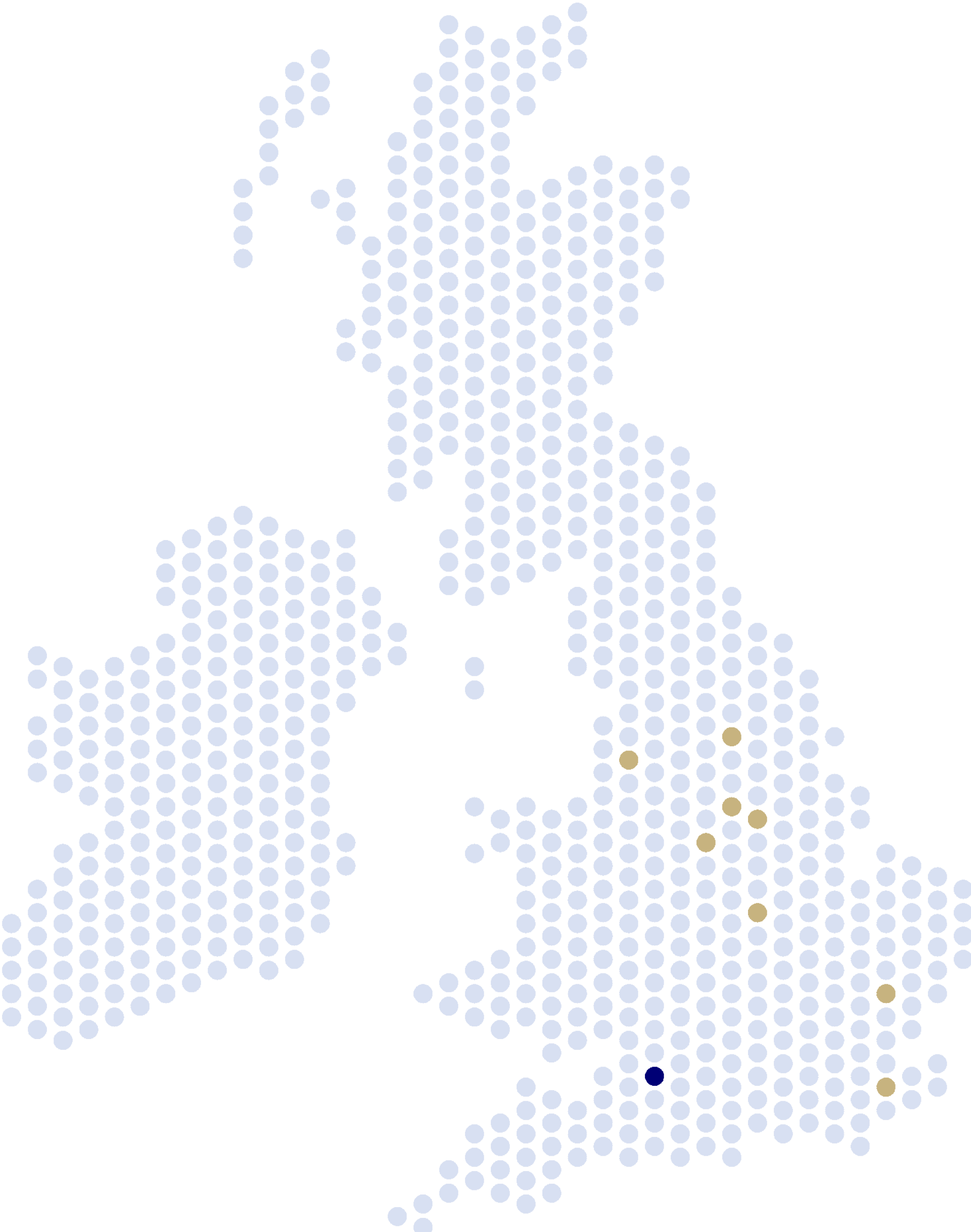
CEPS PLC
Partnering for success



# Annual Report 2017

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# Chairman's Statement

## Financial review

Group revenue at £23.60m for the year (2016: £24.32m) was down by 3% whilst operating profit more than doubled to £1.10m from £536,000. Profit before tax was up at £902,000 (2016: £146,000) before the exceptional goodwill impairment charge of £847,000 (2016: £611,000).

Group costs were slightly higher than last year at £322,000 (2016: £308,000), but include the professional fees for the triennial valuation of the Dinkie Heel Retirement Benefit Scheme. The post-tax loss was £221,000 (2016: loss £913,000).

Loss per share on a basic and diluted basis was (4.11p) (2016: (11.83p)). In the year cash generated from operations improved to £1.77m (2016: £1.11m), and there was a net increase in cash and cash equivalents of £807,000 (2016: net decrease of £67,000). Year-end cash was £1.37m (2016: £840,000).

## Operational review

### Aford Awards

Aford Awards has continued to make good progress and produce record profits. The cash generated from these profits has meant the vendor loans have now been completely repaid and the repayment of CEPS acquisition loans will now commence.

A number of "bolt-on" acquisitions are being investigated and it is hoped that at least one of these will be acquired in the second half.

### CEM Press

A complete overhaul of the business has taken place over the past year. In a difficult and very competitive market CEM Press was again loss making. However, there is no doubt that we now have a more efficient and more competitive company. We are very encouraged by the level of sales enquiries which we are hoping will convert into confirmed orders and will provide a significant boost to the second half of 2018.

In a very small sector, with only a handful of competitors, there will be in the future scope for consolidation and we, and the management team at CEM Press, intend to be the consolidator.

Under accounting rules it is necessary every year to review the carrying value of the goodwill of each company. Whilst this review produced a very positive result for several of the CEPS subsidiaries, because of the poor financial performance of CEM Press in the recent past, this review showed that the carrying value of goodwill needed to be reduced. The Board decided to write-off the carrying value of goodwill in full in this company. This is a non-cash item and does not affect the underlying value of the company.

### Davies Odell

The company returned to modest profitability and has at the same time invested in new products across its various activities, which should produce greater sales going forward. Better control of working capital has meant that the balance sheet has got stronger and should in time lead to further debt reduction.

# Chairman’s Statement continued

## Operational review
continued

### Friedman’s

Another exceptional year with record profits and very strong cash generation.

When CEPS bought this company with David Kaitiff in 2005 we quickly moved the business to premises that were three times larger. In March of this year Friedman’s moved to premises that are double in size to their previous ones. This increase in space has enabled Friedman’s to significantly increase capacity by acquiring more digital printing machines and having access to more power capacity. These machines will be used in the expansion of the existing business and also to enable it to move into new business areas.

### Hickton Consultants

The company has continued to generate profits and a steady stream of new contract wins, whilst some of the longer standing, larger projects have been extended, providing predictability of income.

BRCS (Building Control) was acquired in May 2017 to provide a complementary offering to the clerk-of-works, quality assurance role provided by Hickton Consultants. The two management teams are working well together to integrate the business. Clients of both companies have expressed an interest in the additional services now on offer and there have been some cross-referrals.

### Sunline

The polywrap and letter shop business moved into profit last year although, again, December proved to be a seriously loss-making month and was much worse than expected.

The fulfilment business, which from 2018 is in a separate company called CYNC, was moved to new and much larger premises in December. Whilst the move was entirely necessary, the timing was certainly not ideal and large unexpected costs were incurred in 2017. There have also been operational issues in the new premises which have proved very challenging. For these reasons, Sunline recorded a loss for the year.

## Dividend

Recognising the confidence that the Board has in the future of the Company, the clearest tangible signal of this confidence is to reintroduce the payment of an annual dividend. It is twenty years since the Company last paid a dividend and the Board feels that now is an appropriate time to provide shareholders with a revenue reward for holding the shares.

Because of the write-offs in goodwill over the past few years the Company, in accounting terms, is currently prevented from paying a dividend. Therefore, as part of the business carried out at the Annual General Meeting, a resolution will be put forward to enable the Company to undertake a capital reconstruction as soon as possible during 2018, which will facilitate the payment of this and future dividends.

# Chairman's Statement continued

## Power to allot additional shares

The Company will be convening its Annual General Meeting to be held on 18 June 2018. Among other resolutions to be proposed, the Board will seek authority to allot shares equating to 100% of its present issued ordinary share capital in line with the requirements of our acquisition strategy.

## People

Following a very busy period where each of the businesses has faced challenges, the Board is most grateful for the ongoing efforts of all the Group's employees.

## Outlook

Since I became Chairman three years ago considerable effort has been expended, by all CEPS colleagues, on growing the successful companies and getting those companies that were performing less well back on the right track for future profitability and growth. This does not happen overnight and it is undoubtedly the case that everything seems to take longer than one expects and hopes.

We now feel that we are making progress and that in the future the accounts will, hopefully, demonstrate this current confidence.

Considerable time, and no little investment, is being spent on improving the operational efficiency of each company. Targeted effort is going into automating and mechanising processes wherever possible.

The combination of a tightening labour supply market and the introduction of the Minimum Wage, Auto Enrolment and the Apprentice Levy have all led to significant increases in the cost of employing people, presupposing the right skilled people can be found. We believe that this situation will only get worse in the future and it is, therefore, essential that we work at "future-proofing" the businesses today.

Trading in the current year is marginally behind the Board's expectations. However, we expect the Group to make progress as the year unfolds.

David Horner
*Chairman*
*10 May 2018*

# Strategic Report

The directors present their Strategic Report on the Group for the year ended 31 December 2017.

## Review of the business

The principal activities of CEPS PLC are that of an industrial holding company, acquiring majority stakes in stable, profitable and steadily growing entrepreneurial companies. The activities of the Company's trading subsidiaries are described in note 16 to the accounts. Segmental analysis is given in note 4 to the accounts.

A review of the business and its prospects are set out in the Chairman's Statement on pages 2 to 4.

The Group's internal reporting system enables the Board to assess the strategic direction of the Group against agreed targets. The table below shows the most important key performance indicators used by the Group:

| | 2017 | 2016 |
|---|---|---|
| Revenue | £23,601,000 | £24,320,000 |
| Segmental result (EBITDA) | £1,920,000 | £1,322,000 |
| Profit/(loss) before tax | £55,000 | (£465,000) |
| Loss after tax | (£221,000) | (£913,000) |
| Total equity | £4,954,000 | £4,203,000 |
| Net debt (total borrowings less cash) | £2,732,000 | £3,055,000 |
| Gearing ratio (net debt/total equity) | 55% | 73% |

The Chairman has commented on the main key performance indicators in his Statement on pages 2 to 4.

The Board also monitors matters relating to health and safety and the environment and reviews them at its regular meetings. The risks to the business arising from changes to the trading environment and employee retention and training are also regularly monitored and reviewed.

The Board operates a continuous process for identifying, evaluating and managing risk. The internal controls seek to minimise the impact of identified risks, as explained in the Corporate Governance statement on pages 8 and 9.

The key risks the Board seeks to mitigate are: competition, dependence on key personnel and the supply chain.

Competition – while the Group's trade is differentiated, there is still significant pricing pressure and the barriers to entry are relatively low. As a result there is the risk that competitors could emerge to challenge the products offered by the Group. This could result, over time, in price competition and margin pressure. In order to mitigate this pressure, local management seek to hold regular discussions with customers and actively monitor the market for changes in competitors' prices.

Dependence on key personnel – the Group's performance is largely dependent on its subsidiary staff and managers. The success of the Group will continue to be dependent on the expertise and experience of the directors and the management team, and the loss of personnel could still have an adverse effect on the Group. This risk is mitigated by ensuring that key personnel are suitably incentivised and contractually bound.

Supply chain – the differentiated nature of the Group's trade means that it is exposed to a reliance on a small number of suppliers. The Group mitigates this risk through effective supplier selection and procurement practices.

See note 2 for an assessment of the financial risks.

## Future developments

A review of the business and its prospects are set out in the Chairman's Statement on pages 2 to 4.

By order of the Board
V E Langford
*Company Secretary*
*10 May 2018*

# Directors' Report

The directors have pleasure in submitting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

## Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

D A Horner (58) is an executive director and Chairman. He qualified as a Chartered Accountant in 1985 with Touche Ross & Co. In 1986 he joined 3i Corporate Finance Limited. In 1997 he set up Chelverton Asset Management Limited which specialises in managing portfolios of investments in private companies and small to medium size public companies. He set up and manages Chelverton Growth Trust Plc, manages the Small Companies Dividend Trust Plc and is a director of Athelney Trust plc and a number of private companies. In 2013 he resigned his membership of the Institute of Chartered Accountants in England and Wales, as his career is now fully involved in fund management.

