

Annual Report 2019

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Chairman's Statement

I sincerely hope that all our shareholders, customers and suppliers are safe and bearing up in these very difficult and exceptional times.

To our knowledge all our employees are safe and well during this period of Coronavirus lockdown and it is important to stress that, however CEPS PLC ('CEPS') and our subsidiaries move forward from this current position, it will only be done after full consideration of people's safety and welfare.

Writing this report now feels very strange as our plans and strategies have, literally, been put on hold until a move to normalisation is commenced. However, it is also equally important to stress that all steps that can be taken have been taken to ensure that when that happens CEPS and its subsidiaries are ready to implement, as appropriate, our plans and strategies.

Financial review

The financial year being reported on epitomises the recent challenge with CEPS: most of the companies doing well or very well with one subsidiary doing very badly and, consequently, tainting the whole picture. This year we decided that we were unable to continue supporting the merged CEM and Sampling International as the losses and cash requirement grew to unacceptable levels. This grouping was placed into administration. However, in order to maximise the chances of an employee led buy-out we delayed this until early January 2020. The expectation is that in 2020 an exceptional gain on the ultimate disposal will be recognised. Therefore, whilst our intention was to enter the new year with a clear, trouble-free profile we were not able to achieve this before the current circumstances have, effectively, put a clean set of accounts on hold until at least 2021.

Although the consolidated results for the year include CEM and Sampling International, to get a better understanding of the results and the make-up of the Group from 2020 onwards we have included two supplementary pages (70 and 71) which analyse the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flow between 'continuing' (made up of Aford Awards, Davies Odell, Friedman's and Hickton Consultants) and 'to be discontinued' (made up of CEM and Sampling International) operations.

Total revenue for 2019 was £21.8m (2018: £21.6m; £18.5m from continuing operations), of which £16.1m was generated from continuing operations and £5.7m from to be discontinued operations.

The segmental result (EBITDA) before exceptional items of £971,000 (2018: £1.5m; £1.7m from continuing operations) shows EBITDA of £2.5m from continuing operations. For all companies within this category there was an improvement in performance when compared to the previous year.

The operating loss for the year was £1.9m (2018: loss of £12,000; operating profit of £391,000 from continuing operations), which includes the £3.5m losses from CEM and Sampling International, part of which was the £1.2m exceptional cost resulting from the write-down of assets to their net realisable value. If we exclude these amounts the operating profits generated from continuing operations were £1.6m.

The loss for the year before taxation was £2.3m (2018: loss of £308,000; profits of £137,000 from continuing operations), but the profits of the continuing businesses in 2019 amounted to £1.3m and the losses of to be discontinued operations totalled £3.6m.

Chairman's Statement continued

Financial review continued

The loss for the year after taxation was £2.6m (2018: loss of £876,000; £431,000 from continuing operations), but the profits from continuing operations in 2019 amounted to £935,000 while the losses of to be discontinued operations totalled £3.6m.

Loss per share on a basic and diluted basis was 15.86p (2018: loss per share of 9.06p; loss from continuing operations 6.26p) which can be analysed between earnings per share of 1.47p from continuing operations and a loss per share of 17.33p from to be discontinued operations.

From a cash perspective, the cash generated from operations was £365,000 in 2019 (2018: £1.7m; cash generated from continuing operations £1.4m), of which £1.4m cash was generated by continuing operations and £1.1m was used by CEM and Sampling International.

Net debt increased over the year from £1.4m at the end of 2018 to £4.3m at the end of 2019 and as a result the gearing ratio increased from 25% to 156% over the same period. Borrowings by CEPS increased by £4.3m, part of which was used to finance new acquisitions and part was used to support CEM and Sampling International, prior to the decision to place the companies into administration.

On 1 January 2019, the Group implemented IFRS 16 *Leases*, which replaces IAS 17 *Leases*. The new standard brings most leases on to the Consolidated Statement of Financial Position for lessees and eliminates the distinction between operating and finance leases. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated in a similar way to a non-financial asset and is depreciated. The lease liability is initially measured at the present value of the stream of lease payments over the lease term, discounted at the incremental borrowing rate.

