently been corrected. See note 3.3 to the financial statements for details of the prior year restatement.

Independent auditor's report to the members of Lords Group Trading plc continued

Key audit matters continued

Accounting for supplier rebates

Key audit matter description	The Group accrues for rebates due from its suppliers at the period end. These are included in other receivables as at 31 December 2022. As described in Note 2 to the financial statements, rebates received from suppliers for the purchase of inventory 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 rebates 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. Management must estimate the value of the rebates which are yet to be received at the year-end. This can be complex to calculate given the agreements in place and there is a degree of estimation uncertainty in arriving at the value to be accrued for, especially as not all of these are recovered prior to the signing of the financial statements. They also can significantly impact one of the Group's primary measures for assessing performance, adjusted EBITDA. Due to the factors explained above, we have identified accounting for supplier rebates as a key audit matter.
How the matter was addressed in the audit	In respect of supplier rebate accruals, we: • obtained confirmations from suppliers of the year end balances recognised, including obtaining confirmations for £nil balances. Variances were followed up and corroborated as required; • examining supplier rebate agreements and determined whether rebates have been recognised in line with these for a sample of suppliers; and • verified a sample of rebates accrued for to post year end credit notes from suppliers. In addition, we performed work over rebates netted off against inventory as set out in the Valuation of inventory section above.
Key Observations	A number of misstatements were identified during the course of our work resulting in the group financial statements being adjusted.

Accounting for goods received not invoiced (GRNI)

Key audit matter description	The group accrues for good received not invoiced at the period end. These are included in accruals as at 31st December 2022, see note 25. The recognition of goods received not invoiced (GRNI) balances was identified as a significant risk at the outset of the audit due to the level of complexity involved. During the course of the audit we identified through the completion of our audit procedures a number of misstatements. This resulted in additional testing being necessary to assess whether the group financial statements were materially misstated. This additional testing and understanding how the original errors occurred resulted in a significant time and resource allocation to complete our work in this area and hence the identification of a key audit matter.
How the matter was addressed in the audit	Our audit work in these areas included: • testing transactions either side of the year end to confirm the completeness of the GRNI accrual; • ensuring the GRNI accrual listings prepared by management were accurately extracted from the group's accounting records and challenging management over any inconsistencies; • testing a sample of items included in the GRNI accrual to check whether they related to goods delivered before the year end and not invoiced at the year end; and • testing reconciling items within the supplier statement reconciliations were consistent with the GRNI accrual.
Key Observations	A number of misstatements were identified during the course of our work resulting in the group financial statements being adjusted.

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:

Independent auditor's report to the members of Lords Group Trading plc continued

Our application of materiality continued

	Group	Parent company
Overall materiality	£961,000 (2021: £953,000)	£950,000 (2021: £943,000)
Basis for determining overall materiality	3.2% of adjusted EBITDA (2021: 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.	The parent company does not trade and therefore net assets is considered to be the most appropriate benchmark.
Performance materiality	£720,000 (2021: £714,000)	£712,000 (2021: £707,000)
Basis for determining performance materiality	75% of overall materiality with the exception that a specific lower materiality of 65% was applied for the following areas: • inventory valuation; • supplier rebate accruals; and • leases in accordance with IFRS 16.	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £48,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £47,000 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 9 components, all of which are based in the UK.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	4	92%	92%	87%
Specific audit procedures	1	3%	1%	0%
Total	**5**	**95%**	**93%**	**87%**

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

Of the above, full scope audits for one component were 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; and
- 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.

Independent auditor's report to the members of Lords Group Trading plc continued

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 71, 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 and component auditors:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the Group and parent company operate 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

All relevant laws and regulations identified at a Group level and areas susceptible to fraud that could have a material effect on the financial statements were communicated to component auditors.

Independent auditor's report to the members of Lords Group Trading plc continued

Any instances of non-compliance with laws and regulations identified and communicated by a component auditor were considered in our audit approach.

The most significant laws and regulations were determined as follows:

Legislation/ Regulation	Additional audit procedures performed by the Group audit engagement team and component auditors 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 tax computations from external tax advisers.

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.
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 work in respect of inventory provisions and inventory cost as set out in the key audit matters section above.
Supplier rebate accruals	Performing work in respect of supplier rebates not received at 31 December 2022 as set out in the key audit matters section above.
Goods received not invoice accruals	Performing work in respect of the good received not invoiced accrual at 31 December 2022 as set out in the key audit matters section above. Performing supplier statement reconciliations for year end trade payables to confirm invoices dated pre year end have either been included in trade payables or the goods received not invoice accrual.
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. 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: **http://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 Par 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

2 May 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	2022 £'000	2021 (restated[1]) £'000
Revenue	4	**450,020**	363,289
Cost of sales		**(361,237)**	(300,569)
Gross profit		**88,783**	62,720
Other operating income	6	**681**	696
Distribution expenses		**(4,632)**	(3,536)
Administrative expenses		**(54,866)**	(37,576)
Adjusted EBITDA[2]		**29,966**	22,304
Share-based payments		**(400)**	(96)
Exceptional items	7	**(929)**	(2,517)
EBITDA[3]		**28,637**	19,691
Depreciation		**(2,069)**	(1,340)
Amortisation		**(10,240)**	(8,021)
Operating profit	10	**16,328**	10,330
Finance income	12	**42**	—
Finance expense	13	**(3,572)**	(2,783)
Profit before taxation		**12,798**	7,547
Taxation	14	**(3,257)**	(2,377)
Profit for the year		**9,541**	5,170
Other comprehensive income		**—**	—
Total comprehensive income		**9,541**	5,170

	Note	2022 £'000	2021 (restated[1]) £'000
Total comprehensive income for the year attributable to:			
Owners of the parent company		**9,117**	4,757
Non-controlling interests		**424**	413
		9,541	5,170
Earnings per share			
Basic earning per share (pence)	16	**5.68**	3.39
Diluted earning per share (pence)	16	**5.36**	3.09

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 results for the year arise solely from continuing activities.

The notes on pages 83 to 124 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2022

	Note	2022 £'000	2021 (restated[1]) £'000	2020 (restated[1]) £'000
Non-current assets				
Intangible assets	17	**45,331**	22,673	18,198
Property, plant and equipment	18	**13,647**	8,050	4,417
Right-of-use assets	19	**38,968**	33,271	32,087
Other receivables	22	**279**	304	78
Investments	20	**85**	84	4
		98,310	64,382	54,784
Current assets				
Inventories	21	**53,177**	38,781	40,004
Trade and other receivables	22	**71,023**	57,744	52,633
Assets classified as held for sale	23	**1,333**	—	—
Cash and cash equivalents	24	**16,038**	11,402	16,342
		141,571	107,927	108,979
Total assets		**239,881**	172,309	163,763
Current liabilities				
Trade and other payables	25	**(94,343)**	(72,901)	(65,674)
Borrowings	26	**(10,348)**	(2,783)	(20,738)
Lease liabilities	19	**(5,496)**	(5,114)	(4,180)
Liabilities classified as held for sale	23	**(675)**	—	—
Current tax liabilities		**(1,700)**	(2,014)	(1,055)
Total current liabilities		**(112,562)**	(82,812)	(91,647)

	Note	2022 £'000	2021 (restated[1]) £'000	2020 (restated[1]) £'000
Non-current liabilities				
Trade and other payables	25	**(4,716)**	(7,866)	(7,251)
Borrowings	26	**(25,086)**	(2,125)	(18,522)
Lease liabilities	19	**(37,024)**	(31,518)	(30,373)
Other provisions	28	**(1,283)**	(987)	(817)
Deferred tax	29	**(7,022)**	(2,940)	(2,433)
Total non-current liabilities		**(75,131)**	(45,436)	(59,396)
Total liabilities		**(187,693)**	(128,248)	(151,043)
Net assets		**52,188**	44,061	12,720
Equity				
Share capital	30	**813**	788	19,990
Share premium	32	**28,293**	28,293	—
Merger reserve	32	**(9,980)**	(9,980)	(9,980)
Share-based payment reserve	32	**497**	96	—
Retained earnings	32	**31,237**	20,527	(789)
Equity attributable to owners of the parent company		**50,860**	39,724	9,221
Non-controlling interests	33	**1,328**	4,337	3,499
Total equity		**52,188**	44,061	12,720

1. See note 3.3 for details regarding the restatement.

The financial statements on pages 78 to 124 were approved and authorised for issue by the Board and were signed on its behalf on 2 May 2023.

C Day
Director

The notes on pages 83 to 124 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owner of parent company £'000	Non-Controlling interests £'000	Total equity £'000
As at 1 January 2021 as originally presented	19,990	—	(9,980)	—	3,622	13,632	3,499	17,131
Correction of error (net of tax)	—	—	—	—	(4,411)	(4,411)	—	(4,411)
Restated total equity at the beginning of the financial year	19,990	—	(9,980)	—	(789)	9,221	3,499	12,720
Profit for the financial period and total comprehensive income	—	—	—	—	4,757	4,757	413	5,170
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)
Put and call options over non-controlling interests	—	—	—	—	(1,802)	(1,802)	—	(1,802)
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	20,527	39,724	4,337	44,061

Consolidated statement of changes in equity continued

for the year ended 31 December 2022

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payments reserve £'000	Retained earnings £'000	Equity attributable to owner of parent company £'000	Non-Controlling interests £'000	Total equity £'000
As at 1 January 2022 as originally presented	788	28,293	(9,980)	96	27,214	46,411	4,337	50,748
Correction of error (net of tax)	—	—	—	—	(6,687)	(6,687)	—	(6,687)
Restated total equity at the beginning of the financial year	788	28,293	(9,980)	96	20,527	39,724	4,337	44,061
Profit for the financial period and total comprehensive income	—	—	—	—	9,117	9,117	424	9,541
Share-based payments	—	—	—	400	—	400	—	400
Share capital issued	25	—	—	—	—	25	—	25
Put and call options over non-controlling interests	—	—	—	—	(609)	(609)	—	(609)
Corporation tax on options	—	—	—	—	606	606	—	606
Deferred tax on options	—	—	—	1	515	516	—	516
Non-controlling interests share of acquisitions	—	—	—	—	—	—	745	745
Acquisition of non-controlling interest	—	—	—	—	4,168	4,168	(4,168)	—
Capital repayment	—	—	—	—	—	—	(10)	(10)
Dividends paid	—	—	—	—	(3,087)	(3,087)	—	(3,087)
As at 31 December 2022	**813**	**28,293**	**(9,980)**	**497**	**31,237**	**50,860**	**1,328**	**52,188**