G C Martin (73) is a non-executive director. He is a Chartered Accountant who was previously Finance Director and Company Secretary of the Group.

V E Langford (56) is Group Finance Director. She is a Chartered Accountant and is also the Company Secretary of CEPS PLC.

M D Pollard (58) is a non-executive director. He qualified as a Chartered Accountant with Ernst & Young in 1983, was an analyst in two stockbroking companies and then worked as a fund manager. He is now actively involved in advising a number of private companies.

The directors retiring by rotation in accordance with Articles 71 and 72 are V E Langford and M D Pollard who, being eligible, offer themselves for re-election.

The Company purchased and maintained throughout the financial year and up to the date of this report, Directors' and Officers' liability insurance in respect of itself and its directors.

## Significant shareholdings

In addition to directors' shareholdings shown on page 34, the following shareholders held more than 3% of the Company's ordinary shares at 9 May 2018:

| | Shares | % |
|---|---|---|
| Chelverton Growth Trust Plc | 2,871,250 | 21.8 |
| Charles Stanley & Co Ltd Rock (Nominees) Ltd* | 2,282,500 | 17.3 |
| Nigel Cobby | 459,523 | 3.5 |
| Lynchwood Nominees Ltd | 312,500 | 2.4 |

* This holding includes holdings (combined totalling 2,270,000 shares, 17.2% holding) held by Mark Thistlethwayte and his family. Mr Thistlethwayte holds personally and on behalf of his children 1,680,000 shares, 12.7%. Rosemary Thistlethwayte holds 590,000 shares, 4.5%.

## Financial and treasury policy

The Group finances its operations by a combination of retained profits, management of working capital, bank overdraft and debtor backed working capital facilities and medium-term loans. The disclosures for financial instruments are made in note 21a to the accounts on page 52.

For further details of Group financial risk and management thereof see note 2 on pages 26 to 28.

The Company intends to undertake a capital reconstruction during 2018 which, if successful, will facilitate the payment of future dividends. No dividend was paid in 2017 and 2016.

# Directors' Report continued

## Disclosure of information to auditors

So far as each director is aware, there is no relevant information of which the Company's auditors are unaware. Relevant information is defined as 'information needed by the Company's auditors in connection with preparing their report'. Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he/she ought to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Independent auditors

PKF Littlejohn LLP are willing to continue in office and a resolution proposing their re-appointment will be submitted to the Annual General Meeting.

## Going concern

At the time of approving the financial statements the directors consider that it is appropriate to adopt the going concern basis of preparation.

The directors have considered the impact of the current economic environment on the Company's and Group's future cash flows and their ability to meet liabilities as they fall due, being a period of not less than 12 months from the date of approving the financial statements. The directors have also considered compliance with future banking covenants, and the borrowings structure of the Group.

In addition the Company has secured a £1m third party loan for the Group's working capital requirements over the next 12 months.

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

– prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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 on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company is compliant with the AIM Rule 26 regarding the Company's website.

By order of the Board
V E Langford
*Company Secretary*
*10 May 2018*

# Corporate Governance

It is the Board's intention to comply with the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies, as far as is reasonably practicable for a company of its size.

The Board is committed to high standards of corporate governance and recognises that it is accountable to shareholders for good governance. The Company's corporate governance procedures define the duties and constitution of the Board and the various Board committees and, as appropriate, specify responsibilities and level of responsibility. The principal procedures are summarised below:

## The Board

The Board comprises the Chairman, the Finance Director and two Non-Executive Directors. Further details of the Board members are given in the Directors' Report on pages 6 and 7.

All directors are subject to retirement by rotation and re-election by the shareholders in accordance with the Articles of Association.

The Board meets regularly, at least six times a year and with additional meetings being arranged when necessary.

The Company seeks constructive dialogue with institutional and private shareholders through direct contact and through the opportunity for all shareholders to attend and ask questions at the Annual General Meeting.

## Audit committee

This committee comprises G C Martin (Chair) and M D Pollard. The audit committee is responsible for the appointment of the external auditors, agreeing the nature and scope of the audit and reviewing and making recommendations to the Board on matters related to the issue of financial information to the public. It assists all directors in discharging their responsibility to ensure that accounting records are adequate and that the financial statements give a true and fair view.

## Nomination committee

This committee is comprised of D A Horner (Chair) and M D Pollard. It is responsible for making recommendations to the Board on any appointment to the Board.

## Remuneration committee

This committee is comprised of M D Pollard (Chair) and G C Martin.

The remuneration committee sets the remuneration and other terms of employment of executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package appropriate for the responsibilities involved.

Directors' contracts are designed to provide the assurance of continuity which the Company desires. There are no provisions for pre-determined compensation on termination.

Pensions for directors were based on salary alone and were provided by the Company defined contribution scheme and defined benefits scheme. Contributions were paid to these schemes in accordance with independent actuarial recommendations or funding rates determined by the remuneration committee as appropriate to the type of scheme. From 2010 no benefits have accrued to directors under these schemes.

Non-executive directors have no service contracts and no pension contributions are made on their behalf.

Full details of directors' remuneration and benefits are given in note 7 to the financial statements on page 34.

# Corporate Governance continued

## AIM compliance committee

In accordance with AIM Rule 31 the Company is required to have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules; seek advice from its nominated adviser ('Nomad') regarding its compliance with the AIM Rules whenever appropriate and take that advice into account; provide the Company's Nomad with any information it requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Companies and the AIM Rules for Nominated Advisers; ensure that each of the Company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and ensure that each director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

In order to ensure that these obligations are being discharged, the Board has established a committee of the Board (the 'AIM committee'), chaired by V E Langford.

Having reviewed relevant Board papers, and met with the Company's Executive Board and the Nomad to ensure that such is the case, the AIM committee is satisfied that the Company's obligations under AIM Rule 31 have been satisfied during the year under review.

## Internal financial control

The Board has overall responsibility for the system of internal financial control which is designed with regard to the size of the Company to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board reviews the effectiveness of the internal controls and has concluded that the internal financial control environment is appropriate, with no significant matters noted. The organisational structure of the Group gives clear management responsibilities in relation to internal financial control. Financial risks are controlled through clearly laid down authorisation levels. There is an annual budget which is approved by the directors. The results are reported monthly and compared to the budget. The audit committee receives a report from the external auditors annually.

# Independent Auditor's Report to the members of CEPS PLC

## Opinion

We have audited the financial statements of CEPS PLC (the 'Company') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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 2017 and of the Group's loss and parent company's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

– the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

## Our application of materiality

Materiality was calculated at £250,000 (2016: £250,000) being a blend of 1% turnover, 10% of profit before tax, 5% of gross assets and 3% of net assets. This blend was applied as it was considered that there was no overriding determinant of the Group's financial position and performance. Whilst materiality as a whole was £250,000, each component of the Group was audited to a level of materiality ranging between £25,000

# Independent Auditor's Report to the members of CEPS PLC continued

## Our application of materiality continued

and £125,000. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement. At the planning stage materiality is used to determine the financial statement areas that are included within the scope of our audit and then the extent of sample sizes during the audit.

## An overview of the scope of our audit

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £12,500 (2016: £12,500). There were no misstatements identified during the course of our audit that individually, or in aggregate, were considered to be material.

A full scope audit was performed on the complete financial information of the Group's operating components. The component companies are audited by a PKF network firm operating under our instruction. The RI visited their offices and reviewed a sample of their audit files. The audit team interacted regularly with the component auditors during all stages of the audit and was responsible for the scope and direction of the audit process.

The Company and Group finance function is based in the United Kingdom and a full scope audit was carried out thereon. This, in conjunction with the component audit work mentioned above, gave us sufficient appropriate evidence for our opinion on the consolidated financial statements.

## Key audit matters

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

### Key audit matter: acquisition of BRCS (Building Control) Limited

During the period CEPS PLC, through its subsidiary Hickton Holdings Limited, acquired 100% of the share capital of BRCS (Building Control) Limited. This has been assessed as a key audit matter due to the risk that:

- the accounting treatment may not be in accordance with IFRS 3 *Business Combinations* and that the acquisition may be inappropriately accounted for within the financial statements;
- any Intangible Assets and Goodwill arising on acquisition may not have been correctly identified and disclosed; and
- inappropriate lifespans may have been attributed to any Intangible Assets arising on acquisition.

#### How the scope of our audit responded to the key audit matter

The audit procedures relating to the accounting treatment of the acquisition included:

- Review of the purchase agreement to ensure that the acquisition had legally occurred and that ownership resided with CEPS PLC;
- Verification of the mathematical accuracy of the acquisition calculations;
- Review and challenge of the valuation split between Goodwill and Intangible Assets (customer lists) arising on acquisition and consideration as to whether any other Intangible assets arose;
- Challenge of the assumptions over the useful economic life of the identified intangibles and consideration of their appropriateness; and
- Confirmation that the correct accounting treatment was applied and appropriate disclosures made.

# Independent Auditor's Report to the members of CEPS PLC continued

## Key audit matters
continued

**Key audit matter: Intangible Assets (including Goodwill)**
The most material item on the Statement of Financial Position relates to Intangible Assets (£5.7m) that have arisen as a result of acquisitions made by management. Management performs an annual impairment review of goodwill and intangible assets with an indefinite life and performs an impairment assessment where there are indicators of impairment. Due to the material nature of the balance and the estimation and judgement required by management in these assessments this is considered to be a key audit matter.

**How the scope of our audit responded to the key audit matter**
The audit procedures relating to Intangible Assets included:

- Obtaining the impairment assessment prepared by management and consideration as to the Cash Generating Unit ("CGU") level on which they were prepared;
- Challenging the key estimates and judgements within the assessments including those relating to future revenue forecasts, margins, discount rates and overheads;
- Verifying the mathematical accuracy of the forecasts;
- Comparing the accuracy of management budgets and forecasts used in the prior year to actual results achieved in the current period; and
- Reviewing the disclosures made by management in respect of the estimates and judgements made and the sensitivity of them.

## 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. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion 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.

# Independent Auditor's Report to the members of CEPS PLC continued

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor'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.

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.

Joseph Archer (Senior Statutory Auditor)
for and on behalf of PKF Littlejohn LLP
Statutory Auditor
1 Westferry Circus, Canary Wharf, London E14 4HD
*10 May 2018*

# Consolidated Statement of Comprehensive Income

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Revenue | 4 | 23,601 | 24,320 |
| Cost of sales | | (18,187) | (19,465) |
| Gross profit | | 5,414 | 4,855 |
| Administration expenses | | (4,313) | (4,319) |
| Operating profit | 5 | 1,101 | 536 |
| Goodwill impairment | | (847) | (611) |
| Adjusted operating profit/(loss) | | 254 | (75) |
| Analysis of adjusted operating profit/(loss) | | | |
| Trading | | 1,423 | 844 |
| Goodwill impairment | | (847) | (611) |
| Group costs | | (322) | (308) |
| | | 254 | (75) |
| Finance income | 9 | 128 | 26 |
| Finance costs | 9 | (337) | (416) |
| Profit on disposal of investment | | 10 | – |
| Profit/(loss) before tax | | 55 | (465) |
| Taxation | 10 | (276) | (448) |
| (Loss)/profit for the year from continuing operations | | (221) | (913) |
| Other comprehensive loss: | | | |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial loss on defined benefit pension plans | 8 | (66) | (80) |
| Items that may be subsequently reclassified to profit or loss | | – | – |
| Other comprehensive loss for the year, net of tax | | (66) | (80) |
| Total comprehensive loss for the year | | (287) | (993) |
| (Loss)/income attributable to: | | | |
| Owners of the parent | | (532) | (1,132) |
| Non-controlling interest | | 311 | 219 |
| | | (221) | (913) |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of the parent | | (598) | (1,212) |
| Non-controlling interest | | 311 | 219 |
| | | (287) | (993) |
| Earnings per share | | | |
| basic and diluted | 12 | (4.11)p | (11.83)p |

The notes on pages 19 to 57 form part of the financial statements.