The Group implemented IFRS 16 from 1 January 2019 by applying the modified retrospective approach meaning that comparative figures in the financial statements for the year ending 31 December 2019 are not restated to show the impact of IFRS 16.

The operating leases that are recorded for the first time relate to properties and vehicles. The right-of-use asset in the Consolidated Statement of Financial Position at 31 December 2019 was £1.1m and the lease liabilities were £1.2m.

As stated in note 9 of notes to the financial statements the most recent valuation of the Dinkie Heel Defined Benefit Pension Scheme at 1 July 2019 showed a surplus in the scheme and, based on this result, no recovery plan is necessary at least until the next triennial valuation in 2022. In real terms, this means a cash saving to CEPS of £81,000 per annum.

It is clear that, prior to the impact of the Coronavirus pandemic, the likelihood was that the Group, made up of continuing operations as defined in 2019, would be profitable and cash generative in 2020.

In the last quarter of 2019, anticipating that 2020 was going to be the start of a very positive outcome for CEPS, we signed up with a third party research company who we engaged to produce 'independent' research to inform potential investors about the activities and financial performance of CEPS. Sadly, this has now had to be put on hold for obvious reasons and will be resurrected in the latter part of this year if the UK emerges from lockdown in a satisfactory manner.

Chairman's Statement continued

Operational review

I will now report on the performance of the individual companies.

Aford Awards

Trading was in line with expectations. Steps were taken through the year to improve efficiencies in the business in all areas and, consequently, the busy seasonal periods were better managed than in the past. This encouraged the management team to scale up marketing in the busy period of 2020 confident that it could manage and deliver more late notice business.

The company continued to repay its outstanding loan notes and by the end of the year had reduced these original acquisition loans to the shareholder loans, totalling £300,000, of which CEPS' share is 70%.

During the year the decision was taken to close C & M, the small shop-based operation acquired in the previous year, and transfer as much recurring trade as possible back to the Aford Awards base in Maidstone.

This has been successful and will be one of the business drivers for the company in the future. The trophies/awards/engraving sector, despite the internet, remains very fragmented and Aford Awards will, in the future, act as a consolidator. This is, of course, a relatively low-risk method of expansion as the purchase price of these businesses is, essentially, the stock and equipment and the work that can be transferred will make a significant marginal contribution.

Davies Odell

The company remains marginally loss-making following the reduction in overheads in 2018. The process of rightsizing the business continues and, sadly, additional people have left the company. The benefit of this overhead reduction was to have been felt in 2020, but its impact has been lessened by the effects of the Coronavirus on the performance of the company.

Friedman's

The business continued to make very good profits in 2019 and steps were taken to increase the sales and marketing efforts in order to better utilise the increased capacity put in place the previous year.

The management team was very busy and involved for a good part of the year on the purchase of Milano International Limited ('Milano') on 4 October 2019. Milano, based in Preston, is a supplier of gymnastic leotards made from Lycra, some of which is supplied by Friedman's.

Discussions had been off and on with the owners of Milano over a period of five years. Signature Holdings, the holding company for Friedman's, has acquired Milano financed by £1m of loan stock from CEPS, vendor loans and funding from cash generated by Friedman's.

Since the purchase considerable work and investment has gone into expanding the manufacturing capacity, revamping the sales and marketing efforts and broadening the product range. Everything was planned to be launched in early April, but of course is now on hold.

Chairman's Statement continued

Operational review continued

Hickton Consultants

Another excellent year from the company.

Trading in Hickton was ahead of expectations, although the performance of the much smaller subsidiary, BRCS, continued to disappoint.

Partially to address this, post year end on 11 March 2020, a major transaction was completed which had been in process from the end of 2018. This was the purchases of Cook Brown Building Control Limited, a building control company like BRCS, and Cook Brown Energy Limited (together 'Cook Brown'). The transaction was completed by forming a new company called Hickton Group Limited which acquired both Hickton Consultants and Cook Brown.

As part of this exercise James Cook and Matthew Brown received shares in Hickton Group and will work alongside Tony Mobbs, Chairman of Hickton Group, and Janet Pryke, Finance Director.