1. See note 3.3 for details regarding the restatement.

The notes on pages 83 to 124 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2022

	2022 £'000	2021 (restated[1]) £'000
Cash flows from operating activities		
Profit before taxation	**12,798**	7,547
Adjusted for:		
Depreciation of property, plant and equipment	**2,069**	1,340
Amortisation of intangibles	**3,317**	2,087
Amortisation of right-of-use assets	**6,923**	5,934
Profit on disposal of property, plant and equipment	**(151)**	—
Share-based payment expense	**400**	96
Finance income	**(42)**	—
Finance expense	**3,572**	2,783
Operating cash flows before movements in working capital	**28,886**	19,787
(Increase)/decrease in inventories	**(8,438)**	2,837
Increase in trade and other receivables	**(526)**	(1,791)
Increase in trade and other payables	**6,918**	265
Cash generated by operations	**26,840**	21,098
Corporation tax paid	**(3,679)**	(1,751)
Net cash generated by operating activities	**23,161**	19,347
Cash flows from investing activities		
Purchase of intangible assets	**(236)**	(648)
Business acquisitions (net of cash acquired)	**(26,854)**	(6,225)
Deferred consideration paid	**(2,683)**	(875)
Purchase of property, plant and equipment	**(3,516)**	(1,297)
Proceeds on disposal of property, plant and equipment	**195**	—
Purchase of investments	**—**	(77)
Purchase of non-controlling interest of Hevey	**(2,480)**	—
Interest received	**42**	—
Net cash used in investing activities	**(35,532)**	(9,122)

	2022 £'000	2021 (restated[1]) £'000
Cash flows from financing activities		
Principal paid on lease liabilities	**(8,395)**	(6,750)
Issue of share capital	**25**	30,000
Costs of capital raise	**—**	(1,549)
Dividends	**(3,087)**	(999)
Capital repayment to non-controlling interests	**(10)**	—
Proceeds from borrowings	**110,976**	4,908
Repayment of borrowings	**(80,450)**	(40,081)
Bank interest paid	**(1,306)**	(529)
Interest on financial liabilities	**(124)**	(165)
Net cash inflow/(outflow) from financing activities	**17,629**	(15,165)
Net increase/(decrease) in cash and cash equivalents	**5,258**	(4,940)
Cash and cash equivalents at the beginning of the year	**11,402**	16,342
Cash and cash equivalents at the end of the year	**16,660**	11,402
Cash and cash equivalents	**16,038**	11,402
Cash and cash equivalents included in assets held for resale	**622**	—
Cash and cash equivalents at the end of the year	**16,660**	11,402

1. See note 3.3 for details regarding the restatement.

The notes on pages 83 to 124 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2022

1. General information

Lords Group Trading plc (the 'Company') is a public company limited by shares, listed on AIM 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 principal activity of the Company together with its subsidiary undertakings (the 'Group') throughout the period is 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 2 May 2023. 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 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 2022, the Group had £34.4 million of undrawn facilities as disclosed in note 25 and £16.0 million of cash. 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 2022, the interest ratio was over 14.5 and the last twelve months' net debt/adjusted EBITDA ratio was 1.6.

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 £24.8 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 an increase in interest base rate. 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 £3.1 million, or debtors increase by 15.0% above the base model, or the Bank of England base rate increases to 9.5%. 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.

On 5 April 2023 the Group has increased its facilities by a further £25 million with an initial three year term. For further details see note 40, post balance sheet events. The increased and extended facilities have not been considered in the above but will only increase the Group's resilience.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

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 applicable for the year ended 31 December 2022:

Amendments to IFRS standards applicable for year ended 31 December 2022:

Amendments to standards

- Amendments to IFRS 3 Business Combinations.
- Amendments to IAS 16 Property, Plant and Equipment.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- Annual Improvements 2018-2020.
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 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 financial statements, the Group has not applied the following revised IFRS standards that have been issued but were not effective for the year ended 31 December 2022:

- amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates; and
- amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies.

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group.

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. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.7 Rebates

Rebates received from suppliers for the purchase of inventory 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.

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 profit;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met;
- 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; and
- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.11 Intangible assets

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit or loss 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	9-14 years
Computer software	3-10 years
Customer relationships	9-14 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).

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.14 Valuation of investments

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.

Within Plumbing and Heating cost is determined on an average cost basis and on a first-in and first-out (FIFO) basis within Merchanting. 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; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

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 reassesses 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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.16 Leases continued

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.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.20 Financial liabilities

The Group measures its financial liabilities other than put and call options over non-controlling interest (see note 20.29), at amortised cost. 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 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.

2.25 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;
- 'share-based payment reserve' represents the value of share options awarded to employees. See note 2.26;
- 'retained earnings' represents retained earnings less retained losses; and
- 'non-controlling interests' represents the amount not attributable to the parent company.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.26 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. A binomial model is used to value options with no market performance conditions and a Monte Carlo model is used where there are market performance conditions.

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.

Deferred tax is recognised on share-based payments based on the expected number of options to vest multiplied by the share price on the last day of the financial year. The calculated cost is spread over the number of years from granting the options to vesting and charged to retained earnings.

2.27 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.

2.28 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.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Accounting policies continued

2.29 Accounting for written put and call options over shares held by non-controlling interests

The Group gives precedence to IFRS 10 over IAS 32 in determining the accounting for put and call arrangements over non-controlling interests. When a put and call option is put in place a liability equal to the present value of the exercise price of the put option is recorded. A risk and rewards analysis is undertaken regarding the ownership of non-controlling interest shares.

Where the Group does not have the risks and rewards of the non-controlling interest shares, the 'debit' arising on recognition of the put option liability is recognised in the Group's retained earnings and a non-controlling interest is also recognised in equity. Subsequently, profits and losses (and, where relevant, dividends) are allocated to the non-controlling interests and subsequent changes in the present value of the put option liability are recorded in the Group's equity.

Where the Group is assessed as having the risks and rewards of the non-controlling interest's shares the put option liability forms part of the acquisition consideration of 100% of the business and no non-controlling interest is recognised. Subsequent changes in the present value of the put option liability are recorded as a finance cost within the income statement and changes in the forecast payment within exceptional items in the income statement.

Any amounts payable under the put and call arrangements that, in substance, represent compensation for employee services, are excluded from the accounting described above. Such amounts payable are separately accounted for as employee benefit plans and are recognised over the service period as a long-term or short-term benefit.

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.

2.32 Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current asset and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Notes to the financial statements continued

for the year ended 31 December 2022

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 2.27 for the accounting policies and note 35 for contingent liabilities.

Assessment of who has the risk and reward of ownership of non-controlling interests with put and call options

A key area of judgement applied in the preparation of these financial statements is determining whether the risk and rewards of ownership resides with the non-controlling interests or the Group when an acquisition has put and call options.

Where the pricing is at a variable price, the Group assesses the risk and rewards reside with the non-controlling interests (NCI). This is because the exposure to any increase or decrease in the value of the business resides with the NCI, as they will either retain the investment indefinitely (if neither party exercises) or they can recover the fair value of the business through the exercise price.

Where the exercise price is a fixed amount (or an amount that varies only for the passage of time), then the risks and rewards reside with the Group. This is because once the put and call become exercisable, one party will be incentivised to exit because they benefit from doing so.

In the case of the acquisition of Direct Plumbing and Heating (see note 37) the Group acquired a 90% holding of the companies and has a put and call policy over the remaining 10%. The purchase price is based on a formula that approximates market value. There is also a service agreement which impacts 50% of the price paid for the shares but as the price paid is still variable the Group assesses the risk and rewards remain with the non-controlling interest.

In October 2017, the Group acquired a 75% interest in Hevey Building Supplies Limited with put and call interests over the remaining 25%. The purchase price of the options was at market value. There was also a service agreement which was in addition to and not affecting the purchase price of the option. The Group assesses that risk and reward remained with the non-controlling interest.

In April 2021, the Group acquired a 75% interest in Condell Limited with put and call interests over the remaining 25%. The purchase price of the options was at market value and there was no service contract. The Group assesses that risk and reward remained with the non-controlling interest.

As no liability had been recorded for the options of Hevey or Condell in prior years, a prior adjustment has been made and the accounting is included in note 3.3.

See note 2.29 for the accounting policies on options over non-controlling interests.

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 2.45% to 5.31% 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 2022 of £4,081,000 (2021: £3,484,000) and there would be a subsequent decrease in the lease liability of £3,730,000 (2021: £3,213,000). 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 2022 of £5,455,000 (2021: £4,902,000) and there would be a subsequent increase in the lease liability of £4,805,000 (2021: £4,140,000).

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.

Notes to the financial statements continued

for the year ended 31 December 2022

3. Critical accounting judgements, estimates and errors continued

3.2 Key accounting estimates and assumptions continued

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 reassessed 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 2.11 and 2.12 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 reassess 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 3.8% of inventory (2021: 5.9%). Doubling the provision would increase cost of sales/reduce the carrying value of inventory by £1,997,000 in 2022 (2021: £2,304,000).

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. Estimated attrition rates are net of growth rates for the existing customer base. 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 37 are as follows:

				Trade names	
	Customer attrition rate	EBIT as a % of revenue	Discount rate	Relief from royalty rate	Discount rate
Advance Roofing Supplies Limited	2.0%	8.0%	13.0%	0.3%	13.0%
A.W. Lumb	2.8%	5.5%	11.2%	0.3%	11.2%
DH&P Plumbing and Heating	9.1%	6.5%	12.8%	0.3%	12.8%
Sudbury branch acquisition	3.0%	9.2%	12.8%	–	–

3.3 Correction of error in accounting for option to acquire minority interest

In October 2017 and April 2021 the Group acquired a majority share in Hevey Building Supplies Limited and Condell Limited respectively. In both instances, a put and call agreement was put in place with the non-controlling interest for the acquisition of the remaining shares. The options were not accounted for by the Group. In addition Hevey Building Supplies Limited put in place a services agreement with deferred remuneration after five years attached to service and growth targets. The services agreement was not accounted for by the Group.