# Consolidated and Company Statements of Financial Position

Company number 00507461

| | | Notes | Group 2017 £'000 | Group 2016 £'000 | Company 2017 £'000 | Company 2016 £'000 |
|---|---|---|---|---|---|---|
| Assets | Non-current assets | | | | | |
| | Property, plant and equipment | 13 | 2,320 | 2,419 | – | – |
| | Intangible assets | 15 | 5,600 | 5,738 | – | – |
| | Investments in subsidiaries | 16 | – | – | 3,635 | 3,629 |
| | Deferred tax asset | 22 | 226 | 220 | – | – |
| | | | 8,146 | 8,377 | 3,635 | 3,629 |
| | Current assets | | | | | |
| | Inventories | 17 | 1,770 | 2,020 | – | – |
| | Trade and other receivables | 18 | 3,691 | 3,701 | 2,217 | 535 |
| | Cash and cash equivalents (excluding bank overdrafts) | 27 | 1,371 | 840 | 36 | 21 |
| | | | 6,832 | 6,561 | 2,253 | 556 |
| | Total assets | | 14,978 | 14,938 | 5,888 | 4,185 |
| Equity | Capital and reserves attributable to owners of the parent | | | | | |
| | Called up share capital | 24 | 1,320 | 957 | 1,320 | 957 |
| | Share premium | 24 | 4,843 | 3,943 | 4,895 | 3,995 |
| | Retained earnings | | (2,556) | (1,924) | (1,405) | (1,640) |
| | | | 3,607 | 2,976 | 4,810 | 3,312 |
| | Non-controlling interest in equity | | 1,347 | 1,227 | – | – |
| | Total equity | | 4,954 | 4,203 | 4,810 | 3,312 |
| Liabilities | Non-current liabilities | | | | | |
| | Borrowings | 20 | 2,223 | 2,600 | – | – |
| | Trade and other payables | 19 | 313 | – | – | – |
| | Deferred tax liability | 22 | 71 | 80 | – | – |
| | Provisions for liabilities and charges | 23 | 50 | 50 | – | – |
| | | | 2,657 | 2,730 | – | – |
| | Current liabilities | | | | | |
| | Borrowings | 20 | 3,503 | 3,838 | 1,000 | 740 |
| | Trade and other payables | 19 | 3,556 | 3,934 | 78 | 133 |
| | Current tax liabilities | | 258 | 171 | – | – |
| | Provisions for liabilities and charges | 23 | 50 | 62 | – | – |
| | | | 7,367 | 8,005 | 1,078 | 873 |
| | Total liabilities | | 10,024 | 10,735 | 1,078 | 873 |
| | Total equity and liabilities | | 14,978 | 14,938 | 5,888 | 4,185 |

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the parent company.

The profit within the parent company financial statements for the year was £301,000 (2016: £160,000).

The notes on pages 19 to 57 form part of the financial statements.

The financial statements on pages 14 to 57 were approved by the Board of Directors on 10 May 2018 and signed on its behalf by

D A Horner
*Director*

# Consolidated and Company Statements of Cash Flows

| | | Group 2017 £'000 | Group 2016 £'000 | Company 2017 £'000 | Company 2016 £'000 |
|---|---|---|---|---|---|
| Cash flows from operating activities | Profit/(loss) before income tax | 55 | (465) | 301 | (451) |
| | Adjustments for: | | | | |
| | Depreciation and amortisation | 497 | 478 | – | – |
| | Intangible assets written off | 847 | 611 | – | 611 |
| | Loss on disposal of property, plant and equipment | (17) | – | – | – |
| | Net finance costs | 209 | 390 | (246) | (157) |
| | Changes in working capital: | | | | |
| | Decrease in inventories | 250 | 10 | – | – |
| | Decrease/(increase) in trade and other receivables | 11 | (546) | 101 | (329) |
| | (Decrease)/increase in trade and other payables | (75) | 578 | (56) | (76) |
| | (Decrease)/increase in provisions | (12) | 57 | – | – |
| | Cash generated from/(used in) operations | 1,765 | 1,113 | 100 | (402) |
| | Income tax paid | (229) | (236) | – | – |
| | Interest received | 128 | 26 | – | – |
| | Interest paid | (337) | (416) | (54) | (66) |
| | Net cash generated from/(used in) operations | 1,327 | 487 | 46 | (468) |
| Cash flows from investing activities | Acquisition of subsidiary net of cash acquired | (444) | (188) | – | (669) |
| | Increase of existing shareholding in subsidiary | (7) | – | (7) | – |
| | Purchase of property, plant and equipment | (266) | (899) | – | – |
| | Proceeds from sale of assets | 32 | – | – | – |
| | Purchase of intangibles | (11) | (33) | – | – |
| | Loan to a subsidiary | – | – | (1,847) | (75) |
| | Interest received | – | – | 300 | 223 |
| | Net cash used in investing activities | (696) | (1,120) | (1,554) | (521) |
| Cash flows from financing activities | (Repayment of)/proceeds from borrowings | (476) | 1,067 | 260 | 740 |
| | Proceeds from share issue net of issue costs | 1,263 | – | 1,263 | – |
| | Dividend paid to non-controlling interest | (225) | (180) | – | – |
| | Repayment of capital element of finance leases | (386) | (321) | – | – |
| | Net cash generated from financing activities | 176 | 566 | 1,523 | 740 |
| | Net increase/(decrease) in cash and cash equivalents | 807 | (67) | 15 | (249) |
| | Cash and cash equivalents at the beginning of the year | 44 | 111 | 21 | 270 |
| | Cash and cash equivalents at the end of the year (note 27) | 851 | 44 | 36 | 21 |

The notes on pages 19 to 57 form part of the financial statements.

# Consolidated and Company Statements of Changes in Equity

## Group

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Attributable to owners of the parent £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 957 | 3,943 | (712) | 4,188 | 873 | 5,061 |
| Actuarial loss | – | – | (80) | (80) | – | (80) |
| (Loss)/profit for the year | – | – | (1,132) | (1,132) | 219 | (913) |
| Total comprehensive (loss)/income for the year | – | – | (1,212) | (1,212) | 219 | (993) |
| Dividend paid to non-controlling interest | – | – | – | – | (180) | (180) |
| Total distributions recognised directly in equity | – | – | – | – | (180) | (180) |
| Acquisition of a subsidiary | – | – | – | – | 315 | 315 |
| At 31 December 2016 | 957 | 3,943 | (1,924) | 2,976 | 1,227 | 4,203 |
| Actuarial loss | – | – | (66) | (66) | – | (66) |
| (Loss)/profit for the year | – | – | (532) | (532) | 311 | (221) |
| Total comprehensive (loss)/ income for the year | – | – | (598) | (598) | 311 | (287) |
| Changes in ownership interest in a subsidiary | – | – | (34) | (34) | 34 | – |
| Dividend paid to non-controlling interest | – | – | – | – | (225) | (225) |
| Total distributions recognised directly in equity | – | – | (34) | (34) | (191) | (225) |
| Proceeds from shares issued net of costs | 363 | 900 | – | 1,263 | – | 1,263 |
| **At 31 December 2017** | **1,320** | **4,843** | **(2,556)** | **3,607** | **1,347** | **4,954** |

The notes on pages 19 to 57 form part of the financial statements.

# Consolidated and Company Statements of Changes in Equity

continued

## Company

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 1 January 2016 | 957 | 3,995 | (1,800) | 3,152 |
| Profit for the year and total comprehensive income | – | – | 160 | 160 |
| At 31 December 2016 | 957 | 3,995 | (1,640) | 3,312 |
| Actuarial loss | – | – | (66) | (66) |
| Profit for the year | – | – | 301 | 301 |
| Total comprehensive income for the year | – | – | 235 | 235 |
| Proceeds from shares issued net of costs | 363 | 900 | – | 1,263 |
| At 31 December 2017 | 1,320 | 4,895 | (1,405) | 4,810 |

The notes on pages 19 to 57 form part of the financial statements.

# Notes to the Financial Statements

## 1. Accounting policies

CEPS PLC (the 'Company') is a company incorporated and domiciled in England and Wales. The Company is a public limited company, which is listed on the AIM market of the London Stock Exchange. The address of the registered office is 11 Laura Place, Bath BA2 4BL.

The principal activities of the Company are that of an industrial holding company, acquiring stakes in stable, profitable and steadily growing entrepreneurial companies. The activities of the Company's trading subsidiaries are described in note 16. Segmental analysis is given in note 4.

The financial statements are presented in British Pounds Sterling (£), the currency of the primary economic environment in which the Group's activities are operated and are reported in £'000. The Group comprises CEPS PLC and its subsidiary companies as set out in note 16.

The registered number of the Company is 00507461.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout the year, unless otherwise stated.

### Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ('IFRS'), IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention. The Group's business activities and financial position likely to affect its future development, performance and position are set out in the front end of the report. The directors have carried out a detailed assessment of going concern as part of the financial reporting process and, having conducted a full review of the updated business plan, budgets and associated commitments at the year end, have concluded that the Group has adequate financial resources to continue in operational existence for at least 12 months from the date of the signing of these financial statements and, therefore, continue to adopt the going concern basis in the preparation of these accounts.

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

The Company has taken advantage of the exemption under the Companies Act 2006 not to present its own Statement of Comprehensive Income. Information about the Company result for the year is given on page 15.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective, and have not been early adopted by the Group:

Standards issued but not yet effective:
IFRS 9, *Financial instruments* is effective for accounting periods beginning on or after 1 January 2018
IFRS 15, *Revenue from contracts with customers* is effective for accounting periods beginning on or after 1 January 2018

# Notes to the Financial Statements continued

## 1. Accounting policies continued

IFRS 16, *Leases* is effective for accounting periods beginning on or after 1 January 2019
IFRS 22, *Foreign Currency Transactions and Advance Consideration,* effective for periods beginning on or after 1 January 2018
IFRIC 23, *Uncertainty over Income Tax Treatment*, effective for periods beginning on or after 1 January 2019.

The directors have assessed the impact of IFRS 9 and IFRS 15 on the Group's financial statements and do not believe that the adoption of these standards and interpretation in future reporting periods will have a material impact. In particular:

a) IFRS 9 – the Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) IFRS 15 – the standard will not have a material impact on Group revenue streams as the performance obligations and timing of the sales recognition assessed under IFRS 15 are consistent with those currently determined under IAS 18.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (the ‘Group’).

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee entity and has the ability to affect these returns through its power over the investee. Control is lost when the Group no longer has rights to variable returns from its involvement with an investee entity and no longer has the ability to affect those returns as it no longer has power over the investee. When control is lost the subsidiaries are de-recognised and no longer consolidated.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

# Notes to the Financial Statements continued

## 1. Accounting policies continued

Investments in subsidiaries are accounted for at cost less impairment. Acquisition related costs are expressed as incurred. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, the Board, and used to assess performance. Information is given for all operating segments where discrete financial information is available.

### Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met. The Company bases its estimate of return on historical results, taking into account the customer type, transaction type and the specifics of each arrangement.

The revenues of Aford Awards, Friedman's and Davies Odell arise from the fair values received or receivable for goods sold which are recognised on despatch and exclude VAT.

The revenues of CEM Press, Hickton and Sunline are recognised in the accounting period in which the services are provided by reference to the stage of completion of the specific transaction and are assessed on the basis of the actual service provided as a proportion of the total services to be provided.

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

### Property, plant and equipment
Property, plant and equipment is stated at initial cost, less accumulated depreciation and impairment losses. Cost includes the original price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated on an appropriate basis over the deemed useful economic life of an asset and is applied to the cost less any residual value. The asset classes are depreciated over the following periods (the useful life, the residual value and the depreciation method are assessed annually):

| | |
|---|---|
| Plant and machinery, tools and moulds: | Between five and 10 years, over the period of the contract, or between 15% to 25% on a reducing balance basis |
| Motor vehicles: | Five years straight line, or 25% reducing balance |
| Leasehold property improvements: | Over the term of the lease on a straight line basis. |

The residual values and useful lives are reviewed and adjusted if appropriate at each date of the Statement of Financial Position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administration expenses in the Consolidated Statement of Comprehensive Income.