CEPS 'rolled over' its entire investment into 55% of the equity of the Hickton Group with, in addition, £2.24m of loan stock.

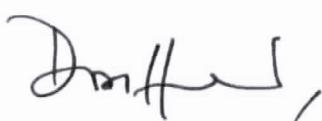
The Board is very excited about the future development of this specialist building services group.

Outlook

It is of course very difficult or even impossible at this stage to write anything about the outlook that will possibly bear scrutiny in a month or two, never mind in 12 months' time.

The management teams at each subsidiary are doing their utmost to protect their companies from the current pressing issues, whilst ensuring that they will be ready to emerge from our current lockdown state in strong operational positions ready to make a significant recovery and then progress.

I believe that the restructuring of the Group over the last two years now leaves it with subsidiaries that are well positioned to grow and to deliver attractive shareholder returns, once the world returns to more normal conditions.



David Horner
Chairman
21 May 2020

Strategic Report

The directors present their Strategic Report on the Group for the year ended 31 December 2019.

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 19 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 5.

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:

	2019	2018
Revenue	£21,753,000	£21,592,000
Segmental result (EBITDA) (pages 38 and 39)	£971,000	£1,485,000
Loss before tax	(£2,287,000)	(£308,000)
Loss after tax	(£2,629,000)	(£876,000)
Total equity	£2,751,000	£5,460,000
Net debt (total borrowings less cash) (page 34)	£4,289,000	£1,352,000
Gearing ratio (net debt/total equity)	156%	25%

The Chairman has commented on the main key performance indicators in his Statement on pages 2 to 5.

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 12 and 13.

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.

Strategic Report continued

Directors' duties

The directors of the Company are required to act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows: 'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole'.

The directors are aware of their obligations with regards to the matters under section 172, namely:

- a) the likely consequences of any decision in the long term;
- b) the interest of the Company's employees;
- c) the need to foster the Company's business relationships with suppliers, customers and others;
- d) the impact of the Company's operations on the community and the environment;
- e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly between members of the Company.

The Board regularly receives reports from management on issues in respect of shareholders, suppliers, the community, the environment and regulators, which it takes into account in its decision-making process. In addition to this, the Board seeks to understand the interests and views of the organisations' stakeholders by engaging with them directly as appropriate.

Coronavirus

At the date of signing these accounts, Coronavirus represents both a risk to the business and its people. The Group is taking active measures to ensure its people remain safe and healthy. Measures include additional education on cleanliness, self-isolation, social distancing and the ability to work from home or in roster patterns where necessary. There are daily business continuity and health and safety meetings to ensure compliance with the measures introduced.

As with most businesses, there are some short-term practical difficulties that have had to be managed. The severity and length of economic downturn is unknown due to the social distancing methods currently in place by the UK Government. However, the majority of the Group's subsidiaries are continuing to trade by the virtue of being online or in a construction related sector, albeit it at a reduced volume.

The pledges made by the UK Government provide further comfort to the directors that they will have access to additional funding, should they require, from the various measures that the Government has put in place to help protect employment and support businesses through this period of uncertainty. All subsidiaries are currently accessing the UK Government's Job Retention Scheme and are pursuing other relevant schemes available to them.

The directors have prepared Group cash flow projections for the period to 30 June 2021 based on latest subsidiary forecasts that show that the Group will be able to operate within the Group's current funding resources. The financial uncertainty created within the economy as a result of Covid-19 is clearly difficult to forecast and predict, but the directors have produced sensitised forecasts based on their best estimates of likely outcomes and they believe that, for the 12 month period from the date of signing these financial statements, the Group will be able to operate within the financial facilities available to it. Post year end, the Group has secured an extension and additional funding from existing debt providers to 30 June 2021 to enable the business to operate within the financial facilities available to it.

Strategic Report continued

Coronavirus continued

Furthermore, the directors are comforted by the clear sentiment from the UK Government that they will support business during this difficult time with a range of measures already outlined to protect jobs and business, with more to come.

On this basis, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of these financial statements. The directors, therefore, continue to adopt the going concern basis in preparing the financial statements.

Further information around how the directors have assessed going concern is set out in the notes to the financial statements on page 25.