These errors have been corrected by restating each of the affected financial statements line items for the prior periods as at 31 December 2020 and 31 December 2021 respectively and as such have been corrected via a prior year restatement.

Consolidated statement of financial position (extract)	31 December 2020 £'000	Increase/ (decrease) £'000	31 December 2020 restated £'000
Non-current trade and other payables	2,840	4,411	7,251
Total non-current liabilities	54,985	4,411	59,396
Total liabilities	146,632	4,411	151,043
Net assets	17,131	(4,411)	12,720
Retained earnings	3,622	(4,411)	(789)
Total equity	17,131	(4,411)	12,720

Notes to the financial statements continued

for the year ended 31 December 2022

3. Critical accounting judgements, estimates and errors continued

3.3 Correction of error in accounting for option to acquire minority interest continued

Consolidated statement of financial position (extract)	31 December 2021 £'000	Increase/ (decrease) £'000	31 December 2021 restated £'000
Current trade and other payables	70,459	2,442	72,901
Total current liabilities	80,370	2,442	82,812
Non-current trade and other payables	3,621	4,245	7,866
Total non-current liabilities	41,191	4,245	45,436
Total liabilities	121,561	6,687	128,248
Net assets	50,748	(6,687)	44,061
Retained earnings	27,214	(6,687)	20,527
Total equity	50,748	(6,687)	44,061

Summary of movement in retained earnings	31 December 2021 £'000	Increase/ (decrease) £'000	31 December 2021 restated £'000
Retained earnings – 31 December 2020	3,622	(4,411)	(789)
Put and call options over non-controlling interests	—	(1,802)	(1,802)
Profit for the year	5,231	(474)	4,757
Capital reorganisation	19,360	—	19,360
Dividends paid	(999)	—	(999)
Retained earnings – 31 December 2021	27,214	(6,687)	20,527

Consolidated statement of comprehensive income (extract)	31 December 2021 £'000	Increase/ (decrease) £'000	31 December 2021 restated £'000
Exceptional expenses	(2,085)	(432)	(2,517)
EBITDA	20,123	(432)	19,691
Operating profit	10,762	(432)	10,330
Finance expense	(2,741)	(42)	(2,783)
Profit before tax	8,021	(474)	7,547
Taxation	(2,377)	—	(2,377)
Profit for the year	5,644	(474)	5,170

Total comprehensive income attributable to:	31 December 2021 £'000	Increase/ (Decrease) £'000	31 December 2021 restated £'000
Owners of the parent company	5,231	(474)	4,757
Non-controlling interest	413	—	413
	5,644	(474)	5,170
Earnings per share			
Basic earnings per share (pence)	3.73	(0.34)	3.39
Diluted earnings per share (pence)	3.40	(0.31)	3.09

The restatement also affected note 7 Exceptional items, increasing the charge by £432,000, and note 13 Finance expense, increasing the charge by £42,000.

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 (2021: nil).

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 chief operating decision-maker 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.

Notes to the financial statements continued

for the year ended 31 December 2022

5. Segmental analysis continued

2022	Plumbing and Heating £'000	Merchanting £'000	Total £'000
Revenue	229,264	220,756	450,020
Cost of sales	(196,471)	(164,766)	(361,237)
Gross profit	32,793	55,990	88,783
Other operating income	257	424	681
Distribution costs	(109)	(4,523)	(4,632)
Administrative expenses	(19,095)	(35,771)	(54,866)
Adjusted EBITDA	13,846	16,120	29,966
Share-based payments	(136)	(264)	(400)
Exceptional items	—	(929)	(929)
EBITDA	13,710	14,927	28,637
Depreciation	(305)	(1,764)	(2,069)
Amortisation	(2,442)	(7,798)	(10,240)
Operating profit	10,963	5,365	16,328
Finance income	—	42	42
Finance costs	(679)	(2,893)	(3,572)
Profit before taxation	10,284	2,514	12,798
Taxation	(2,583)	(674)	(3,257)
Profit for operating unit	7,701	1,840	9,541
Assets and liabilities			
Total assets	106,599	133,282	239,881
Total liabilities	(70,462)	(117,231)	(187,693)
Net assets	36,137	16,051	52,188
Additions to non-current assets	10,420	35,495	45,915

2021	Plumbing and Heating (Restated[1]) £'000	Merchanting (Restated[1]) £'000	Total (Restated[1]) £'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	—	(2,517)	(2,517)
EBITDA	10,261	9,430	19,691
Depreciation	(1,124)	(216)	(1,340)
Amortisation	(1,523)	(6,498)	(8,021)
Operating profit	7,614	2,716	10,330
Finance income	—	—	—
Finance costs	(773)	(2,010)	(2,783)
Profit before taxation	6,841	706	7,547
Taxation	(1,059)	(1,318)	(2,377)
Profit/(loss) for operating unit	5,782	(612)	5,170
Assets and liabilities			
Total assets	96,080	76,229	172,309
Total liabilities	(59,098)	(69,150)	(128,248)
Net assets	36,982	7,079	44,061
Additions to non-current assets	9,895	7,756	17,651

1. See note 3.3 for details regarding the restatement.

Notes to the financial statements continued

for the year ended 31 December 2022

6. Other operating income

	2022 £'000	2021 £'000
Commission	**434**	504
Parking income	**175**	131
Other	**72**	61
	681	696

7. Exceptional items

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

	2022 £'000	2021 (restated[1]) £'000
HS2 compensation	**(748)**	–
Listing costs	**–**	1,523
Costs of previous financing expensed	**–**	248
Costs of business combinations	**842**	514
Retentions employment costs on acquisitions	**681**	432
National insurance payments	**338**	–
Reduction in contingent consideration	**(184)**	(200)
	929	2,517

1. See note 3.3 for details regarding the restatement.

Year ended 31 December 2022

The Group received compensation from HS2 for business disruption that has occurred to the Lords Builders Merchants Park Royal branch of £748,000.

The costs associated with the business combinations detailed in note 19 have been expensed and disclosed as exceptional items which amount to £842,000. The Group sometimes includes retentions payments on its acquisitions for key staff. The cost of these retentions is expensed over the period that it relates to. The costs in the year were £681,000.

On migrating to a new payroll system in 2016, two of the Group's subsidiary entities determined that there has been an error in the calculation of employer and employee national insurance over the last four years such that there was an under-payment of national insurance. The Group promptly notified HMRC of the error upon discovery in 2022 and has agreed and paid a full and final payment of £338,000 to cover all national insurance due.

The first instalment of the contingent consideration for Condell Limited was due in April 2022. Condell did not meet the agreed EBITDA target for the first payment to be triggered. The present value of the contingent liability of £184,000 has been released to the income statement within exceptional items. The remaining deferred consideration with a present value of £188,000 is due in April 2023 if EBITDA targets are achieved.

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 37.

The Group sometimes includes retentions payments on its acquisitions for key staff. The cost of these retentions is expensed over the period that it relates to. The costs in the year were £432,000.

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.

Notes to the financial statements continued

for the year ended 31 December 2022

8. Employee benefit expenses

Staff costs of continuing operations, including directors' remuneration, were as follows:

	2022 £'000	2021 £'000
Wages and salaries	**31,298**	22,833
Social security costs	**3,050**	2,313
Defined contribution costs	**697**	424
Share-based payments	**400**	96
	35,445	25,666

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

	2022 No.	2021 No.
Management and administration	**110**	82
Sales, retail and manufacturing	**770**	556
	880	638

9. Directors' and key management remuneration

Statutory directors of Lords Group Trading plc

	2022 £'000	2021 £'000
Remuneration for qualifying services	**1,259**	941
Company contributions to money purchase pension schemes	**15**	13
	1,274	954

Directors participating in defined contribution pensions as at the period end 2022 was none (2021: none). Directors participating in money purchase schemes as at the period end 2022 was one (2021: none).

One director (2021: none) exercised share options during the year. See the directors' remuneration report for details. Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2022 £'000	2021 £'000
Remuneration for qualifying services	**713**	310
	713	310

The highest paid director did not exercise any share options during the year.

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.

	2022 £'000	2021 £'000
Remuneration for qualifying services	**2,496**	1,283
Social security contributions and similar taxes	**278**	153
Company contributions to money purchase pension schemes	**57**	55
Share-based payments	**24**	3
	2,855	1,494

Notes to the financial statements continued

for the year ended 31 December 2022

10. Expenses by nature

Operating profit is stated after charging/(crediting):

	2022 £'000	2021 £'000
Depreciation of property, plant and equipment	**2,069**	1,340
Amortisation of intangible assets	**3,317**	2,087
Amortisation of right-of-use assets	**6,923**	5,934
Inventories recognised as an expense	**361,237**	300,569
Short-term and low-value lease payments	**142**	148
Foreign exchange gains	**(6)**	(14)
Share-based payments	**400**	96
Release of impairment of inventories	**(307)**	(142)
Profit on disposal of property, plant and equipment	**(151)**	—
Defined contribution pension plan	**697**	424

11. Auditors' remuneration

For the 52 weeks ended 31 December 2022, the remuneration provided to the auditors, RSM UK Audit LLP, was as detailed below.

	2022 £'000	2021 £'000
Audit services – statutory audit of the parent and consolidated financial statements	**181**	110
Statutory audit of subsidiary companies	**265**	215
Capital market-related assurance services	**—**	351
Audit-related assurance services	**26**	20
	472	696

£50,000 of the audit fees in 2022 relate to additional costs incurred to complete the statutory audits in 2021.