### Intangible assets

a) Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree over the fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets acquired, the difference is recognised directly in equity.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to appropriate cash generating units (those expected to benefit from the business combination) and is not amortised, but is tested for impairment at the operating segment level.

b) Customer lists
Customer lists acquired in a business combination are recognised at fair value at the acquisition date. Customer lists are assessed to have indefinite life. When a decision is taken to terminate a product or a service, the related customer lists are amortised over the remaining life of the product or service. Impairment reviews are undertaken annually or if changes in circumstances indicate a potential impairment.

c) Computer software and websites
Computer software and costs incurred in the development of websites are stated at cost less accumulated amortisation. Non-integral computer software purchases are capitalised at cost. These costs are amortised over their estimated useful lives (between three and 10 years). Costs associated with implementing or maintaining computer software programmes are recognised as an expense as incurred.

Costs incurred in the development of new websites are capitalised only where the cost can be directly attributed to developing the website to operate in the manner intended by management and only to the extent of the future economic benefits expected from its use. These costs are amortised over their useful lives (between three and five years). Costs associated with maintaining websites are recognised as an expense as incurred.

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

### Impairment of intangible assets and property, plant and equipment
Intangible assets that have an indefinite useful life are not subject to amortisation, but are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Any impairment losses relating to goodwill are not reversed.

### Investments
Investments in subsidiaries and associates are stated at cost, which reflects the fair value of the consideration paid. The investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Inventories
Inventories are valued at the lower of cost and net realisable value. Raw materials are valued on a first in first out basis at net invoice values charged by suppliers. The value of work in progress and finished goods includes the direct cost of materials and labour together with an appropriate proportion of factory overheads, where applicable. Provision is made against the value of inventory, where relevant, to reduce the carrying value of slow moving, obsolete and defective inventory to its net realisable value.

### Current and deferred taxation
The tax charge for the year comprises current and deferred tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be generated enabling the utilisation of the temporary timing differences.

### Foreign currencies
The results are recorded in British Pounds Sterling which is deemed to be the functional currency of the Group, the Company and all its subsidiaries.

Foreign currency transactions are expressed in Sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange ruling at the date of the statement of financial position. Differences arising from changes in exchange rates during the year are taken to the Consolidated Statement of Comprehensive Income.

# Notes to the Financial Statements continued

## 1. Accounting policies continued

### Pensions

The Group operates a defined benefit pension scheme for the benefit of some of its former employees, the assets of which are held separately from those of the Group in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the Consolidated Statement of Comprehensive Income.

Pension schemes' surpluses, only to the extent that they are considered recoverable, are recognised in full and presented on the face of the Statement of Financial Position.

Defined benefit pension costs are recognised in the Consolidated Statement of Comprehensive Income. Contributions to the defined contribution schemes are charged to the Consolidated Statement of Comprehensive Income as incurred. The Group has no further payment obligations once contributions have been paid.

### Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The annual costs of operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

### Hire purchase leases

For leases where a significant portion of the risks and rewards of ownership is obtained or where legal title is to pass to the Group, the assets are capitalised at the lower of cost of the fair value of the asset or the present value of the minimum lease payments in the Statement of Financial Position and depreciated over the expected useful economic life. The interest element of the rental obligation is charged to the Consolidated Statement of Comprehensive Income over the period of the lease and represents a constant proportion of the balance of capital repayment outstanding.

### Non-controlling interest

Non-controlling interests represent the interest of shareholders in subsidiaries which are not wholly owned by the Group.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Further details on provisions recognised are disclosed in note 23.

### Share capital

Ordinary shares are classified as equity while redeemable preference shares are classified as liabilities (see note 20).

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

### Financial instruments

The Group and Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on the Statement of Financial Position at fair value when the Group and Company becomes a party to the contractual provisions of the instrument.

a) Loans and receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and its estimated future cash flow. The carrying amount of the asset is reduced through the use of a bad debt provision and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income within cost of sales. When a trade receivable is uncollectible it is written off against the bad debt provision. Subsequent recoveries of amounts previously written off are credited against cost of sales in the Consolidated Statement of Comprehensive Income.

b) Cash and cash equivalents
Cash and cash equivalents include cash in hand, short-term bank deposits held at call and bank overdrafts. Bank overdrafts are shown in current liabilities as borrowings. All are carried at cost in the Statement of Financial Position.

c) Trade payables
Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables includes trade payables, other payables and accruals.

d) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using the effective interest method. Borrowings include bank overdrafts, bank loans, other loans, trade receivables backed working capital facilities and hire purchase obligations.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the Statement of Financial Position.

e) Borrowing costs
The Group has no borrowing costs with respect to the acquisition or construction of qualifying assets. All other borrowing costs are recognised as an expense as incurred and in accordance with the effective interest rate methods.

# Notes to the Financial Statements continued

## 2. Financial risk management

### 2.1 Financial risk factors

The Group and Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by local management under policies approved by the Board of Directors.

a) Market risk

i) Foreign exchange risk

The Group undertakes transactions internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US Dollar and Sterling. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has a policy to require Group companies to manage their foreign exchange risk against their functional currency. The policy is to match as far as possible through the normal course of trade the level of sales and purchases in foreign currencies and, where applicable, to enter forward foreign exchange contracts as hedges of foreign exchange risk on specific assets, liabilities or future transactions.

ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Group policy is to maintain an appropriate balance between borrowings expressed in fixed rates and those at variable rates. All of the Group's borrowings are denominated in Sterling. The strategy of CEPS PLC is as far as possible to use the assets of businesses in which it makes investments to secure the necessary borrowings for those investments.

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Fixed rate instruments** | | |
| Liabilities | 7,983 | 7,260 |
| | 7,983 | 7,260 |

| | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Floating rate instruments** | | |
| Liabilities | 1,812 | 2,058 |
| | 1,812 | 2,058 |

# Notes to the Financial Statements continued

## 2. Financial risk management continued

### 2.1 Financial risk factors continued

b) Credit risk

The Group is exposed to the credit risk inherent in non-payment by either its customers or the counterparties of its financial instruments. The Group utilises credit insurance policies to mitigate its risk from some of its trading exposure, especially in overseas markets, and in all cases seeks satisfactory references and the best possible terms of payment. It mitigates its exposure on financial instruments by only using instruments from banks and financial institutions with a minimum rating of 'A-1+'.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and having available an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Group's available liquidity on the basis of expected future cash flows. Forecasts are generated in the first instance at local level in the operating subsidiaries of the Group.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | Less than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| Trade and other payables | 1,681 | 313 | – | – |
| Other loans | 1,385 | 280 | 959 | – |
| Bank overdrafts | 520 | – | – | – |
| Bank loans | 275 | 455 | – | – |
| Trade receivables backed working capital facilities | 992 | – | – | – |
| Hire purchase obligations | 390 | 280 | 316 | – |
| | 5,243 | 1,328 | 1,275 | – |
| At 31 December 2016 | | | | |
| Trade and other payables | 3,934 | – | – | – |
| Other loans | 1,399 | 987 | 897 | – |
| Bank overdrafts | 796 | – | – | – |
| Trade receivables backed working capital facilities | 1,262 | – | – | – |
| Hire purchase obligations | 444 | 349 | 475 | – |
| | 7,835 | 1,336 | 1,372 | – |

# Notes to the Financial Statements continued

## 2. Financial risk management continued

### 2.2 Capital risk management

The Group's objectives when managing capital (being the equity and reserves of the Group) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may pay dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio measures net debt as a proportion of total equity as shown in the Statement of Financial Position. Net debt is calculated as total borrowings less cash and cash equivalents.

The gearing ratios at 31 December 2017 and 2016 were as follows:

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Total borrowings | 4,103 | 3,895 |
| Less: cash | (1,371) | (840) |
| Net debt | 2,732 | 3,055 |
| Total equity | 4,954 | 4,203 |
| Gearing ratio | 55% | 73% |

In order to provide a more meaningful gearing ratio, total borrowings have been revised to be the sum of bank borrowings, hire purchase obligations and third party debt, excluding loan notes used to finance the Group's acquisitions. The prior year comparatives are also calculated on this basis.

### 2.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of the financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current interest rate.

The fair values of all financial assets and liabilities approximate to their carrying values.

# Notes to the Financial Statements continued

## 3. Critical accounting assumptions, judgements and estimates

a) Impairment of intangible assets (including goodwill)
The Group tests annually whether intangible assets (including goodwill) have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations. The calculations require the use of estimates (note 15).

b) Deferred tax assets
Certain subsidiaries of the Group (principally Davies Odell) have accelerated capital allowances and brought forward tax losses. Deferred tax assets have been recognised in respect of the brought-forward tax losses. The recognition of the assets reflects management's estimate of the recoverable amounts in respect of these items. See note 22 for further details.

c) Retirement benefit liabilities
During the period the defined benefits pension scheme was transferred from one of the subsidiaries to the Company. The scheme is subject to triennial actuarial valuation and the Group commissions an independent qualified actuary to update to each financial year end the previous triennial result. The results of this update are included in the financial statements. In reaching the annually updated results management makes assumptions and estimates. These assumptions and estimates are made advisedly, but are not any guarantee of the performance of the scheme or of the outcome of each triennial review. See note 8 for further details.

d) Acquisition
During the period Hickton Holdings Limited acquired 100 per cent of BRCS (Building Control) Limited (see note 14). Management has made estimates concerning the intangible assets arising on acquisition as well as the fair value of the assets and liabilities at the acquisition date.

## 4. Segmental analysis

The Chief Operating Decision-Maker ('CODM') of the Group is its Board. Each operating segment regularly reports its performance to the Board which, based on those reports, allocates resources to and assesses the performance of those operating segments.

The operating segments set out below are the only level for which discrete information is available or utilised by the CODM.

Operating segments and their principal activities are as follows:

Aford Awards, a sports trophy and engraving company;

CEM Press, a manufacturer of fabric and wallpaper pattern books, swatches and shade cards;

Davies Odell, a manufacturer and distributor of protection equipment, matting and footwear components;

Friedman's, a convertor and distributor of specialist Lycra;

Hickton, a provider of services to the construction industry;

Sunline, a supplier of services to the direct mail market.

Group costs, costs incurred at Head Office level to support the activities of the Group.

The United Kingdom is the main country of operation from which the Group derives its revenue and operating profit and is the principal location of the assets and liabilities of the Group. The Group information provided below, therefore, also represents the geographical segmental analysis. Of the £23,601,000 (2016: £24,320,000) revenue £21,001,000 (2016: £21,666,000) is derived from UK customers with the remaining £2,600,000 (2016: £2,654,000) being derived from a number of overseas countries, none of which is material in isolation. All assets and liabilities are held in the United Kingdom.

# Notes to the Financial Statements continued

## 4. Segmental analysis continued

The Board assesses the performance of each operating segment by a measure of adjusted earnings before interest, tax, Group costs, depreciation and amortisation (EBITDA) before exceptional costs. Other information provided to the Board is measured in a manner consistent with that in the financial statements.