Future developments

A review of the business and its prospects are set out in the Chairman's Statement on pages 2 to 5.

By order of the Board
V E Langford
Company Secretary
21 May 2020

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 2019.

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 (60) 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 Chelverton UK Dividend Trust Plc and is a director of 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.

V E Langford (58) is Group Finance Director. She is a Chartered Accountant and is also the Company Secretary of CEPS PLC.

D E Johnson (60) is a non-executive director. He has worked in the investment sector for a number of years. Between 2003 and 2013 he worked for Panmure Gordon as Head of Sales from 2006 and then Head of Equities from 2009. More recently he has acted as a consultant to Chelverton Asset Management and acted as a non-executive director of both private and AIM quoted companies. He has recently been appointed as Chairman of Diversified Gas & Oil PLC.

G C Martin (75) is a non-executive director. He is a Chartered Accountant who was previously Finance Director and Company Secretary of the Group.

M D Pollard retired on 29 March 2019 and was replaced by D E Johnson.

The director retiring by rotation in accordance with Articles 71 and 72 is V E Langford who, being eligible, offers herself 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

The following shareholders held more than 3% of the Company's ordinary shares at 12 May 2020:

	Shares	%
Chelverton Growth Trust Plc	5,060,000	29.8
Charles Stanley & Co Ltd Rock (Nominees) Ltd*	4,689,445	27.6
D A Horner	2,225,972	13.1
Mrs M C Horner	1,000,000	5.9
Lawshare Nominees**	738,646	4.3

* Included within this holding are shares held on behalf of D A Horner and close family members. Holdings are on behalf of D A Horner's SIPP (970,838 shares, 5.7%), on behalf of D A Horner personally (84,500 shares, 0.5%) and on behalf of his mother, Mrs E Horner (350,000 shares, 2.1%).

* Included within this holding are shares held by M E Thistlethwayte and his family. M E Thistlethwayte holds personally and on behalf of his wife and children 2,410,000 shares, 14.2%. Mrs R Thistlethwayte holds 590,000 shares, 3.5%.

** Included within this holding are 522,709 shares of which M D Pollard is the beneficial owner and a further 166,667 shares owned by his mother, Mrs C Pollard, over which he has investment authority.

Directors' Report continued

Financial and treasury policy	<p>The Group finances its operations by a combination of retained profits, management of working capital, debtor backed working capital facilities and medium-term loans. The disclosures for financial instruments are made in note 25a.</p> <p>For further details of Group financial risk and management thereof see note 2.</p> <p>No dividend was paid in 2019 (2018: £nil).</p>
Disclosure of information to auditor	<p>So far as each director is aware, there is no relevant information of which the Company's auditor is unaware. Relevant information is defined as 'information needed by the Company's auditor in connection with preparing their report'. Each director has taken all the steps (such as making enquiries of other directors and the auditor 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 auditor is aware of that information.</p>
Independent auditor	<p>Cooper Parry Group Limited was appointed as auditor for CEPS PLC on 5 December 2018 and their re-appointment will be submitted to the Annual General Meeting.</p>
Statement of directors' responsibilities	<p>The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.</p> <p>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:</p> <ul style="list-style-type: none"> – 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. <p>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.</p> <p>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.</p> <p>The Company is compliant with the AIM Rule 26 regarding the Company's website.</p>

Directors' Report continued

Employees

The Group employed 321 (2018: 214) employees at the year end.

The Group's policy is to actively involve its employees in the business to ensure that matters of concern to them, including the Group's aims and objectives and the financial and economic factors which impact them are communicated in an open and regular manner.

The directors are committed to delivering the highest standards of health and safety for employees, customers and others that might be affected by the Group's activities.

The Group is committed to employing the right people, training them well and promoting from within wherever possible. Well trained and motivated employees are key to delivering good service to the Group's customers and are fundamental to the long-term success of the business.

The Group operates an equal opportunities policy that aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin, disability or any other basis. Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion.

By order of the Board
V E Langford
Company Secretary
21 May 2020

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. For details around how the Group applies specific principles of the Code please refer to the Company's website www.cepsplc.com. 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 9 to 11.