12. Finance income

	2022 £'000	2021 £'000
Bank interest receivable	**42**	—
	42	—

13. Finance expense

	2022 £'000	2021 (restated[1]) £'000
Bank loans and overdrafts	**1,306**	529
Invoice discounting facilities	**124**	165
Unwinding of deferred consideration and call and put options	**183**	212
Interest on dilapidation provision	**46**	41
Lease liabilities	**1,913**	1,836
	3,572	2,783

1. See note 3.3 for details regarding the restatement.

Notes to the financial statements continued

for the year ended 31 December 2022

14. Taxation

	2022 £'000	2021 (restated[1]) £'000
Corporation tax		
Current tax on profit for the year	**3,883**	2,344
Adjustments in respect of previous periods	**87**	366
	3,970	2,710
Deferred tax		
Originating and reversal of temporary differences	**(762)**	(198)
Adjustments in respect of previous periods	**46**	(707)
Effect of changes in tax rates	**3**	572
	(713)	(333)
Total tax charge	**3,257**	2,377

1. See note 3.3 for details regarding the restatement.

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The difference is explained below:

	2022 £'000	2021 (restated[1]) £'000
Profit before taxation	**12,798**	7,547
Profit multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**2,432**	1,434
Adjustments in respect of previous periods	**133**	(341)
Expenses not deductible	**660**	843
Income not deductible	**(148)**	—
Changes in tax rates	**3**	572
Deferred tax not recognised	**107**	16
Share-based payments	**70**	(147)
Total tax charge for the year	**3,257**	2,377

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 the year end. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the financial statements continued

for the year ended 31 December 2022

15. Dividends

	2022 £'000	2021 £'000
Interim paid	**1,997**	999
Final paid	**1,090**	—
	3,087	999

In 2022 dividends paid per share was 1.93 pence (2021: 0.63 pence). The final dividend proposed but unpaid for 2022 was 1.33 pence (2021: 1.26 pence).

16. Earnings per share

	2022	2021 (restated[1])
Basic earnings per share		
Earnings from continuing activities (pence)	**5.68**	3.39
Diluted earnings per share		
Earnings from continuing activities (pence)	**5.36**	3.09

	2022	2021
Weighted average shares for basic earning per share	**160,523,582**	140,354,443
Number of dilutive share options	**9,552,402**	13,647,753
Weighted average number of shares for dilutive earnings per share	**170,075,984**	154,002,196

	2022	2021
Earnings attributable to the equity holders of the parent (£'000)	**9,117**	4,757

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 £9,117,000 (2021: earnings of £4,757,000) as the numerator, meaning no adjustment to profit was necessary in either year.

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.

	2022 £'000	2021 (restated[1]) £'000
Earnings attributable to the equity holders of the parent	**9,117**	4,757
Exceptional items	**929**	2,517
Share-based payments	**400**	96
Amortisation of intangible assets	**3,317**	2,087
Less tax impact of adjustments	**(883)**	(893)
Adjusted earnings	**12,880**	8,564
Weighted average shares for basic earnings per share	**160,523,582**	140,354,443
Number of dilutive share options	**9,552,402**	13,647,753

	2022	2021
Adjusted basic earnings per share		
Earnings from continuing activities (pence)	**8.02**	6.10
Adjusted diluted earnings per share		
Earnings from continuing activities (pence)	**7.57**	5.56

1. See note 3.3 for details regarding the restatement.

Notes to the financial statements continued

for the year ended 31 December 2022

17. Intangible assets

	Software £'000	Customer relationships £'000	Trade names £'000	Goodwill £'000	Total £'000
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 amount	952	12,454	1,797	7,470	22,673
Year ended 31 December 2022					
Opening net book value	**952**	**12,454**	**1,797**	**7,470**	**22,673**
Additions	**236**	**—**	**—**	**—**	**236**
Reclassification from tangible assets	**—**	**—**	**—**	**1,649**[1]	**1,649**
Acquired through business combinations	**140**	**15,649**	**1,124**	**7,177**	**24,090**
Amortisation charge	**(216)**	**(2,787)**	**(314)**	**—**	**(3,317)**
Closing net book value	**1,112**	**25,316**	**2,607**	**16,296**	**45,331**
At 31 December 2022					
Cost	**1,709**	**33,555**	**3,391**	**16,296**	**54,951**
Accumulated amortisation and impairment	**(597)**	**(8,239)**	**(784)**	**—**	**(9,620)**
Net book amount	**1,112**	**25,316**	**2,607**	**16,296**	**45,331**

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 £126,208 (2021: £151,449) and has a remaining amortisation period of six years (2021: seven years). In addition, another subsidiary company implemented an ERP and stock management system with a carrying value at year end of £557,148 (2021: £621,841) and with a remaining amortisation period of seven years (2021: eight years). There are no other individually material intangible assets.

1. The acquisition of Condell included a long leasehold which was originally classified as a freehold. This has been reclassified under IFRS 16 and the reduction in tangible assets increases goodwill on acquisition. This has not had a material impact on net assets at the acquisition date or at 31 December 2021 and no prior year restatement has been made for this.

Notes to the financial statements continued

for the year ended 31 December 2022

17. Intangible assets continued

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 carrying amount of goodwill is allocated across multiple cash-generating units and the amount allocated to each unit is not significant in comparison with the entity's total carrying amount of goodwill.

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

	2022 £'000	2021 £'000
Merchanting	**33,104**	15,981
Plumbing and Heating	**12,227**	6,692
	45,331	22,673

The total recoverable amount in relation to these CGUs at 31 December 2022 was £279,409,000 (2021: £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 2022 and 2021 were in excess of the carry value of goodwill and so no goodwill was impaired, or any part of the CGU 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	4.8% - 11.3%	1.5% - 5.8%
Terminal sales growth	2.0%	2.0%
Discount rate	11.5%	11.5%

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 2022. 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)	141,676	137,732
Current headroom (£'000)	94,504	62,694
Five-year sales growth	<0%	<0%[1]
Terminal sales growth	<0%	<0%[1]
Discount rate	13% - 39%	18% - 28%

1. Two CGUs within the Merchanting division are more sensitive than this and breakeven occurs with five-year sales growth limited to 1-2%. The recoverable amount of the CGUs is £26,309,000 (2021: £9,123,000) and the base headroom is £7,717,000 (2021: £1,022,000).

Notes to the financial statements continued

for the year ended 31 December 2022

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 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 amount value	1,845	3,617	1,306	75	925	282	8,050
Year ended 31 December 2022							
Opening net book value	1,845	3,617	1,306	75	925	282	8,050
Additions	**307**	**1,393**	**264**	**548**	**628**	**376**	**3,516**
Disposals	**—**	**—**	**(4)**	**(40)**	**—**	**—**	**(44)**
Reclassification to intangible assets	**—**	**(1,649)**[1]	**—**	**—**	**—**	**—**	**(1,649)**
Reclassification acquired through business combinations	**—**	**—**	**—**	**34**	**(34)**	**—**	**—**
Acquired through business combinations	**4,979**	**36**	**13**	**537**	**148**	**150**	**5,863**
Transferred to disposal group held for sale	**—**	**(11)**	**—**	**—**	**—**	**(9)**	**(20)**
Depreciation charge	**(169)**	**(844)**	**(128)**	**(322)**	**(392)**	**(214)**	**(2,069)**
Closing net book value	**6,962**	**2,542**	**1,451**	**832**	**1,275**	**585**	**13,647**
At 31 December 2022							
Cost	**7,283**	**6,252**	**2,573**	**1,197**	**3,462**	**1,258**	**22,025**
Accumulated depreciation and impairment	**(321)**	**(3,710)**	**(1,122)**	**(365)**	**(2,187)**	**(673)**	**(8,378)**
Net book value	**6,962**	**2,542**	**1,451**	**832**	**1,275**	**585**	**13,647**

1. The acquisition of Condell included a long leasehold which was originally classified as a freehold. This has been reclassified under IFRS 16 and the reduction in tangible assets increases goodwill on acquisition. This has not had a material impact on net assets at the acquisition date or at 31 December 2021 and no prior year restatement has been made for this.

Notes to the financial statements continued

for the year ended 31 December 2022

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.

	2022	2021
Number of active leases	**240**	210

Description of payments

	2022 £'000	2021 £'000
Principal lease payments	**8,395**	6,750
Interest on dilapidation provision	**46**	41
Interest payments on leases	**1,913**	1,836
Short-term and low-value lease costs	**142**	148
	10,496	8,775

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 2020				
Cost	33,195	5,833	5,094	44,122
Accumulated amortisation and impairment	(7,349)	(1,997)	(2,689)	(12,035)
At 1 January 2021	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 amount	26,516	3,030	3,725	33,271

Notes to the financial statements continued

for the year ended 31 December 2022

19. Leases and right-of-use assets continued

Right-of-use assets continued

	Leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Year ended 31 December 2022				
At 1 January 2022	**26,516**	**3,030**	**3,725**	**33,271**
Additions	**7,346**	**40**	**738**	**8,124**
Acquired through business combinations	**3,988**	**—**	**98**	**4,086**
Lease modifications	**410**	**—**	**—**	**410**
Amortisation charge	**(4,245)**	**(689)**	**(1,989)**	**(6,923)**
At 31 December 2022	**34,015**	**2,381**	**2,572**	**38,968**
At 31 December 2022				
Cost	**48,961**	**5,995**	**8,904**	**63,860**
Accumulated amortisation and impairment	**(14,946)**	**(3,614)**	**(6,332)**	**(24,892)**
Net book amount	**34,015**	**2,381**	**2,572**	**38,968**

Lease liabilities

	Leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
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
At 1 January 2022	30,065	2,979	3,588	36,632
Additions	**7,302**	**39**	**738**	**8,079**
Acquired through business combinations	**3,783**	**—**	**98**	**3,881**
Lease modifications	**410**	**—**	**—**	**410**
Interest expenses	**1,602**	**167**	**144**	**1,913**
Lease payments (including interest)	**(5,463)**	**(1,240)**	**(1,692)**	**(8,395)**
At 31 December 2022	**37,699**	**1,945**	**2,876**	**42,520**

Notes to the financial statements continued

for the year ended 31 December 2022

19. Leases and right-of-use assets continued

Reconciliation of minimum lease payments and present value

	2022 £'000	2021 £'000
Within one year	5,963	6,200
Later than one year and less than five years	19,415	19,236
Later than five years and less than ten years	14,670	11,534
Later than ten years and less than 15 years	8,955	8,550
After 15 years	6,550	2,272
Total including interest cash flows	55,553	47,792
Less interest cash flows	(13,033)	(11,160)
Total principal cash flows	42,520	36,632

Reconciliation of current and non-current lease liabilities

	2022 £'000	2021 £'000
Current	5,496	5,114
Non-current	37,024	31,518
Total	42,520	36,632

20. Investments

	2022 £'000	2021 £'000
Cost or valuation		
Listed investments	1	1
Other investments	84	83
	85	84

21. Inventories

	2022 £'000	2021 £'000
Raw materials and consumables	436	175
Finished goods and goods for resale	52,741	38,606
	53,177	38,781

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 £1,997,000 (2021: £2,304,000). Inventory provisions are based on estimates and assumptions by management and include consideration of slow-moving items, damaged items and possibility of theft. Following implementation of new software during the year, more relevant and reliable information is available to management for assessing the provision for impairment.