### i) Results by segment

| | Aford Awards 2017 £'000 | CEM Press 2017 £'000 | Davies Odell 2017 £'000 | Friedman's 2017 £'000 | Hickton 2017 £'000 | Sunline 2017 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 1,907 | 2,414 | 3,804 | 5,053 | 3,748 | 6,675 | 23,601 |
| Segmental result (EBITDA) | 328 | (310) | 33 | 1,198 | 447 | 224 | 1,920 |
| Depreciation and amortisation charge | | | | | | | (497) |
| Goodwill impairment | | | | | | | (847) |
| Group costs | | | | | | | (322) |
| Net finance costs | | | | | | | (209) |
| Profit on disposal of investments | | | | | | | 10 |
| Profit before taxation | | | | | | | 55 |
| Taxation | | | | | | | (276) |
| Loss for the year | | | | | | | (221) |

| | Aford Awards 2016 £'000 | CEM Press 2016 £'000 | Davies Odell 2016 £'000 | Friedman's 2016 £'000 | Hickton 2016 £'000 | Sunline 2016 £'000 | Total 2016 £'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 1,596 | 2,954 | 4,317 | 4,555 | 2,961 | 7,937 | 24,320 |
| Segmental result (EBITDA) before exceptional costs | 298 | (149) | (10) | 887 | 386 | (90) | 1,322 |
| Depreciation and amortisation charge | | | | | | | (478) |
| Goodwill impairment | | | | | | | (611) |
| Group costs | | | | | | | (308) |
| Net finance costs | | | | | | | (390) |
| Profit before taxation | | | | | | | (465) |
| Taxation | | | | | | | (448) |
| Loss for the year | | | | | | | (913) |

# Notes to the Financial Statements continued

## 4. Segmental analysis
continued

ii) Assets and liabilities by segment as at 31 December

| | Segment assets | | Segment liabilities | | Segment net assets | |
|---|---|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| CEPS Group | 41 | 30 | (1,078) | (873) | (1,037) | (843) |
| Aford Awards | 1,558 | 1,465 | (346) | (430) | 1,212 | 1,035 |
| CEM Press | 1,400 | 2,422 | (1,627) | (1,924) | (227) | 498 |
| Davies Odell | 1,974 | 1,919 | (1,401) | (1,353) | 573 | 566 |
| Friedman's | 3,860 | 3,549 | (800) | (915) | 3,060 | 2,634 |
| Hickton | 3,368 | 2,431 | (1,942) | (1,220) | 1,426 | 1,211 |
| Sunline | 2,777 | 3,122 | (2,830) | (4,020) | (53) | (898) |
| Total – Group | 14,978 | 14,938 | (10,024) | (10,735) | 4,954 | 4,203 |

# Notes to the Financial Statements continued

## 5. Operating profit

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Operating profit is stated after charging/(crediting): | | |
| Loss/(profit) on disposal of property, plant and equipment | 17 | (1) |
| Exchange (gain)/loss | (46) | 69 |
| Other operating lease rentals on land and buildings and on plant and machinery | 404 | 708 |

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Fees payable to the Company's auditors | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 22 | 21 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| Audit of the accounts of subsidiaries | 52 | 47 |
| | 74 | 68 |
| Taxation compliance services | 19 | 17 |
| Total fees | 93 | 85 |

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Expenses by nature | | |
| Change in stocks of finished goods and work in progress | (123) | 33 |
| Raw materials and consumables | 6,928 | 8,812 |
| Employee benefit expenses | 7,691 | 7,577 |
| Depreciation and amortisation | 497 | 478 |
| Operating lease payments | 380 | 708 |
| Other expenses | 7,127 | 6,131 |
| | 22,500 | 23,739 |

# Notes to the Financial Statements continued

## 6. Employees

The average monthly number of persons employed by the Group during the year was:

| | 2017 Number | 2016 Number |
|---|---|---|
| Management and administration | 71 | 79 |
| Production and sales | 215 | 224 |
| | 286 | 303 |

The aggregate costs of these persons were:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | 6,956 | 6,930 |
| Social security costs | 591 | 535 |
| Other pension costs (note 8) | 144 | 112 |
| | 7,691 | 7,577 |

Key management personnel are deemed to be members of the Board and their compensation is shown in note 7.

The average monthly number of persons employed by the Company during the year was:

| | 2017 Number | 2016 Number |
|---|---|---|
| Management and administration | 4 | 4 |

The aggregate costs of these persons were:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | 125 | 125 |
| Social security costs | 10 | 10 |
| | 135 | 135 |

# Notes to the Financial Statements continued

## 7. Directors' emoluments and interests

The aggregate remuneration of the directors was:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Short-term employee benefits | 125 | 125 |

The remuneration of the Chairman, D A Horner, and of the other directors who served during the year was:

| | Salaries and fees 2017 £'000 | Salaries and fees 2016 £'000 |
|---|---|---|
| D A Horner | 24 | 24 |
| V E Langford | 65 | 64 |
| G C Martin | 18 | 18 |
| R T Organ | – | 9 |
| M D Pollard | 18 | 10 |
| | 125 | 125 |

G C Martin has a pension secured in the Group defined benefits scheme from which he is currently drawing. He is not accruing any further additional benefit under this pension scheme.

Of those directors who remain in office at the year end, their beneficial interests, including those of their families, in shares of the Group were:

| | at 31 December 2017 shares | at 31 December 2016 shares |
|---|---|---|
| D A Horner | 3,950,000 | 2,863,672 |
| V E Langford | 41,667 | 41,667 |
| G C Martin | 10,000 | 10,000 |
| M D Pollard | 689,376 | 500,000 |

M D Pollard is the beneficial owner of 522,709 CEPS shares and he also has investment authority over a further 166,667 CEPS shares owned by his mother, Mrs C Pollard.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings.

# Notes to the Financial Statements continued

## 8. Pension costs

The Group operates a number of defined contribution schemes. The assets of the schemes are held in independently administered funds. The pension cost charge represents contributions payable to the funds and amounted to £144,000 (2016: £112,000). At 31 December 2017 £nil (2016: £nil) of pension contributions remain outstanding.

The Group also operates a defined benefits scheme (Dinkie Heel plc Retirement Benefits Scheme). The scheme was closed to new members in 1988. The assets of the scheme are held separately from those of the Group in a deposit administration contract underwritten by an insurance company. Contributions to the scheme are determined by a qualified external actuary on the basis of triennial valuations using, for accrued service, the 'projected unit' method and, for future service, the 'attained age' method. The most recent actuarial valuation was at 1 July 2016 and the main actuarial assumptions were investment returns of 2.3% before retirement and 2.3% after retirement. The valuation showed that the total value of the scheme assets was £4,444,000 and that the level of funding on an ongoing basis is 94%. At 27 September 2017 the Group agreed a recovery plan of £6,200 per month, an amount intended to restore a 100% funding level over four years and five months from the valuation date, which is by 30 November 2020.

With effect from 28 July 2017 CEPS PLC has transferred the Dinkie Heel plc Retirement Benefits Scheme from Davies Odell Limited to CEPS PLC. This was an intra-Group transfer and there was no change in the overall liability of the CEPS Group. CEPS PLC was the existing guarantor of the scheme.

The Group commissioned an independent qualified actuary to update to 31 December 2017 the results of the actuarial valuation at 1 July 2016. The results of the update are as follows:

| | 2017 | 2016 |
|---|---|---|
| Assumptions at 31 December | | |
| Interest rate for discounting liabilities | 2.40% | 2.60% |
| Expected return on plan assets | 2.40% | 2.60% |
| RPI price inflation | 3.30% | 3.30% |
| CPI price inflation | 2.60% | 2.60% |
| Pensions increase | 3.20% | 3.20% |
| Mortality | PCA00 | PCA00 |
| Current and future pensioners | year of birth long cohort | year of birth long cohort |
| Life expectancies (years) | | |
| For a 65 year old male | 22.8 | 23.3 |
| For a 65 year old female | 24.5 | 24.6 |
| For a 65 year old male, currently aged 45 | 24.0 | 24.7 |
| For a 65 year old female, currently aged 45 | 25.2 | 25.4 |

The independent actuary estimates that a 0.1% decrease in the discount rate would change the value of scheme liabilities by approximately £56,000.

The expected return on plan assets has been determined by the current rate of return on the plan, less allowances for future uncertainties on the plan and an allowance for costs to be incurred in administering the plan.

# Notes to the Financial Statements continued

## 8. Pension costs continued

The following amounts were measured in accordance with the requirements of IAS 19:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts recognised in the statement of financial position are as follows: | | |
| Fair value of plan assets | 4,445 | 4,065 |
| Present value of defined benefit obligation | (3,819) | (3,894) |
| Actuarial surplus not recognised | (626) | (171) |
| Net surplus | – | – |

The actuarial surplus arising on the defined benefit pension scheme has not been recognised as the Group does not have an unconditional right to refunds of surpluses arising in the scheme.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Pension scheme finance income recognised in the Consolidated Statement of Comprehensive Income | | |
| Interest on obligation | (100) | (112) |
| Interest income on plan assets | 105 | 138 |
| | 5 | 26 |
| Consolidated Statement of Comprehensive Income | | |
| Experience loss | – | – |
| Financial assumption gain/(loss) | 72 | (789) |
| Mortality assumption gain | – | – |
| Actuarial gain/(loss) | 72 | (789) |
| Experience gains on assets | 317 | 193 |
| Movement in actuarial surplus not recognised | (455) | 516 |
| Total loss | (66) | (80) |
| Movement in Statement of Financial Position for the year | | |
| Net pension liability at the start of the year | – | – |
| Employer's pension (income)/cost | (1) | 20 |
| Consolidated Statement of Comprehensive Income | (66) | (80) |
| Employer contributions | 67 | 60 |
| Net pension liability at the end of the year | – | – |
| Reconciliation of the defined benefit obligation | | |
| Defined benefit obligation at the start of the year | 3,894 | 3,053 |
| Interest cost | 100 | 112 |
| Actuarial (gain)/loss | (72) | 789 |
| Benefits paid | (103) | (60) |
| Defined benefit obligation at the end of the year | 3,819 | 3,894 |
| Reconciliation of plan assets | | |
| Fair value of plan assets at the start of the year | 4,065 | 3,740 |
| Expected return on plan assets | 105 | 138 |
| Experience gains on assets | 317 | 193 |
| Employer contributions | 67 | 60 |
| Non investment expenses | (6) | (6) |
| Benefits and expenses paid | (103) | (60) |
| Fair value of plan assets at the end of the year | 4,445 | 4,065 |

# Notes to the Financial Statements continued

## 8. Pension costs continued

| | 2017 | 2016 |
|---|---|---|
| Asset categories at the end of the year | | |
| Equities | 45.9% | 46.7% |
| Bonds | 47.4% | 42.9% |
| Property | 5.8% | 7.6% |
| Cash | 0.9% | 2.9% |

| | 2017 £'000 | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 |
|---|---|---|---|---|---|
| Amounts for the current and previous four years are as follows: | | | | | |
| Plan assets | 4,445 | 4,065 | 3,740 | 3,348 | 3,039 |
| Defined benefit obligation | (3,819) | (3,894) | (3,053) | (3,157) | (2,858) |
| Actuarial surplus not recognised | (626) | (171) | (687) | (191) | (181) |
| Deficit in scheme | – | – | – | – | – |
| Actuarial gain/(losses) on liabilities due to assumptions | 72 | (789) | 150 | (234) | (79) |
| Experience gains on assets | 317 | 193 | 278 | 157 | 99 |
| Movement in actuarial surplus not recognised | (455) | 516 | (496) | (10) | (105) |
| Total losses recognised for the year | (66) | (80) | (68) | (87) | (85) |
| Cumulative amount of gains and losses recognised in the Consolidated Statement of Comprehensive Income | (276) | (210) | (130) | (62) | 25 |

## 9. Net finance costs

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Bank interest receivable | 123 | – |
| Pension scheme finance income (note 8) | 5 | 26 |
| Total finance income | 128 | 26 |
| Interest payable on bank loans and overdrafts | 55 | 78 |
| Interest payable on other loans net of write-back | 194 | 268 |
| Amortisation of finance cost | 15 | 14 |
| Finance lease costs | 73 | 56 |
| Total finance costs | 337 | 416 |
| Net finance costs | 209 | 390 |

# Notes to the Financial Statements continued

## 10. Taxation

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Analysis of taxation in the year: | | |
| Current tax | | |
| Tax on profits of the year | 317 | 215 |
| Tax in respect of prior years | (21) | 14 |
| Total current tax | 296 | 229 |
| Deferred tax | | |
| Current year deferred tax movement | (20) | – |
| Origination and reversal of temporary differences | – | 219 |
| Total deferred tax | (20) | 219 |
| Total tax charge | 276 | 448 |
| Deferred tax charged to the Consolidated Statement of Changes in Equity | – | – |

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK (19%) (2016: 20%).

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Factors affecting current tax: | | |
| Profit/(loss) before taxation | 55 | (465) |
| Profit/(loss) multiplied by the standard rate of UK tax of 19% (2016: 20%) | 11 | (93) |
| Effects of: | | |
| Permanent differences | 306 | 308 |
| Current year deferred tax movement | (20) | – |
| Prior year adjustment, current tax | (21) | 14 |
| Prior year adjustment, deferred tax | – | 219 |
| Total tax charge | 276 | 448 |

The standard rate of corporation tax in the UK changed to 19% with effect from 1 April 2017. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 19%.