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 D E Johnson. The audit committee is responsible for the appointment of the external auditor, 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 E Johnson (Chair) and D A Horner. It is responsible for making recommendations to the Board on any appointment to the Board.

Remuneration committee

This committee is comprised of D E Johnson (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.

Corporate Governance continued

AIM 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.

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.

Going concern

The directors continue to adopt the going concern basis in preparing the financial statements for the reasons explained in the Strategic Report on pages 7 and 8.

Independent Auditor's Report to the members of CEPS PLC

Opinion

We have audited the financial statements of CEPS plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Cash Flow Statements and the 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group and parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the impact of Coronavirus creates material uncertainty in relation to the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditor's Report

to the members of CEPS PLC continued

Key audit matters

We identified the key audit matters described below as those which were most significant in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing these matters, we have performed the procedures below which were designed to address the matter in the context of the financial statements as a whole and in forming our opinion thereon. Consequently, we do not provide a separate opinion on these individual matters.

Carrying value and impairment of goodwill

The Group has a significant goodwill balance in relation to acquisitions made by management. The Group's assessment of carrying value requires significant judgement, in particular regarding cash flows, growth rates, discount rates and sensitivity assumptions.

Our response to the risk

We challenged the assumptions used in the impairment model for goodwill, which is described in note 18.

We considered historical trading performance by comparing recent growth rates of both revenue and operating profit.

We assessed the appropriateness of the assumptions concerning growth rates and inputs to the discount rates against latest market expectations.

We performed sensitivity analysis to determine whether an impairment would be required if costs increase at a higher than forecast rate.

Impact of Covid-19 on going concern

Subsequent to the year end, there has been an outbreak of Coronavirus which has developed into a global pandemic. At this stage the directors are assessing what impact this may have on the Group as there is a high level of uncertainty about the extent and the timeframe of the virus on the global economy.

Our response to the risk

We have reviewed the financial forecasts prepared for the Group and challenged the assumptions used in these forecasts whilst considering the impacts of Coronavirus.

We considered performance of the Group post year end and the finances that are available to the Group and when these are expected to be repaid.

We considered adequacy of disclosures made in respect of going concern in the financial statements.

Materiality

The materiality for the Group financial statements as a whole was set at £326,000. This has been determined with reference to the benchmark of the Group's revenue which we consider to be an appropriate measure for a group of companies such as these. Materiality represents 1.5% of Group revenue as presented in the Group Income Statement.

The materiality for the parent company financial statements as a whole was set at £212,000. This has been determined with reference to the parent company's gross assets, which we consider to be an appropriate measure for a holding company with investments in trading subsidiaries. Materiality represents 10% of gross assets as presented on the face of the parent company's Statement of Financial Position.

Independent Auditor's Report

to the members of CEPS PLC continued

An overview of the scope of our audit

We adopted a risk-based audit approach. We gained a detailed understanding of the Group's business, the environment it operates in and the risks it faces. The key elements of our audit approach were as follows:

The audit team evaluated each component of the Group by assessing its materiality to the Group as a whole. This was done by considering the percentage of total Group assets, liabilities, revenues and profit before taxes which each component represented. From this, we determined the significance of the component to the Group as a whole, and devised our planned audit response. In order to address the audit risks described in the Key audit matters section which were identified during our planning process, we performed a full-scope audit of the financial statements of the parent company, CEPS PLC, and all of the Group's trading subsidiaries, providing 100% coverage of revenues and profit before tax for these components. The operations that were subject to full-scope audit procedures made up 100% of consolidated revenues and profit before tax.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Chairman's Statement, 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 Chairman's Statement, the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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

Katharine Warrington (Senior Statutory Auditor)

for and on behalf of Cooper Parry Group Limited
Chartered Accountants

Statutory Auditor

Sky View, Argosy Road, East Midlands Airport, Castle Donington, Derby DE74 2SA
21 May 2020