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

Notes to the financial statements continued

for the year ended 31 December 2022

22. Trade and other receivables

	2022 £'000	2021 £'000
Amounts falling due after one year		
Other receivables	**279**	304
	279	304
Amounts falling due within one year		
Trade receivables	**60,673**	50,930
Other receivables	**7,640**	5,333
Prepayments	**2,710**	1,481
	71,023	57,744

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 £524,000 (2021: £323,000) in the profit or loss in respect of the expected credit losses for the year ended 31 December 2022.

Analysis of trade receivables based on age of invoices:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022	2021	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Not overdue	**0.2%**	0.1%	**20,072**	22,101	**36**	17
31-60 days	**0.1%**	0.3%	**30,297**	23,283	**29**	65
61-90 days	**1.0%**	1.6%	**7,569**	3,686	**74**	59
Greater than 90 days	**19.8%**	8.4%	**3,582**	2,183	**708**	182
			61,520	51,253	**847**	323
Less allowance for expected credit losses			**(847)**	(323)		
Trade receivables			**60,673**	50,930		

The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay due to the weakening economic outlook. As a result, the calculations of expected credit losses have been revised as at 31 December 2022 and rates have increased in the greater than 90 day category.

Notes to the financial statements continued

for the year ended 31 December 2022

22. Trade and other receivables continued

Movement in the allowance for expected credit losses is as follows:

	2022 £'000	2021 £'000
Opening balance	**323**	523
Additional provisions recognised	**796**	215
Receivables written off during the year as uncollectable	**(97)**	(144)
Unused amounts reversed	**(175)**	(271)
Closing balance	**847**	323

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. Disposal group held for sale

The disposal group classified as held for sale comprises the net carrying value of the assets and liabilities of Lords at Home Ltd. The company was sold on 2 February 2023 for £805,000 and given its proximity to the year end the sale was highly probable at 31 December 2022. For more information on the sale see the post balance sheet events note 41. The net assets of the disposal group are included within the Merchanting segment. No gain or loss was recognised at 31 December 2022 as a result of there being no material difference between the fair value less costs to sale and carrying values of the assets and liabilities in the disposal group.

The carrying amounts of assets and liabilities in this disposal group as at 31 December 2022 are summarised as follows:

	2022 £'000
Non-current assets	
Property, plant and equipment	**20**
Deferred tax asset	**25**
Current assets	
Inventories	**533**
Trade and other receivables	**133**
Cash and cash equivalents	**622**
Assets classified as held for sale	**1,333**
Current liabilities	
Trade and other payables	**(645)**
Provisions	**(30)**
Liabilities classified as held for sale	**(675)**
Net assets classified as held for sale	**658**

24. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank available on demand	**16,038**	11,402
	16,038	11,402

Notes to the financial statements continued

for the year ended 31 December 2022

25. Trade and other payables

	2022 £'000	2021 (restated[1]) £'000
Amounts falling due within one year:		
Trade payables	**72,469**	57,991
Other taxation and social security	**3,974**	4,113
Other payables	**5,714**	4,373
Accruals	**12,186**	6,424
	94,343	72,901

	2022 £'000	2021 (restated[1]) £'000
Amounts falling due after one year:		
Other payables	**4,716**	7,866
	4,716	7,866

1. See note 3.3 for details regarding the restatement.

Other payables comprise of deferred consideration relating to various acquisitions and the anticipated cost of acquiring non-controlling interests where put and call options are in place. Other payables 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.

26. Borrowings

Current	2022 £'000	2021 £'000
Other loans	**10,348**	2,783
Total current borrowings	**10,348**	2,783
Non-current		
Bank loans	**25,086**	2,125
Total non-current borrowings	**25,086**	2,125
Total borrowings	**35,434**	4,908

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

	2022 £'000	2021 £'000
Less than one year	**10,348**	2,783
Later than one year and less than five years	**25,086**	2,125
Total borrowings	**35,434**	4,908

Total transaction costs were £413,000 at the date of issue and unamortised transaction costs of £207,000 (2021: £187,000) have been offset against the bank loans.

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

	2022 £'000	2021 £'000
Total facilities		
Revolving credit facility	**50,000**	30,000
Invoice drawdown facility	**20,000**	10,000
	70,000	40,000
Used at 31 December		
Revolving credit facility	**25,293**	2,312
Invoice drawdown facility	**10,348**	2,783
	35,641	5,095
Unused at 31 December		
Revolving credit facility	**24,707**	27,688
Invoice drawdown facility	**9,652**	7,217
	34,359	34,905

The Group amended its banking facilities with HSBC UK Bank plc on 28 February 2022 and increased its invoice drawdown facility to £20 million and its revolving loan facility to £50 million. Details of the facilities are:

- an invoice financing facility of £20 million attracting an interest rate of UK base rate +1.8%; and
- a revolving credit facility of £50 million attracting an interest rate of SONIA + 2.75% at 31 December 2022 with fixed tiers up to 3.00% based on leverage.

All facilities expire on 24 July 2024. On 5 April 2023 the Group's facilities were increased to £95 million with an initial three year term. For further details see note 40.

Notes to the financial statements continued

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27. 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 2021	20,738	4,180	18,522	30,373	39,260	34,553
Acquired through business combinations	821	597	—	1,894	821	2,491
Proceeds from borrowings	1,962	—	2,125	—	4,087	—
Repayment of borrowings	(20,738)	—	(18,522)	—	(39,260)	—
Principal lease payments	—	(6,750)	—	—	—	(6,750)
Other non-cash movements	—	1,836	—	—	—	1,836
New leases	—	450	—	3,002	—	3,452
Modifications/remeasurement and transfers from current to non-current	—	4,801	—	(3,751)	—	1,050
At 31 December 2021	2,783	5,114	2,125	31,518	4,908	36,632
At 1 January 2022	**2,783**	**5,114**	**2,125**	**31,518**	**4,908**	**36,632**
Acquired through business combinations	**—**	**387**	**—**	**3,494**	**—**	**3,881**
Proceeds from borrowings	**7,565**	**—**	**103,411**	**—**	**110,976**	**—**
Repayment of borrowings	**—**	**—**	**(80,450)**	**—**	**(80,450)**	**—**
Principal lease payments	**—**	**(8,395)**	**—**	**—**	**—**	**(8,395)**
Other non-cash movements	**—**	**1,913**	**—**	**—**	**—**	**1,913**
New leases	**—**	**3,688**	**—**	**4,391**	**—**	**8,079**
Modifications/remeasurement and transfers from current to non-current	**—**	**2,789**	**—**	**(2,379)**	**—**	**410**
At 31 December 2022	**10,348**	**5,496**	**25,086**	**37,024**	**35,434**	**42,520**

Notes to the financial statements continued

for the year ended 31 December 2022

28. Other provisions

	2022 £'000	2021 £'000
Lease liability dilapidations	**1,283**	987
	1,283	987

	Leasehold property £'000
At 31 December 2021	987
Additions	**64**
Modification	**11**
Acquired through business combinations	**205**
Interest	**46**
Transferred to disposal group held for sale	**(30)**
As at 31 December 2022	**1,283**

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 2023 and 2129 as the leases terminate. The provision has been calculated using historical experience of actual expenditure incurred on dilapidations and estimated lease termination dates.

29. 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:

	2022 £'000	2021 £'000
Accelerated capital allowances/IFRS 16	**660**	26
Business combinations	**7,170**	3,008
Losses	**(307)**	(198)
Share-based payments	**(501)**	104
Net deferred tax liability	**7,022**	2,940

Movement in period

	2022 £'000	2021 £'000
At beginning of the year	**2,940**	2,433
Charged to income statement	**(713)**	(333)
Credited to equity	**(516)**	—
Movement arising from the acquisition of business	**5,311**	840
Net deferred tax liability	**7,022**	2,940

30. Share capital

	2022 £'000	2021 £'000
Allocated, called up and fully paid		
162,511,000 (2021: 157,505,000) ordinary shares of £0.005 each	**813**	788

Movements in the year

	2022 Shares '000	2022 Nominal value £'000
Beginning of the year	**157,505**	**788**
Issue of share capital	**1,020**	**5**
Shares issued on exercise of share options	**3,986**	**20**
	162,511	**813**

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for the year ended 31 December 2022

30. Share capital continued

The movement in share capital in the prior year was as follows:

Issued shares by value	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 1 January 2021	9,981	11	9,998	—	—	—	19,990
Capital reduction of A1 to F1 shares	(9,981)	—	—	495	—	—	(9,486)
Cancellation of H shares	—	—	(7,523)	—	—	—	(7,523)
Capital reduction of H Shares	—	—	(2,475)	—	124	—	(2,351)
Share capital reorganisation	—	619	—	(495)	(124)	—	—
Share capital reorganisation (ordinary shares)	—	(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	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	99,998	1,088	9,900	—	—	—
Capital reduction of A1 to F1 shares	(99,998)	—		9,900	—	—
Cancellation of H shares	—	—	(7,523)	—	—	—
Capital reduction of H Shares	—	—	(2,377)	—	2,475	—
Share capital reorganisation	—	61,875	—	(9,900)	(2,475)	—
Share capital reorganisation (ordinary shares)	—	(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

Notes to the financial statements continued

for the year ended 31 December 2022

30. Share capital continued

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.