Reduction in the United Kingdom corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax balance has been calculated based on the rate of 19%.

# Notes to the Financial Statements continued

## 11. Dividends

The Company intends to undertake a capital reconstruction during 2018 which, if successful, will facilitate the payment of future dividends. No dividend was paid in 2017 and 2016.

## 12. Earnings per share

Basic earnings per share is calculated on the loss for the year after taxation attributable to the owners of the parent of £532,000 (2016: loss £1,132,000) and on 12,951,576 (2016: 9,573,822) ordinary shares, being the weighted number in issue during the year.

No adjustment is required for dilution in either year as there are no items that would have a dilutive impact on earnings per share.

# Notes to the Financial Statements continued

## 13. Property, plant and equipment

Group

| | Leasehold property improvements £'000 | Plant, machinery, tools and moulds £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| at 1 January 2016 | 138 | 5,657 | 166 | 5,961 |
| Additions at cost | 20 | 727 | 4 | 751 |
| Assets acquired on purchase of a subsidiary | 20 | 128 | – | 148 |
| Disposals | – | (46) | (15) | (61) |
| at 31 December 2016 | 178 | 6,466 | 155 | 6,799 |
| Additions at cost | 15 | 380 | 21 | 416 |
| Assets acquired on purchase of a subsidiary | 21 | 45 | – | 66 |
| Disposals | – | (64) | (28) | (92) |
| at 31 December 2017 | 214 | 6,827 | 148 | 7,189 |
| **Accumulated depreciation** | | | | |
| at 1 January 2016 | 96 | 3,645 | 98 | 3,839 |
| Assets acquired on purchase of a subsidiary | 20 | 105 | – | 125 |
| Adjustment | – | 1 | 1 | 2 |
| Charge for the year | 9 | 440 | 17 | 466 |
| Disposals | – | (42) | (10) | (52) |
| at 31 December 2016 | 125 | 4,149 | 106 | 4,380 |
| Assets acquired on purchase of a subsidiary | 21 | 33 | – | 54 |
| Charge for the year | 9 | 452 | 17 | 478 |
| Disposals | – | (20) | (23) | (43) |
| at 31 December 2017 | 155 | 4,614 | 100 | 4,869 |
| **Net book amount** | | | | |
| at 31 December 2017 | 59 | 2,213 | 48 | 2,320 |
| at 31 December 2016 | 53 | 2,317 | 49 | 2,419 |

At the year end, assets held under hire purchase contracts and capitalised as plant, machinery, tools and moulds have a net book value of £1,479,000 (2016: £1,679,000) and an accumulated depreciation balance of £2,194,000 (2016: £1,961,000).

The depreciation has been charged to cost of sales in the Consolidated Statement of Comprehensive Income.

Company

Throughout 2016 and 2017 the Company held no property, plant and equipment.

# Notes to the Financial Statements continued

## 14. Business combinations

Acquisitions in 2017

(a) BRCS (Building Control) Limited

During the year Hickton Holdings Limited acquired 100 per cent of the issued share capital of BRCS (Building Control) Limited. The initial consideration was £616,000 with the balance of the consideration payable over the next two years, dependent on financial performance over the period. No equity investment from CEPS was required to undertake the transaction, which was completed on 18 May 2017.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £132,000.

Goodwill of £717,000 arose from the acquisition. Of this amount £182,000 was allocated to customer lists.

The following table shows the fair value of assets and liabilities included in the consolidated statements at the date of acquisition:

| | Fair Value £'000 |
|---|---|
| Identifiable assets | |
| Cash and cash equivalents | 98 |
| Property, plant and equipment | 12 |
| Trade and other receivables | 146 |
| Trade and other payables | (120) |
| Deferred tax liabilities | (4) |
| | 132 |
| Consideration calculation | |
| Purchase price consideration | 616 |
| Deferred consideration | 226 |
| Stamp duty | 7 |
| | 849 |
| Goodwill | 717 |
| Analysis of cash flows on acquisition | |
| Cash paid | 616 |
| Less: net cash acquired with subsidiary | (98) |
| Net cash flow on acquisition | 518 |

From the date of acquisition BRCS (Building Control) contributed £273,000 of revenue and £72,000 loss before tax. If the combination had taken place at the beginning of the year, revenue would have been £519,000 and loss before tax would have been £4,000.

(b) Acquisition of additional interest in CemTeal Limited

During the year the Group acquired an additional 7% interest in the voting shares of CemTeal, increasing its effective ownership interest to 80%. Cash consideration of £7,000 was paid to the non-controlling shareholders. The carrying value of the net liabilities of CemTeal (excluding goodwill on the original acquisition) was £27,000. Shown below is a schedule of the additional interest acquired:

| | £'000 |
|---|---|
| Cash paid to non-controlling shareholders | 7 |
| Less: carrying value of the additional interest | 27 |
| Difference recognised in retained earnings | 34 |

# Notes to the Financial Statements continued

## 15. Intangible assets

**Group**

| | Goodwill £'000 | Customer lists £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| at 1 January 2016 | 6,736 | 577 | 69 | 7,382 |
| Acquisition | 1,679 | – | – | 1,679 |
| Additions at cost | – | 13 | 20 | 33 |
| at 31 December 2016 | 8,415 | 590 | 89 | 9,094 |
| Acquisition | 535 | 182 | – | 717 |
| Additions at cost | – | – | 11 | 11 |
| at 31 December 2017 | 8,950 | 772 | 100 | 9,822 |
| **Accumulated amortisation and impairment** | | | | |
| at 1 January 2016 | 2,700 | – | 30 | 2,730 |
| Adjustment | – | – | 3 | 3 |
| Amortisation charge | – | 1 | 11 | 12 |
| Impairment | 611 | – | – | 611 |
| at 31 December 2016 | 3,311 | 1 | 44 | 3,356 |
| Amortisation charge | – | 4 | 15 | 19 |
| Impairment | 847 | – | – | 847 |
| at 31 December 2017 | 4,158 | 5 | 59 | 4,222 |
| **Net book amount** | | | | |
| at 31 December 2017 | 4,792 | 767 | 41 | 5,600 |
| at 31 December 2016 | 5,104 | 589 | 45 | 5,738 |

**Company**

| | Goodwill £'000 | Customer lists £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| at 1 January 2016, 31 December 2016 and 31 December 2017 | 80 | – | 17 | 97 |
| Accumulated amortisation | | | | |
| at 31 December 2016 and 31 December 2017 | 80 | – | 17 | 97 |
| **Net book amount** | | | | |
| at 31 December 2017 and 31 December 2016 | – | – | – | – |

Goodwill is not amortised under IFRS, but is subject to impairment testing either annually or on the occurrence of a triggering event. Impairment charges are included in administration expenses and disclosed as an exceptional cost.

Customer lists are assessed to have indefinite life. When a decision is taken to terminate a product or a service, the related customer lists are amortised over the remaining life of the product or service. Impairment reviews are undertaken annually or if changes in circumstances indicate a potential impairment.

Other intangibles relate to computer software, website costs and licences and are amortised over their estimated economic lives. The annual amortisation charge is expensed to cost of sales in the Consolidated Statement of Comprehensive Income.

# Notes to the Financial Statements continued

## 15. Intangible assets continued

### Impairment tests for goodwill

The Group tests goodwill and intangible assets arising on the acquisition of a subsidiary (customer lists) annually for impairment or more frequently if there are indications that goodwill or customer lists may be impaired.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units (CGUs) on a business segment basis:

| | Aford Awards £'000 | CEM Press £'000 | Friedman's £'000 | Hickton £'000 | Sunline £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| at 1 January 2016 | 1,039 | 1,435 | 1,528 | – | 611 | 4,613 |
| Acquisition of subsidiary | – | – | – | 1,679 | – | 1,679 |
| Additions – customer list | 13 | – | – | – | – | 13 |
| Amortisation charge | (1) | – | – | – | – | (1) |
| Impairment | – | – | – | – | (611) | (611) |
| at 31 December 2016 | 1,051 | 1,435 | 1,528 | 1,679 | – | 5,693 |
| Acquisition of subsidiary | – | – | – | 535 | – | 535 |
| Additions – customer list | – | – | 11 | 182 | – | 193 |
| Amortisation charge | (4) | – | (11) | – | – | (15) |
| Impairment charge | – | (847) | – | – | – | (847) |
| **at 31 December 2017** | **1,047** | **588** | **1,528** | **2,396** | **–** | **5,559** |

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond five years are assumed to be constant. A discount rate of 9.95% (2016: 10.85%), representing the estimated pre-tax cost of capital, has been applied to these projections.

The key assumptions used in the value-in-use calculations are as follows:

| | Revenue growth | | Gross margin | | Long-term growth | |
|---|---|---|---|---|---|---|
| | **2017 %** | 2016 % | **2017 %** | 2016 % | **2017 %** | 2016 % |
| Aford Awards | **3.0** | 1.0 | **31.6** | 32.4 | **1.0** | 1.0 |
| CEM Press | **2.0** | 1.0 | **34.0** | 38.7 | **1.0** | 1.0 |
| Friedman's | **5.0** | 3.0 | **42.0** | 42.0 | **2.0** | 2.0 |
| Hickton | **2.0** | 1.0 | **41.1** | 37.0 | **–** | – |
| Sunline | **2.0** | 2.0 | **42.2** | 33.0 | **1.0** | 1.0 |

Management has determined the budgeted revenue growth and gross margins based on past performance and their expectations of market developments in the future. Long-term growth rates are based on the lower of the UK long-term growth rate and management's general expectations for the relevant CGU.

In respect of Aford Awards, CEM Press, Friedman's and Hickton Consultants the value-in-use calculation gives rise to sufficient headroom such that reasonable changes in the key assumptions do not eliminate the headroom.

At December 2017 an impairment charge of £847,000 was taken against the carrying value of goodwill related to CEM Press. This reflected the challenging economic and trading environment of the pattern book market in which the business was operating.

# Notes to the Financial Statements continued

## 16. Investments

Company

| | Shares in Group subsidiaries £'000 | Loans to Group subsidiaries £'000 | Total investments in subsidiaries £'000 |
|---|---|---|---|
| Cost and net book amount at 1 January 2016 | 817 | 2,142 | 2,959 |
| Acquisition | 55 | 615 | 670 |
| at 31 December 2016 | 872 | 2,757 | 3,629 |
| Adjustment | (1) | – | (1) |
| Acquisition | 7 | – | 7 |
| at 31 December 2017 | 878 | 2,757 | 3,635 |

Of the loans to Group subsidiaries £592,000 is represented by 7% loan stock repayable in instalments between October 2018 and September 2021 and £850,000 by 5% loan stock originally repayable in instalments between April 2009 and February 2012. In both cases repayments will only be requested when surplus cash is available.