Consolidated Statement of Comprehensive Income

	Notes	2019 £'000	Continuing operations 2018 £'000	Discontinued operations 2018 £'000	2018 £'000
Revenue	4	21,753	18,474	3,118	21,592
Cost of sales		(15,588)	(12,469)	(3,172)	(15,641)
Gross profit/(loss)		6,165	6,005	(54)	5,951
Administration expenses		(6,203)	(5,026)	(296)	(5,322)
Adjusted operating (loss)/profit		(38)	979	(350)	629
Exceptional item	6	(1,836)	–	(53)	(53)
Customer list impairment	18	–	(588)	–	(588)
Operating (loss)/profit	5	(1,874)	391	(403)	(12)
Analysis of operating (loss)/profit					
Trading		338	1,365	(350)	1,015
Exceptional item		(1,836)	–	(53)	(53)
Customer list impairment		–	(588)	–	(588)
Group costs		(376)	(386)	–	(386)
		(1,874)	391	(403)	(12)
Finance income	10	28	15	–	15
Finance costs	10	(441)	(269)	(42)	(311)
(Loss)/profit before tax	11	(2,287)	137	(445)	(308)
Taxation		(342)	(568)	–	(568)
Loss for the year		(2,629)	(431)	(445)	(876)
Other comprehensive loss:					
Items that will not be reclassified to profit or loss					
Actuarial loss on defined benefit pension plans	9	(99)	(88)	–	(88)
Other comprehensive loss for the year, net of tax		(99)	(88)	–	(88)
Total comprehensive loss for the year		(2,728)	(519)	(445)	(964)
(Loss)/income attributable to:					
Owners of the parent		(2,696)	(946)	(423)	(1,369)
Non-controlling interest		67	515	(22)	493
		(2,629)	(431)	(445)	(876)
Total comprehensive (loss)/income attributable to:		(2,795)	(1,034)	(423)	(1,457)
Owners of the parent		67	515	(22)	493
		(2,728)	(519)	(445)	(964)
Earnings per share					
basic and diluted	13	(15.86p)	(6.26p)	(2.80p)	(9.06p)

The notes on pages 24 to 69 form part of the financial statements.

Consolidated and Company Statements of Financial Position

Company number 00507461

	Notes	Group 2019 £'000	2018 £'000	Company 2019 £'000	Company 2018 £'000
Assets					
		Non-current assets			
Property, plant and equipment	15	1,099	991	—	—
Right-of-use assets	16	1,072	—	—	—
Intangible assets	18	6,360	4,741	—	—
Investments in subsidiaries	19	—	—	1,023	1,350
		8,531	5,732	1,023	1,350
		Current assets			
Inventories	20	2,254	1,815	—	—
Trade and other receivables	21	3,366	3,331	1,070	553
Cash and cash equivalents (excluding bank overdrafts)	31	1,958	1,705	21	48
		7,578	6,851	1,091	601
		Total assets	16,109	12,583	2,114
Equity					
		Capital and reserves attributable to owners of the parent			
Called up share capital	28	1,700	1,700	1,700	1,700
Share premium	28	5,841	5,841	5,841	5,841
Retained earnings		(6,808)	(4,013)	(10,467)	(7,213)
		733	3,528	(2,926)	328
Non-controlling interest in equity		2,018	1,932	—	—
		Total equity	2,751	5,460	(2,926)
Liabilities					
		Non-current liabilities			
Borrowings	24	5,152	1,128	4,730	—
IFRS lease liability	24	982	—	—	—
Deferred tax liability	26	109	88	—	—
		6,243	1,216	4,730	—
		Current liabilities			
Borrowings	24	2,174	2,734	—	1,310
IFRS lease liability	24	201	—	—	—
Trade and other payables	22	3,544	2,180	306	311
Current tax liabilities	23	1,196	993	4	2
		7,115	5,907	310	1,623
		Total liabilities	13,358	7,123	5,040
		Total equity and liabilities	16,109	12,583	2,114

The loss within the parent company financial statements for the year was £3,254,000 (2018: loss of £5,808,000).

The notes on pages 24 to 69 form part of the financial statements.