31. 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:

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
01/10/2021	01/10/2031	0p	—	481,106	—	481,106
			12,936,670	481,106	—	13,417,776
Weighted average exercise price			0.005	—	—	0.005

2022 grant date	Expiry date	Exercise price	Balance at start of year	Granted	Exercised	Forfeited	Balance at end of year
27/06/2019	26/12/2029	0.005p	12,936,670	—	(3,986,499)	—	8,950,171[1]
01/10/2021	01/10/2031	0p	481,106	—	—	(45,132)	435,974[2]
15/05/2022	15/05/2032	0p	—	705,170	—	(598,374)	106,796[3]
30/06/2022	30/06/2032	0p	—	59,738	—	—	59,738[4]
30/06/2022	30/06/2032	83.7p	—	179,212	—	—	179,212[4]
			13,417,776	944,120	(3,986,499)	(643,506)	9,731,891
Weighted average exercise price			0.005	15.888	0.005	—	1.541

1. 2016 Company Share Option Plan.
2. 2021 Deferred Bonus Plan.
3. 2022 Deferred Bonus Plan.
4. 2022 Long Term incentive Plan.

Notes to the financial statements continued

for the year ended 31 December 2022

31. Share-based payments continued

2016 Company Share Option Plan

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 and 31 December 2022. The remaining options under the CSOP are exercisable on issuing the 31 December 2022 annual financial statements.

2021 and 2022 Deferred Bonus Plan

The Group issued a deferred bonus plan to certain key management personnel. Under the Deferred Bonus Plan options vest automatically at no cost to the employee after a three-year holding period.

2022 Long Term Incentive Plan

The options vest on 31 December 2024 subject to continued service and achieving certain market and non-market conditions relating to earnings per share and total shareholder return as defined under IFRS 2.

Other share-based payment information

No options were exercisable at the end of the financial year (2021: nil).

The weighted average share price during the year was 83.8 pence (2021: 123.4 pence). The options that were exercised in the year were exercised when the share price was 80.0 pence.

The weighted average remaining contractual life of the remaining options outstanding at the end of the financial year was 7.2 years (2021: 8.2 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	Options issued	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
15/02/2022	15/02/2032	705,185	1.250	—	40.0%	1.2%	1.5%	0.989
30/06/2022	30/06/2032	29,869	0.735	—	40.0%	2.6%	1.9%	0.690
30/06/2022	30/06/2032	89,606	0.735	83.7p	40.0%	2.6%	1.9%	0.136
30/06/2022	30/06/2032	29,869	0.735	—	40.0%	2.6%	1.9%	0.314
30/06/2022	30/06/2032	89,606	0.735	83.7p	40.0%	2.6%	1.9%	0.148

2021 grant date	Expiry date	Options issued	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/10/2021	01/10/2031	481,106	1.350	—	43.1%	0.9%	0.4%	1.321

The expected volatility reflects the assumption that the historical volatility over a period, similar to the life of the options, is indicative of future trends, which may not necessarily be the actual outcome.

A binomial model is used to value options with no market performance conditions and a Monte Carlo model is used where there are market performance conditions.

Notes to the financial statements continued

for the year ended 31 December 2022

32. 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. Movements in put and call options where risk is deemed to be with the Group are included within retained earnings.

33. Non-controlling interests

A complete list of subsidiary companies with non-controlling interests is included in note 45.

	2022 £'000	2021 £'000
At 1 January	**4,337**	3,499
Total comprehensive income	**424**	413
Arising on business combinations	**745**	425
Acquisition of non-controlling interest	**(4,168)**	–
Capital repayment	**(10)**	–
At 31 December	**1,328**	4,337

The Group has non-controlling interests in Condell Limited, Direct Plumbing and Heating Limited and Weldit LLP.

On 22 October 2022, the Group acquired the remaining 25% non-controlling interest of Hevey Building Supplies Limited (Hevey). The Group originally purchased a 75% interest in Hevey in October 2017.

The original Hevey acquisition included a put and call option over the remaining 25% shareholding interest in Hevey for a predefined market value.

The Hevey option has now been exercised and the Group has now acquired the non-controlling interest for £6.2 million in cash, with 40% payable on completion of the acquisition of the non-controlling interest and the remaining 60% paid as fixed deferred consideration in seven equal quarterly instalments over the next two years. Acquisition costs totalled £35,000 and are disclosed within the statement of comprehensive income within exceptional items.

A summary of Hevey Building Supplies Limited prepared under FRS 102, which had a 25% non-controlling interest until 22 October 2022, and was 100% owned after that date, is as follows. The main differences between the accounts under IFRS and FRS 102 relate to IFRS 16. Below are disclosed the profit and cash flows for the period until the non-controlling interests were acquired.

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for the year ended 31 December 2022

33. Non-controlling interests continued

	Period ending 22 October 2022 £'000	Year ended 31 December 2021 £'000
Summarised statement of profit or loss and other comprehensive income		
Revenue	**52,142**	42,138
Expenses	**(50,159)**	(39,732)
Profit before tax	**1,983**	2,406
Taxation	**(623)**	(591)
Profit after tax	**1,360**	1,815
Other comprehensive income	**—**	—
Total comprehensive income	**1,360**	1,815
Statement of cash flows		
Net cash from operating activities	**(868)**	1,966
Net cash from investing activities	**(730)**	(4,897)
Net cash used in financing activities	**209**	1,380
Net decrease in cash and cash equivalents	**(1,389)**	(1,551)
Other financial information		
Opening accumulated profit attributable to non-controlling interests	**1,310**	902
Profit attributable to non-controlling interests	**340**	408
Acquisition of non-controlling interests	**(1,650)**	—
Closing accumulated profit attributable to non-controlling interests	**—**	1,310

The summarised statement of financial position as at 31 December 2021 was as follows:

	As at 31 December 2021 £'000
Summarised statement of financial position	
Non-current assets	5,036
Current assets	13,275
Total assets	18,311
Current liabilities	(11,835)
Total non-current liabilities	(496)
Total liabilities	(12,331)
Net assets	5,980

34. Retirement benefit scheme

	2022 £'000	2021 £'000
Defined contribution scheme		
Charge to income statement	**697**	424
	697	424

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 31 December 2022 were £182,914 (2021: £145,422).

Notes to the financial statements continued

for the year ended 31 December 2022

35. 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 2022 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 APP 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 will be significantly less than the maximum that could be imposed by HMRC and therefore would be covered by the warranties contained in the sale and purchase agreement for APP Wholesale Limited.

The Group has since conducted training for certain staff members within APP 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.

36. Financial instruments

Financial assets

Financial assets measured at amortised cost comprise trade receivables, other receivables, accrued income and cash. It does not include prepayments.

	2022 £'000	2021 £'000
Trade receivables	**60,673**	50,930
Other receivables	**7,919**	5,637
Cash at bank and in hand	**16,038**	11,402
	84,630	67,969

Fair value measurement

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.

Notes to the financial statements continued

for the year ended 31 December 2022

36. Financial instruments continued

Fair value measurement continued

Financial assets and liabilities measured at fair value include derivative financial assets and liabilities, as follows:

	Level	2022 £'000	2021 (restated) £'000
Listed investments	1	**1**	1
Unlisted investments	3	**84**	83
		85	84
Call and put options	3	**1,362**	5,310
		1,362	5,310

The Group holds call and put options over shares held by some of its non-controlling interests. The purchase price is at market value or a multiple of earnings before interest, tax, depreciation and amortisation (EBITDA). At year end the option price is reassessed and any increase or decrease charged or credited to retained earnings. See note 2.29 for the accounting policy on call and put options. For more information see note 3.3.

The movement in call and put options in the year was as follows:

	2022 £'000
Balance at 31 December 2021 (restated)	**5,310**
Options exercised	**(4,158)**
Options added by business acquisition	**619**
Reassessment of amount payable	**(409)**
Balance at 31 December 2022	**1,362**

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 or liabilities held for sale.

	2022 £'000	2021 (restated[1]) £'000
Trade payables	**72,469**	57,991
Other payables	**10,430**	12,239
Accruals	**12,186**	6,424
Lease liabilities	**42,520**	36,632
Borrowings	**35,434**	4,908
	173,039	118,194

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.

Notes to the financial statements continued

for the year ended 31 December 2022

36. Financial instruments continued

Credit risk continued

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+.

Interest rate risk

The Group's current main interest rate risk arises from long-term borrowings which are financed at interest rates between SONIA + 1.8% and SONIA + 3.0%. Bank and other borrowings outstanding at 31 December 2022 amounted to £35,434,000 (2021: £4,908,000). An increase/decrease in interest rates of 1% would decrease/increase profit before tax by £354,000 (2021: £49,000).

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 non-derivative liabilities within trade and other payables, loans and leases is shown below:

	2022 £'000	2021 (restated[1]) £'000
Less than one year	**106,755**	76,000
Due after one year	**78,112**	48,378
	184,867	124,378

1. See note 3.3 for details regarding restatement.

The only derivative liabilities within the Group are put and call options to acquire non-controlling interests which are included within other creditors. A maturity analysis of the Group's derivative liabilities is shown below:

	2022 £'000	2021 (restated[1]) £'000
Less than one year	**—**	1,839
Due after one year	**1,502**	3,678
	1,502	5,517

1. See note 3.3 for details regarding restatement.

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;
- maintain its credit rating status while investing in organic developments and acquisition opportunities that are expected to generate attractive returns; and
- maintain a progressive dividend policy which provides a reasonable expectation of future returns to shareholders.

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 Group increased its borrowing facilities by £20 million to £70 million. The Group has increased its total dividend for the year from 1.89 pence per share in 2021 to 2.00 pence per share in 2022.

These capital management policies have remained unchanged from the prior year.

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37. Business combinations

Advance Roofing Limited

On 5 January 2022, the Group concluded a 100% share capital purchase of Advance Roofing Limited for £3,877,000 through Carboclass Limited. Consideration was via an initial payment of £3,627,000 and deferred consideration of £250,000. Advanced Roofing is a £6,800,000 turnover, two-site operation based in Tring and Aylesbury. The principal reason for the acquisition was to acquire the customer base of Advance Roofing. The acquired business contributed revenues of £7,646,000 and profit before tax of £541,000 to the consolidated entity for the year ended 31 December 2022. The following table summarises the fair value of assets acquired, and liabilities assumed, at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	1,681
Intangible asset – trade names	121
Property, plant and equipment	636
Right-of-use assets	582
Inventories	980
Trade and other receivables	776
Cash	822
Trade and other payables	(1,260)
Dilapidation provision	(63)
Lease liabilities	(534)
Deferred tax liability	(458)
Total fair value	**3,283**
Consideration	3,877
Goodwill	**594**

The fair values include recognition of an intangible asset relating to customer relationships of £1,681,000 and trade names of £121,000, which will be amortised over 13 years on a straight-line basis. The goodwill of £594,000 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 25%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £129,000 and are disclosed within the statement of comprehensive income within exceptional items.