# Notes to the Financial Statements continued

## 16. Investments continued

Investments in subsidiary companies are stated at cost. A list of subsidiary undertakings, all of which have been included in the consolidation, is given below.

| Name of subsidiary, principal activity and registered address | Place of operation | Proportion of ownership interests | Wholly or non-wholly owned subsidiary |
|---|---|---|---|
| Aford Awards (Holdings) Limited<br>*Holding company for Aford Awards Limited*<br>11 Laura Place, Bath BA2 4BL | England | 70% | Non-wholly |
| Aford Awards Limited<br>*Suppliers of trophies and awards and engraving specialists*<br>Grange House, The Green, Bearsted, Maidstone, Kent ME14 4DZ | England | 70% | Non-wholly |
| BRCS (Building Control) Limited<br>*Provider of building control services*<br>Synergy Centre, 5 Hoffmanns Way, Chelmsford CM1 1GU | England | 52% | Non-wholly |
| CemTeal Limited<br>*Holding company for CEM Press Holdings Limited*<br>11 Laura Place, Bath BA2 4BL | England | 80% | Non-wholly |
| CEM Press Holdings Limited<br>*Holding company for CEM Group Limited*<br>11 Laura Place, Bath BA2 4BL | England | 78% | Non-wholly |
| CEM Group Limited<br>*Holding company for C.E.M. Press Limited*<br>Teal Close, Victoria Business Park, Netherfield, Nottingham NG24 2PE | England | 78% | Non-wholly |
| C.E.M. Press Limited<br>*Design and compilation of fabric, wallpaper and carpet sample books*<br>Teal Close, Victoria Business Park, Netherfield, Nottingham NG24 2PE | England | 78% | Non-wholly |
| CYNC UK Limited<br>*Provider of logistics services*<br>CYNC House, Private Road No. 2, Colwick, Nottingham NG4 2DW | England | 80% | Non-wholly |
| Davies Odell Limited<br>*Manufacturer and distributor of protection equipment, matting and footwear components*<br>11 Laura Place, Bath BA2 4BL | England | 85% | Non-wholly |
| Signature Fabrics Limited<br>*Holding company for Friedman's Limited*<br>Sunaco House, Unit 2, Bletchley Road, Heaton Mersey Industrial Estate, Stockport SK4 3EF | England | 55% | Non-wholly |
| Friedman's Limited<br>*Conversion and distribution of specialist Lycra*<br>Sunaco House, Unit 2, Bletchley Road, Heaton Mersey Industrial Estate, Stockport SK4 3EF | England | 55% | Non-wholly |

# Notes to the Financial Statements continued

## 16. Investments continued

| Name of subsidiary, principal activity and registered address | Place of operation | Proportion of ownership interests | Wholly or non-wholly owned subsidiary |
|---|---|---|---|
| Hickton Holdings Limited<br>*Holding company for Hickton Consultants Limited*<br>Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT | England | 52% | Non-wholly |
| Hickton Consultants Limited<br>*Clerk of Works specialists*<br>Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT | England | 52% | Non-wholly |
| Sunline Direct Mail (Holdings) Limited<br>*Holding company for Sunline Direct Mail Limited*<br>11 Laura Place, Bath BA2 4BL | England | 80% | Non-wholly |
| Sunline Direct Mail Limited<br>*Supplier of services to the direct mail market*<br>Cotton Way, Weldon Road Industrial Estate, Loughborough, Leicestershire LE11 5FJ | England | 80% | Non-wholly |
| Davies & Co (Kettering) Limited<br>*Dormant company*<br>11 Laura Place, Bath BA2 4BL | England | 100% | Wholly |
| Phillips Rubber Limited<br>*Dormant company*<br>11 Laura Place, Bath BA2 4BL | England | 100% | Wholly |
| Farmat Limited<br>*Dormant company*<br>11 Laura Place, Bath BA2 4BL | England | 100% | Wholly |
| Davies and Company Limited<br>*Dormant company*<br>11 Laura Place, Bath BA2 4BL | England | 100% | Wholly |

Details of non-wholly owned subsidiaries that have a material non-controlling interest are disclosed below:

| Statement of Financial Position | Signature Fabrics Group | | Hickton Holdings Group | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£'000** | £'000 | **£'000** | £'000 |
| As at 31 December | | | | |
| Current | | | | |
| Assets | **2,113** | 1,875 | **1,249** | 737 |
| Liabilities | **(785)** | (907) | **(537)** | (365) |
| Total current net assets | **1,328** | 968 | **712** | 372 |
| Non-current | | | | |
| Assets | **1,747** | 1,674 | **2,119** | 1,694 |
| Liabilities | **(15)** | (8) | **(1,404)** | (855) |
| Total non-current net assets | **1,732** | 1,666 | **715** | 839 |
| Net assets | **3,060** | 2,634 | **1,427** | 1,211 |

# Notes to the Financial Statements continued

## 16. Investments continued

| Statement of Comprehensive Income | Signature Fabrics Group | | Hickton Holdings Group | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| For year ended 31 December | | | | |
| Revenue | 5,053 | 4,555 | 3,748 | 2,961 |
| Profit before income tax | 1,153 | 813 | 373 | 280 |
| Income tax expense | (192) | (160) | (52) | (61) |
| Post-tax profit from continuing operations | 961 | 653 | 321 | 219 |
| Total comprehensive income | 961 | 653 | 321 | 219 |
| Total comprehensive income allocated to non-controlling interests | 433 | 294 | 147 | 98 |
| Dividends paid to non-controlling interests | 225 | 180 | – | – |

| Summarised cash flows | Signature Fabrics Group | | Hickton Holdings Group | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 796 | 736 | 763 | 465 |
| Interest paid | (3) | (3) | (79) | (132) |
| Income tax paid | (160) | (166) | (61) | (64) |
| Net cash generated from operating activities | 633 | 567 | 623 | 269 |
| Net cash used in investing activities | (115) | (44) | (538) | (233) |
| Net cash (used in)/generated from financing activities | (225) | (432) | 6 | 100 |
| **Net increase in cash, cash equivalents and bank overdrafts** | 293 | 91 | 91 | 136 |
| Cash, cash equivalents and bank overdrafts at beginning of year | 556 | 465 | 136 | – |
| Cash, cash equivalents and bank overdrafts at end of year | 849 | 556 | 227 | 136 |

There are no restrictions on the cash flows of the Group arising as a result of the non-controlling interests within Group subsidiaries.

## 17. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials and consumables | 537 | 664 | – | – |
| Work in progress | 17 | 12 | – | – |
| Finished goods and goods for resale | 1,216 | 1,344 | – | – |
| | 1,770 | 2,020 | – | – |

The cost of inventories recognised as an expense and included in cost of sales amounted to £6,928,000 (2016: £8,812,000).

# Notes to the Financial Statements continued

## 18. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Trade receivables | 2,844 | 3,137 | – | – |
| less: provision for impairment of trade receivables | (13) | (17) | – | – |
| Trade receivables – net | 2,831 | 3,120 | – | – |
| Amount due from subsidiary companies | – | – | 2,210 | 526 |
| Other receivables | 143 | 195 | – | – |
| Prepayments and accrued income | 717 | 386 | 7 | 9 |
| | 3,691 | 3,701 | 2,217 | 535 |

As at 31 December 2017, trade receivables of £1,104,000 (2016: £2,917,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2017, trade receivables of £1,670,000 (2016: £210,000) were past due, but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

At 31 December 2017 trade receivables of £57,000 (2016: £218,000) were impaired. A significant portion of the receivables is expected to be recovered and a provision of £13,000 (2016: £17,000) has been made for non-recovery. The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| 3 to 6 months | 57 | 209 |
| Over 6 months | – | 9 |
| | 57 | 218 |

The carrying amounts of the Group trade and other receivables are denominated in the following currencies:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Sterling | 2,831 | 3,005 |
| Euro | 13 | 121 |
| US $ | – | 11 |
| | 2,844 | 3,137 |

# Notes to the Financial Statements continued

## 18. Trade and other receivables continued

Movements in the Group provision for impairment of trade receivables are as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1 January | 17 | 9 |
| Provision for receivables impairment | 4 | 8 |
| Receivables written off during the year | (8) | – |
| At 31 December | 13 | 17 |

The creation and release of provisions for impaired receivables have been included in cost of sales in the Consolidated Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade and other receivables.

## 19. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Non-current: | | | | |
| Deferred consideration | 313 | – | – | – |
| Current: | | | | |
| Trade payables | 1,896 | 2,203 | – | – |
| Other tax and social security | 662 | 765 | 2 | 4 |
| Deferred consideration | 254 | – | – | – |
| Other payables | 210 | 251 | – | 17 |
| Accruals and deferred income | 534 | 715 | 76 | 112 |
| | 3,556 | 3,934 | 78 | 133 |
| Total trade and other payables | 3,869 | 3,934 | 78 | 133 |

# Notes to the Financial Statements continued

## 20. Borrowings

| | Group 2017 £'000 | Group 2016 £'000 | Company 2017 £'000 | Company 2016 £'000 |
|---|---|---|---|---|
| Non-current: | | | | |
| Bank loans | 455 | – | – | – |
| Other loans | 1,238 | 1,884 | – | – |
| Hire purchase obligations | 530 | 716 | – | – |
| | 2,223 | 2,600 | – | – |
| Current: | | | | |
| Bank overdraft | 520 | 796 | – | – |
| Bank loans | 275 | – | – | – |
| Trade receivables backed working capital facilities | 992 | 1,262 | – | – |
| Other loans | 1,385 | 1,399 | 1,000 | 740 |
| Hire purchase obligations | 331 | 381 | – | – |
| | 3,503 | 3,838 | 1,000 | 740 |
| Total borrowings | 5,726 | 6,438 | 1,000 | 740 |

Bank borrowings and overdrafts are secured by fixed and floating charges over the assets of the subsidiary to which they relate. Trade receivable backed working capital facilities are secured by the trade receivable to which they relate. All borrowings are denominated in Sterling.

At 31 December 2017 the analysis of the security of bank borrowings and overdrafts and trade receivables backed working capital facilities was as follows:

| Secured on the assets of | By fixed and floating charges £'000 | By trade receivables £'000 | Total £'000 |
|---|---|---|---|
| CEM Press | 211 | – | 211 |
| Davies Odell | 608 | 290 | 898 |
| Hickton | 430 | – | 430 |
| Sunline | 1 | 702 | 703 |
| | 1,250 | 992 | 2,242 |

At 31 December 2016 the analysis of the security of bank borrowings and overdrafts and trade receivables backed working capital facilities was as follows:

| Secured on the assets of | By fixed and floating charges £'000 | By trade receivables £'000 | Total £'000 |
|---|---|---|---|
| CEM Press | 137 | – | 137 |
| Davies Odell | 585 | 346 | 931 |
| Sunline | 74 | 916 | 990 |
| | 796 | 1,262 | 2,058 |

# Notes to the Financial Statements continued

## 20. Borrowings continued

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the dates of the Statement of Financial Position are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Bank £'000 | Hire purchase £'000 | Bank £'000 | Hire purchase £'000 |
| Within one year | 1,787 | 331 | 2,058 | 381 |
| Between one and two years | 455 | 241 | – | 300 |
| Between two and five years | – | 289 | – | 416 |
| | 2,242 | 861 | 2,058 | 1,097 |

The fair value of non-current borrowings equals their carrying amount, as the impact of discounting is not significant.

There is no material difference between the carrying book value and the fair value of the finance lease obligations.

£396,000 of other loans represent preference shares of £130,000, loan stock of £200,000 subscribed by non-controlling interests and loan stock of £66,000 issued to non-controlling interests in settlement of deferred consideration. Preference shares carry a dividend of 5% pa (reduced from 15%) and loan stock interest of 5% pa (reduced from 15%) and were repayable in quarterly instalments over three years commencing in April 2009. However, repayment has been deferred until at least 2018. The preference shares and loan stock are held by the non-controlling interest and are in Sunline Direct Mail (Holdings) Limited.

Other loans also include £385,000 of 4% Investor Loan Notes, £223,000 of 7% Vendor Loan Notes and £108,000 of 7% Shareholder Loan Notes in CemTeal. CEPS has guaranteed the repayment of the Investor Loan Notes if CemTeal has insufficient cash available to do so. The Vendor Loan Notes and Shareholder Loan Notes will be repaid in instalments by CemTeal between October 2018 and September 2021, subject to cash availability.

The minimum lease payments under hire purchase agreements fall due as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Not more than one year | 390 | 444 |
| Between one and two years | 280 | 349 |
| Between two and five years | 316 | 475 |
| | 986 | 1,268 |
| Finance charge | (125) | (171) |
| Present value of hire purchase agreement liabilities | 861 | 1,097 |

The carrying amounts of the Group's borrowings are denominated in Sterling.

Trade receivables backed working capital facilities are available to the Group and are subject to renegotiation on an annual basis. The Group has no bank loan facilities available for draw down.