	£'000
Cash	3,627
Deferred consideration	250
Total consideration	**3,877**

A deferred consideration arrangement was agreed during the purchase of Advanced Roofing Limited. An additional cash payment of £250,000 is payable one year after the acquisition date.

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	3,627
Less cash acquired at acquisition	(822)
Net cash movement	**2,805**

A.W. Lumb

On 28 February 2022, the Group concluded a 100% share capital purchase of AWLC Limited and subsidiaries (A.W. Lumb) for £21,346,000 through Lords Builders Merchants Holdings Limited. Consideration was via an initial payment of £19,688,000 and deferred consideration of £1,800,000. A.W. Lumb is a £44,500,000 turnover, two-site operation based in Dewsbury and Tamworth. The principal reason for the acquisition was to acquire the customer base of A.W. Lumb. The acquired business contributed revenues of £45,900,000 and profit before tax of £3,831,000 to the consolidated entity for the year ended 31 December 2022. If the acquisition occurred on 1 January 2022 the full-year contributions would have been revenues of £53,739,000 and profit before tax of £4,177,000.

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37. Business combinations continued

The following table summarises the fair value of assets acquired, and liabilities assumed, at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	9,580
Intangible asset – trade names	698
Investments	1
Property, plant and equipment	4,917
Right-of-use assets	95
Inventories	2,221
Trade and other receivables	7,187
Cash	5,656
Trade and other payables	(6,458)
Provisions	(2,707)
Lease liabilities	(95)
Deferred tax liability	(3,613)
Total fair value	**17,482**
Consideration	21,346
Goodwill	**3,864**

The fair values include recognition of an intangible asset relating to customer relationships of £9,580,000 and trade names of £698,000, which will be amortised over 13.83 years on a straight-line basis. The goodwill of £3,864,000 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 25%, which is the effective tax rate substantially enacted at the acquisition date.

Acquisition costs totalled £420,000 and are disclosed within the statement of comprehensive income within exceptional items.

	£'000
Cash on completion	19,688
Deferred consideration	1,658
Total consideration	**21,346**

The deferred consideration of £1,800,000 has been discounted to a present value of £1,658,000 using an interest rate of 2.81%. Deferred consideration is paid in five equal payments across the next five years.

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	19,688
Less cash acquired at acquisition	(5,656)
Net cash movement	**14,032**

Direct Plumbing and Heating Limited

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 £9,248,000 through APP Wholesale Limited. Consideration was via an initial payment of £8,891,000 and deferred consideration of £357,000. DH&P is a £27,600,000 turnover leading plumbing and heating distributor and merchant, consisting of one national distribution centre in Chelmsford and five branches with a strong regional focus in Ipswich, Chelmsford, Southend, Benfleet and Colchester. The principal reason for the acquisition was to acquire the customer base of DH&P. The acquired business contributed revenues of £22,047,000 and profit before tax of £1,200,000 to the consolidated entity for the year ended 31 December 2022. If the acquisition had occurred on 1 January 2022 the full-year contributions would have been revenues of £30,615,000 and profit before tax of £1,850,000.

Notes to the financial statements continued

for the year ended 31 December 2022

37. Business combinations continued

Direct Plumbing and Heating Limited continued

Put and call options have been put in place for the remaining 10% non-controlling interests. The Group directors assessed that the risks and rewards of the remaining 10% lay with the non-controlling interests and non-controlling interests have been recognised with the transaction. The following table summarises the fair value of assets acquired, and liabilities assumed, at the acquisition date:

	Fair value £'000
Intangible asset – customer relationships	3,522
Intangible asset – trade names	305
Software	140
Property, plant and equipment	253
Right-of-use assets	1,919
Inventories	2,784
Trade and other receivables	4,557
Cash	628
Trade and other payables	(3,717)
Lease liabilities	(1,828)
Dilapidation provision	(90)
Deferred tax liability	(1,027)
Total fair value	**7,446**
Non-controlling interests of 10%	(745)
Consideration	9,248
Goodwill	**2,547**

The fair values include recognition of an intangible asset relating to customer relationships of £3,522,000 and trade names of £305,000, which will be amortised over 13.75 years on a straight-line basis. The goodwill of £2,547,000 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 25%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £179,000 and are disclosed within the statement of comprehensive income within exceptional items. The non-controlling interest valuation has been calculated using the share of net assets method.

	£'000
Cash paid as consideration on acquisition	8,891
Less cash acquired at acquisition	(628)
Net cash movement	**8,263**

A deferred consideration arrangement was agreed during the purchase of DH&P. An additional cash payment of £357,000 is payable one year after the acquisition date.

The net cash expended on acquisition is as follows:

	£'000
Cash	8,891
Deferred consideration	357
Total consideration	**9,248**

Acquisition of Sudbury Branch

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 total gross consideration payable was £1,754,000. The Sudbury Branch generated revenues of £5,100,000 in the year to 31 December 2021. The principal reason for the acquisition was to acquire the customer base of the branch. The assets and liabilities of the business have been hived into Hevey Building Supplies Limited.

The acquired business contributed revenues of £3,033,000 and a loss before tax of £125,000 to the consolidated entity for the period from acquisition to 31 December 2022. The Group has no reliable information about the performance of the branch in the period prior to acquisition.

Notes to the financial statements continued

for the year ended 31 December 2022

37. Business combinations continued

Acquisition of Sudbury Branch continued

The following table summarises the fair value of assets acquired, and liabilities assumed, at the acquisition date:

	Fair value £'000
Intangible Asset – customer relationships	866
Property, plant and equipment	57
Right-of-use assets	1,490
Inventories	506
Trade and other receivables	366
Lease liabilities	(1,424)
Dilapidation provision	(66)
Deferred tax liability	(213)
Total fair value	**1,582**
Consideration	1,754
Goodwill	**172**

The fair values include recognition of an intangible asset relating to customer relationships of £866,000, which will be amortised over 13.75 years on a straight-line basis. The goodwill of £172,000 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 25%, which is the effective tax rate substantially enacted at the acquisition date. Acquisition costs totalled £79,000 and are disclosed within the statement of comprehensive income within exceptional items.

Consideration	£'000
Cash	1,754
Deferred consideration	–
Total consideration	**1,754**

The net cash expended on acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	1,754
Less cash acquired at acquisition	–
Net cash movement	**1,754**

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:

	2022 £'000	2021 £'000
Property, plant and equipment	**871**	–

39. Related party transactions

Parent entity

Lords Group Trading plc is the parent entity.

Subsidiaries

Interests in subsidiaries is 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 £963,000 in lease payments (2021: £892,000). At 31 December 2022, the Group owed Gempoint £187,000 (2021: £164,000).

The Group directors received dividends in the year from the Company as follows.

	2022 £'000	2021 £'000
Shanker Patel	**1,028**	290
Chris Day	**11**	–
Gary O'Brien	**3**	1
Andrew Harrison	**1**	–

The following transactions occurred between Group companies and companies that are not wholly owned within the Group:

Notes to the financial statements continued

for the year ended 31 December 2022

39. Related party transactions continued

Transactions with related parties continued

Condell Limited paid management fees of £320,000 (2021: £291,000), and at 31 December 2022 owed £252,000 (2021: £591,000) to wholly owned Group companies. Condell made purchases of £224,000 (2021: £153,000) and sales of £701,000 (2021: £274,000) from wholly owned Group companies and was owed a net balance of £89,000 (2021: £39,000) on these transactions.

Weldit LLP paid management fees of £22,500 (2021: £18,000), interest of £19,000 (2021: £26,322) and made purchases of £nil (2021: £nil) to wholly owned Group companies. At 31 December 2022, Weldit LLP owed £710,000 (2021: £737,000) to wholly owned Group companies.

Hevey Building Supplies was not wholly owned until 22 October 2022 when the non-controlling interest was acquired and Hevey Building Supplies became wholly owned. Transactions up to 22 October 2022 were as follows:

Hevey Building Supplies Limited paid management fees in the period to 31 October 2022 of £150,000 (2021: £108,000) and interest of £nil (2021: £50,000) to wholly owned Group companies. At 31 December 2021, Hevey Building Supplies Limited owed £51,000.

40. Post balance sheet events

Purchase of Heathrow branch of George Lines Civils & Landscaping Merchants

On 12 January 2023, the Group entered into binding agreements in respect of the purchase of the freehold property from which the Heathrow branch of George Lines Civils & Landscaping Merchants operates (the 'Property') from the original vendor of George Lines.

The Property, which is situated close to Heathrow airport and covers an area of 1.52 acres including 5,570 square feet of covered storage, is considered by Lords to be prime industrial real estate from which the Heathrow branch of George Lines Civils & Landscaping Merchants is intending to continue to operate for the foreseeable future. The branch has been operating out of the site for more than 40 years.

Maximum consideration for the purchase of the Property is £6.26 million in cash, of which £2.2 million has been paid by the Group. The balance of the consideration is to be paid by the Group prior to 5 July 2024. Transfer of the title of the Property to the Group will occur upon completion, being the date on which the remaining consideration is paid, and the Group will continue to lease the Property until completion occurs, with any rental payments paid prior to completion deducted from the final consideration.

Sale of Lords at Home Ltd

On 2 February 2023, the Group sold its wholly owned subsidiary undertaking, Lords at Home Ltd ('Lords at Home') including the Lords at Home brand. The subsidiary, which has 31 employees, was considered non-core to the Group's principal focus of building, plumbing, heating and DIY goods, and its sale will allow the Group to further focus on core areas of the Lords business.

The cash consideration for the sale of the Lords at Home business was £805,000 payable in full on completion. During the year ended 31 December 2022, Lords at Home generated £3.0 million in revenue and contributed £80,000 of EBITDA.

Chiltern Timber Supplies Limited

On 31 March 2023 the Group acquired Chiltern Timber Supplies Limited ('Chiltern Timber') for a total consideration of up to £1.65 million on a net cash free/debt free basis. The consideration payable is £1.175 million on signing and up to a further £0.475 million deferred equally over 12, 24 and 36 months on a contingent basis subject to Chiltern Timber delivering certain earnings targets.