# Notes to the Financial Statements continued

## 21a. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group
31 December 2017

| Assets as per Statement of Financial Position | Loans and receivables £'000 |
|---|---|
| Trade and other receivables (excluding prepayments and accrued income) | 2,974 |
| Cash and cash equivalents | 1,371 |
| Total | 4,345 |

| Liabilities at amortised cost as per Statement of Financial Position | Other financial liabilities £'000 |
|---|---|
| Bank borrowings (excluding hire purchase obligations) | 2,242 |
| Hire purchase obligations | 861 |
| Trade and other payables (excluding statutory liabilities) | 3,207 |
| Other loans | 2,623 |
| Total | 8,933 |

Group
31 December 2016

| Assets as per Statement of Financial Position | Loans and receivables £'000 |
|---|---|
| Trade and other receivables (excluding prepayments and accrued income) | 3,315 |
| Cash and cash equivalents | 840 |
| Total | 4,155 |

| Liabilities at amortised cost as per Statement of Financial Position | Other financial liabilities £'000 |
|---|---|
| Bank borrowings (excluding hire purchase obligations) | 2,058 |
| Hire purchase obligations | 1,097 |
| Trade and other payables (excluding statutory liabilities) | 3,169 |
| Other loans | 3,283 |
| Total | 9,607 |

The Company's assets in both the current and prior year are categorised as cash and cash equivalents and receivables. The Company's liabilities are categorised as other financial liabilities at amortised cost.

# Notes to the Financial Statements continued

## 21b. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables are analysed between:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| CEPS Group | 6 | 8 |
| Aford Awards | 145 | 120 |
| CEM Press | 443 | 543 |
| Davies Odell | 786 | 653 |
| Friedman's | 502 | 459 |
| Hickton | 730 | 602 |
| Sunline | 1,091 | 1,316 |
| | 3,703 | 3,701 |

The Group has a customer base which is for the most part stable, long standing and well known to the businesses. Credit and credit terms are negotiated with these customers taking into account their trading history with the Group and their payment record. New customers are only given credit after taking references or making trade and agency enquiries. Management does not believe there to be a credit exposure beyond that for which provision has already been made.

The Company cash and cash equivalents includes £1,371,000 (2016: £840,000) which is on account with differing financial institutions and is readily available. The external credit rating as assessed by Standard & Poor's for short-term funds for each of the institutions is A-1+.

## 22. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group, and the movement thereon, during the current and prior years.

| | Losses £'000 | Other timing differences £'000 | Accelerated capital allowances £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2016, asset/(liability) | 402 | (30) | (9) | 363 |
| Debit to the Consolidated Statement of Comprehensive Income | (220) | – | (3) | (223) |
| at 31 December 2016, asset/(liability) | 182 | (30) | (12) | 140 |
| Credit/(debit) to the Consolidated Statement of Comprehensive Income | 7 | (4) | 17 | 20 |
| Arising on acquisition of a subsidiary | – | – | (5) | (5) |
| **at 31 December 2017, asset/(liability)** | **189** | **(34)** | **–** | **155** |

The deferred income tax is split in the Consolidated Statement of Financial Position between a deferred tax asset of £226,000 (2016: £220,000) and a deferred tax liability of £71,000 (2016: £80,000). These are shown net in the table above.

Deferred income tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

# Notes to the Financial Statements continued

## 23. Provisions for liabilities and charges

| | Dilapidations £'000 |
|---|---|
| At 1 January 2016 | 55 |
| Additions in year | 57 |
| At 31 December 2016 | 112 |
| Release of provision in year | (12) |
| **At 31 December 2017** | **100** |

These amounts are expected to be settled as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Current | 50 | 62 |
| Non-current | 50 | 50 |
| | 100 | 112 |

**Dilapidations**

Dilapidation provisions are carried against the costs anticipated on termination of property leases. The leases to which the non-current element relates are currently due to terminate in 2022.

## 24. Share capital and premium

| | Number of shares | Ordinary shares £'000 | Share premium £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2016 and 31 December 2016 | 9,573,822 | 957 | 3,943 | 4,900 |
| Shares issued | 3,626,118 | 363 | 907 | 1,270 |
| Transaction costs | – | – | (7) | (7) |
| **at 31 December 2017** | **13,199,940** | **1,320** | **4,843** | **6,163** |

# Notes to the Financial Statements continued

## 25. Operating lease commitments

The Group leases various offices, warehouses and light industrial premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Land and buildings: | | |
| within one year | 970 | 741 |
| within two to five years | 3,245 | 1,739 |
| after more than five years | 2,295 | 370 |
| | 6,510 | 2,850 |

## 26. Related party transactions

During the year the Company entered into the following transactions with its subsidiaries.

| | Aford Awards (Holdings) Limited £'000 | CemTeal Limited £'000 | Davies Odell Limited £'000 | Signature Fabrics Limited £'000 | Hickton Consultants Limited £'000 | Sunline Direct Mail (Holdings) Limited £'000 |
|---|---|---|---|---|---|---|
| Receipt of equity share dividend | | | | | | |
| – 2017 | – | – | – | 275 | – | – |
| – 2016 | – | – | – | 220 | – | – |
| Receipt of preference share dividend | | | | | | |
| – 2017 | – | – | – | – | – | 26 |
| – 2016 | – | – | – | – | – | 26 |
| Receipt of loan note interest | | | | | | |
| – 2017 | 56 | 69 | 7 | – | 49 | 93 |
| – 2016 | 56 | 44 | 6 | – | 45 | 43 |
| Receipt of management charge income | | | | | | |
| – 2017 | 20 | – | 15 | 35 | 13 | 15 |
| – 2016 | 20 | – | 15 | 30 | 11 | 15 |
| Amount owed to the Company | | | | | | |
| – 31 December 2017 | 700 | 1,593 | 153 | – | 627 | 2,414 |
| – 31 December 2016 | 700 | 839 | 174 | – | 623 | 1,470 |

The Company is under the control of its shareholders and not any one party.

Directors' remuneration is shown in note 7 on page 34.

D A Horner has guaranteed a loan to the Company from an independent third party.

## 27. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Cash at bank and in hand | 1,371 | 840 | 36 | 21 |
| Bank overdrafts repayable on demand | (520) | (796) | – | – |
| | 851 | 44 | 36 | 21 |

# Notes to the Financial Statements continued

## 28. Changes in liabilities arising from financing activities

| | 1 January 2017 £'000 | Cash flows £'000 | Acquisition £'000 | 31 December 2017 £'000 |
|---|---|---|---|---|
| Current | | | | |
| Borrowings | 3,457 | (365) | 80 | 3,172 |
| Finance lease obligations | 381 | (108) | 58 | 331 |
| Non-current | | | | |
| Borrowings | 1,884 | (336) | 145 | 1,693 |
| Finance lease obligations | 716 | (278) | 92 | 530 |
| | 6,438 | (1,087) | 375 | 5,726 |

# Notes to the Financial Statements continued
# Group Information

| | |
|---|---|
| Directors | D A Horner, Chairman<br>V E Langford, Group Finance<br>G C Martin, Non-executive<br>M D Pollard, Non-executive |
| Secretary and registered office | V E Langford<br>11 Laura Place, Bath BA2 4BL<br>Company number 00507461<br>www.cepsplc.com |
| Operating locations | Aford Awards Limited<br>Grange House, Bearsted Green Business Centre, Maidstone, Kent ME14 4DF<br>telephone 01622 738711; email orders@afordawards.co.uk; www.afordawards.co.uk |
| | BRCS (Building Control) Limited<br>Synergy Centre, 5 Hoffmanns Way, Chelmsford CM1 1GU<br>telephone 01245 350937; email info@brcs.co.uk; www.brcs.co.uk |
| | C.E.M. Press Limited<br>Teal Close, Victoria Business Park, Netherfield, Nottingham NG24 2PE<br>telephone 0115 961 3581; email info@cemgroup.co.uk; www.cemgroup.co.uk |
| | CYNC UK Limited<br>CYNC House, Private Road No. 2, Colwick, Nottingham NG4 2DW<br>telephone 0116 288 4238; email hello@cync.uk; www.cync.uk |
| | Davies Odell Limited<br>Portland Road, Rushden, Northants NN10 0DJ<br>telephone 01933 410818<br>email info@daviesodell.co.uk; www.forcefieldbodyarmour.com<br>email info@davieskett.co.uk; www.equimat.co.uk |
| | Friedman's Limited<br>Unit E, Altrincham Business Park, 3 Tudor Road, Cheshire WA14 5RZ<br>telephone 0161 975 9002; email info@friedmans.co.uk;<br>www.friedmans.co.uk; www.funkifabrics.com |
| | Hickton Consultants Limited<br>Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT<br>telephone 01226 743959; email info@hickton.co.uk; www.hickton.co.uk |
| | Sunline Direct Mail Limited<br>Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ<br>telephone 01509 263434;<br>email enquiries@sunlinedirect.co.uk; www.sunline.co.uk |
| Registrars and share transfer office | Share Registrars Limited<br>The Courtyard, 17 West Street, Farnham GU9 7DR<br>telephone 01252 821390, lines are open 9.00am to 5.30pm Monday to Friday |
| Share price information | The day-to-day movement of the share price on the London Stock Exchange can be found on the Company's website and at www.londonstockexchange.com (code CEPS) |
| Independent auditors | PKF Littlejohn LLP<br>1 Westferry Circus, Canary Wharf, London E14 4HD |
| Solicitors | Roxburgh Milkins Limited<br>Merchants House North, Wapping Road, Bristol BS1 4RW |
| Nominated adviser and broker | Cairn Financial Advisers LLP<br>Cheyne House, Crown Court, 62-63 Cheapside, London EC2V 6AX |

# Notice of Meeting

## Annual General Meeting

Notice is hereby given that the Annual General Meeting of CEPS PLC (the 'Company') will be held at 11 Laura Place, Bath BA2 4BL on Monday 18 June 2018 at 11.30am for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which resolutions numbered 1 to 7 will be proposed as ordinary resolutions and resolutions numbered 8 and 9 as special resolutions.

1 To receive, consider and adopt the Company's annual accounts for the financial year ended 31 December 2017 together with the Directors' Report and Auditor's Report on those accounts.

2 To re-elect V E Langford as a director.

3 To re-elect M D Pollard as a non-executive director.

4 To authorise the directors to undertake a capital reconstruction.

5 To re-appoint PKF Littlejohn LLP, Chartered Accountants and Statutory Auditors, as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which the accounts are to be laid.

6 To authorise the directors to agree the auditors' remuneration.

7 THAT, in substitution for any existing authority subsisting at the date of this resolution to the extent unused, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,320,000, such authority to expire at the commencement of the next Annual General Meeting held after the date of the passing of this resolution, but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require equity securities to be allotted after the expiry of such period and the directors may allot equity securities pursuant to such an offer or agreement as if the authority had not expired.

8 THAT subject to and conditional on the passing of resolution number 6 and in substitution for any existing authority subsisting at the date of this resolution to the extent unused, the directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 6 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

8.1 in connection with an offer of such securities by way of rights issue (as defined below);

For the purposes of this resolution, 'rights issue' means an offer of equity securities to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the directors in proportion as nearly as may be to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter.

# Notice of Meeting continued

## Annual General Meeting
continued

8 continued

8.2 otherwise than pursuant to sub-paragraph 8.1 above up to an aggregate nominal amount of £1,320,000 (such shares representing approximately 100% of the Company's issued ordinary capital as at the date of this notice), and shall expire at the commencement of the next Annual General Meeting held after the date of the passing of this resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

9 THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10 pence each in the capital of the Company on such terms as the directors think fit, provided that:

9.1 the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate of 1,319,994 (such shares representing approximately 10% of the Company's issued ordinary capital as at the date of this notice);

9.2 the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 10 pence;

9.3 the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to the higher of: (a) 105 per cent of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and

9.4 the authority hereby conferred shall, unless previously revoked and varied, expire at the commencement of the next Annual General Meeting held after the date of the passing of the resolution (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

On behalf of the Board
V E Langford
*Company Secretary*
*10 May 2018*

Registered office: 11 Laura Place, Bath BA2 4BL
Registered in England and Wales with number 00507461

# Notice of Meeting continued

## Annual General Meeting
continued

Notes

1. A member entitled to attend and vote is entitled to appoint proxy(ies) to attend, speak and vote instead of him. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. In order to be valid an appointment of proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority) must be deposited at the office of the Registrars of the Company, Share Registrars at The Courtyard, 17 West Street, Farnham GU9 7DR not less than 48 hours, excluding any part of a day that is not a working day, before the time for holding the meeting.

   A proxy form is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

3. Under Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders whose names are on the register of members of the Company as at 11.30am on Thursday 14 June 2018 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting are entitled to attend and vote at the meeting in respect of the shares registered in their names at that time. Subsequent changes to the register shall be disregarded in determining the rights of any person to attend and vote at the meeting.