Established in 2013, Chiltern Timber is an independent timber merchant operating from a modern single site in Hemel Hempstead, Hertfordshire. The business specialises in providing hardwoods, special timber sections, timber landscaping products and veneered sheet material. The business also operates a modern milling facility, allowing it to offer a differentiated service to that of its competitors.

Refinancing Group Lending Facilities

The Group amended its banking facilities on 5 April 2023. The Group's existing £70 million lending facilities with HSBC, consisting of a £50 million revolving credit facility (RCF) and a £20 million receivables financing facility (RFF) (together the 'Existing Facilities'), have been cancelled and repaid pursuant to the Refinancing with such repayment being funded by drawings under new £95 million facilities provided by HSBC, NatWest and BNP Paribas consisting of a £70 million RCF (the 'New RCF') and a £25 million RFF each with an initial three-year term (together, the 'New Facilities').

The New RCF includes: (i) a £20 million uncommitted accordion option which would, subject to lender approval, allow the Group to increase the New RCF facility limit if required, and (ii) two uncommitted extension options of one year each which would, subject to lender approval, extend the tenor of the New RCF to four years and five years if exercised.

The New Facilities are on improved commercial terms compared to the Existing Facilities and are expected to result in material interest cost savings for the Group over the three-year term of the facilities.

Resignation of Dawn Moore

Dawn Moore, Non-Executive Director, has advised the Board she intends to step down as a director of the Group immediately following the Company's 2023 Annual General Meeting to focus on expanding executive responsibilities.

Parent company statement of financial position

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Investments	45	**47,755**	47,381
		47,755	47,381
Current assets			
Debtors	46	**5,924**	7,530
Cash at bank and in hand	47	**64**	98
		5,988	7,628
Creditors: amounts falling due within one year	48	**(2,272)**	(1,416)
Net current assets		**3,716**	6,212
Total assets less current liabilities		**51,471**	53,593
Creditors: amounts falling due after more than one year	49	**(2,361)**	(1,458)
Net assets		**49,110**	52,135
Capital and reserves			
Called up share capital	29	**813**	788
Share premium		**28,293**	28,293
Share-based payment reserve	31	**496**	96
Retained earnings	31	**19,508**	22,958
Total equity		**49,110**	52,135

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 loss after tax for the financial period was £969,000 (2021: profit of £4,594,000).

The parent company financial statements on pages 125 to 132 were approved and authorised for issue by the Board and were signed on its behalf on 2 May 2023.

C Day
Director

Registered number 11633708

The notes on pages 127 to 132 form part of these financial statements.

Parent company statement of changes in equity

for the year ended 31 December 2022

	Called up share capital £'000	Share premium £'000	Share-based payments reserve £'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

	Called up share capital £'000	Share premium £'000	Share-based payments reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2022	**788**	**28,293**	**96**	**22,958**	**52,135**
Profit for the financial period and total comprehensive income	**—**	**—**	**—**	**(969)**	**(969)**
Taxation on share options exercised	**—**	**—**	**—**	**606**	**606**
Transactions with owners in their capacity as owners					
Share capital issued	**25**	**—**	**—**	**—**	**25**
Share-based payments	**—**	**—**	**400**	**—**	**400**
Dividends paid	**—**	**—**	**—**	**(3,087)**	**(3,087)**
As at 31 December 2022	**813**	**28,293**	**496**	**19,508**	**49,110**

The notes on pages 127 to 132 form part of these financial statements.

Notes to the parent company financial statements

for the year ended 31 December 2022

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 2022, the Group had £34.4 million of undrawn facilities as disclosed in note 25 and £16.0 million of cash. 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 2022, the interest ratio was over 14.5 and the last twelve months' net debt/adjusted EBITDA ratio was 1.6.

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 £24.8 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 an increase in interest base rate. 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 £3.1 million, or debtors increase by 15.0% above the base model, or the Bank of England base rate increases to 9.5%. 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.

On 5 April 2023 the Group has increased its facilities by a further £25 million with an initial three year term. For further details see note 40, post balance sheet events. The increased and extended facilities have not been considered in the above but will only increase the Group's resilience.

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.

Notes to the parent company financial statements continued

for the year ended 31 December 2022

42. Accounting policies continued

42.3 Going concern continued

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.

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.

Notes to the parent company financial statements continued

for the year ended 31 December 2022

42. Accounting policies continued

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.

42.11 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 42.8 for the accounting policies. No impairment has been recognised as a result of the Company's assessment.

Notes to the parent company financial statements continued

for the year ended 31 December 2022

44. Staff numbers

	2022 No.	2021 No.
Directors	**5**	5
	5	5

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

	2022 £'000	2021 £'000
Subsidiary undertakings	**47,755**	47,381
	47,755	47,381

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	Parent company	Segment	Entity type	Class of shares	Holding	Registered numbers	Parental guarantee
APP Wholesale Limited	Lords Builders Merchants Holding Limited	Plumbing and Heating	Trading	Ordinary	100%	06552800	
Carboclass Limited	Fastlane Limited	Merchanting	Trading	Ordinary	100%	01906203	
Lords at Home Ltd	Fastlane Limited	Merchanting	Trading	Ordinary	100%	02856543	Yes
Ebuildingsupplies Limited	Fastlane Limited	Merchanting	Trading	Ordinary	100%	06814518	Yes
Hevey Building Supplies Limited	Carboclass Limited	Merchanting	Trading	Ordinary	100%	04251567	
Weldit LLP	Carboclass Limited	Merchanting	Trading	Ordinary	75%	OC303415	Yes
Lords Group Ventures Limited	Lords Group Trading plc	Merchanting	Trading	Ordinary	100%	12956319	Yes
Condell Limited	Carboclass Limited	Merchanting	Trading	Ordinary	75%	05701638	Yes
A.W. Lumb (Northern) Limited	A.W. Lumb & Co. Limited	Merchanting	Trading	Ordinary	100%	01487194	
A.W. Lumb (Midlands) Limited	A.W. Lumb & Co. Limited	Merchanting	Trading	Ordinary	100%	01270417	
Direct Heating & Plumbing Merchants Limited	DH&P HRP Holdings Limited	Plumbing and Heating	Trading	Ordinary	90%	04039026	Yes
Direct Heating & Plumbing Trade Counters Limited	DH&P Trade Counter Holdings Limited	Plumbing and Heating	Trading	Ordinary	90%	12888477	Yes
Advance Roofing Supplies Limited	Carboclass Limited	Merchanting	Non trading	Ordinary	100%	02971503	Yes

Notes to the parent company financial statements continued
for the year ended 31 December 2022

45. Investments continued
Subsidiary undertakings continued

Name	Parent company	Segment	Entity type	Class of shares	Holding	Registered numbers	Parental guarantee
DH&P HRP Holdings Limited	APP Wholesale Limited	Plumbing and Heating	Non-trading	Ordinary	90%	12888160	Yes
DH&P Trade Counter Holdings Limited	APP Wholesale Limited	Plumbing and Heating	Non-trading	Ordinary	90%	12888351	Yes
AWLC Limited	Fastlane Limited	Merchanting	Non-trading	Ordinary	100%	10551863	Yes
A.W. Lumb & Co. Limited	AWLC Limited	Merchanting	Non-trading	Ordinary	100%	00799448	Yes
Lords Builders Merchants Holding Limited	Lords Group Trading plc	Merchanting	Non-trading	Ordinary	100%	10058191	Yes
Fastlane Investments Limited	Lords Builders Merchants Holding Limited	Merchanting	Non-trading	Ordinary	100%	03619301	Yes
Huntingdon Timber Limited	Hevey Building Supplies Limited		Dormant	Ordinary	100%	04864631	
E. Hussey and Sons Limited	Carboclass Limited		Dormant	Ordinary	100%	00757302	
George Lines (Merchants) Limited	Carboclass Limited		Dormant	Ordinary	100%	00469855	
Kings Langley Building Supplies Limited	Carboclass Limited		Dormant	Ordinary	100%	01379046	
Newstore Limited	Carboclass Limited		Dormant	Ordinary	100%	03856066	
Bomax Limited	Carboclass Limited		Dormant	Ordinary	100%	02475043	
MAP Building and Civil Engineering Supplies Limited	Hevey Building Supplies Limited		Dormant	Ordinary	100%	04827102	
Easidrain Ltd	A.W. Lumb & Co. Limited		Dormant	Ordinary	100%	01282644	

The Group agreed a parental guarantee with those companies shown above, and as a result those companies were exempt from audit under section 479A-479C of the Companies Act 2006 for the annual financial statements for the year ended 31 December 2022. All the companies classified as dormant are exempt from audit by virtue of section 480 of the Companies Act 2006.

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 2022

46. Debtors

	2022 £'000	2021 £'000
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**5,269**	7,503
Amounts falling due in less than one year		
Corporation tax	**606**	—
Prepayments	**49**	27
	5,924	7,530

All amounts owed by Group undertakings are repayable on 31 December 2026. All amounts owed are unsecured borrowings, attracting an interest rate of SONIA +2.5% as at 31 December 2022.

47. Cash at bank and in hand

	2022 £'000	2021 £'000
Cash at bank	**64**	98
	64	98

48. Creditors: Amounts falling due within one year

	2022 £'000	2021 £'000
Corporation tax	**—**	148
Other taxation and social security	**—**	2
Other creditors	**1,458**	1,167
Accruals and deferred income	**814**	99
	2,272	1,416

49. Creditors: Amounts falling due after more than one year

	2022 £'000	2021 £'000
Amounts owed to Group undertakings	**2,361**	—
Other creditors	**—**	1,458
	2,361	1,458

All amounts owed to Group undertakings are repayable on 31 December 2026. All amounts owed are unsecured borrowings, attracting an interest rate of SONIA +2.5% as at 31 December 2022.

50. Employee share schemes

Employees of the Company's subsidiaries have at various times been granted awards in the form of nil cost options over ordinary shares in Lords Group Trading plc. Refer to note 31 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.

Advisers

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Financial calendar

3 May 2023
Final results

20 June 2023
Annual General Meeting

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