The financial statements on pages 18 to 69 were approved by the Board of Directors on 21 May 2020 and signed on its behalf by

D A Horner
Director

Consolidated and Company Statements of Cash Flows

	Group 2019 £'000	2018 £'000	Company 2019 £'000	Company 2018 £'000
Cash flows from operating activities				
(Loss)/profit for the financial year	(2,629)	(308)	(3,155)	(5,718)
Adjustments for:				
Depreciation and amortisation	633	470	—	—
Profit on disposal of a subsidiary	—	(147)	—	—
Amounts written-off in relation to subsidiary undertakings	—	—	—	5,421
Customer list impairment	—	588	—	—
Impairment of goodwill	395	—	—	—
Write-down of fixed assets	229	—	—	—
Loss on disposal of property, plant and equipment	—	29	—	—
Exceptional item	—	—	2,749	—
Net finance costs/(income)	413	296	20	(143)
Dividends received	—	—	—	(55)
Taxation charge	342	—	—	—
Changes in working capital:				
Movement in inventories	172	(86)	—	—
Movement in trade and other receivables	928	(773)	(19)	(7)
Movement in trade and other payables	(118)	1,682	(2)	104
Movement in Group undertakings	—	—	(2,921)	—
Movement in provisions	—	(100)	(99)	—
Cash generated from/(used in) operations	365	1,651	(3,427)	(398)
Corporation tax paid	(341)	(258)	—	—
Net cash generated from/(used in) operations	24	1,393	(3,427)	(398)
Cash flows from investing activities				
Interest received	28	—	151	100
Acquisition of subsidiary net of cash acquired	(1,790)	—	—	—
Dividends received	—	—	—	55
Purchase of property, plant and equipment	(241)	(859)	—	—
Proceeds from sale of assets	—	1	—	—
Purchase of intangibles	—	(150)	—	—
Repayment of loan stock	—	—	—	163
Loans to subsidiary companies	—	—	—	(1,465)
Net cash used in investing activities	(2,003)	(1,008)	151	(1,147)
Cash flows from financing activities				
Proceeds from/(repayment of) borrowings	2,885	(267)	3,420	310
Proceeds from share issue net of issue costs	—	1,326	—	1,326
Dividend paid to non-controlling interest	—	(45)	—	—
Interest paid	(310)	(311)	(171)	(79)
Repayment of finance leases/IFRS 16 leases	(343)	(234)	—	—
Net cash generated from financing activities	2,232	469	3,249	1,557
Net increase in cash and cash equivalents	253	854	(27)	12
Cash and cash equivalents at the beginning of the year	1,705	851	48	36
Cash and cash equivalents at the end of the year (note 31)	1,958	1,705	21	48

The notes on pages 24 to 69 form part of the financial statements.

Group Statements of Cash Flows (prior year)

		Continuing operations 2018 £'000	Discontinued operations 2018 £'000	2018 £'000
Cash flows from operating activities	Profit/(loss) for the financial year	137	(445)	(308)
	Adjustments for:			
	Depreciation and amortisation	324	146	470
	Profit on disposal of a subsidiary	–	(147)	(147)
	Customer list impairment	588	–	588
	Loss on disposal of property, plant and equipment	29	–	29
	Net finance costs	254	42	296
	Changes in working capital:			
	Movement in inventories	(90)	4	(86)
	Movement in trade and other receivables	(731)	(42)	(773)
	Movement in trade and other payables	939	743	1,682
	Movement in provisions	(50)	(50)	(100)
	Cash generated from operations	1,400	251	1,651
	Income tax paid	(258)	–	(258)
	Net cash generated from operations	1,142	251	1,393
Cash flows from investing activities	Purchase of property, plant and equipment	(769)	(90)	(859)
	Proceeds from sale of assets	1	–	1
	Purchase of intangibles	(150)	–	(150)
	Net cash used in investing activities	(918)	(90)	(1,008)
Cash flows from financing activities	Repayment of borrowings	(267)	–	(267)
	Proceeds from share issue net of issue costs	1,326	–	1,326
	Dividend paid to non-controlling interest	(45)	–	(45)
	Interest paid	(269)	(42)	(311)
	Repayment of capital element of finance leases	(115)	(119)	(234)
	Net cash generated from financing activities	630	(161)	469
	Net increase in cash and cash equivalents	854	–	854
	Cash and cash equivalents at the beginning of the year	851	–	851
	Cash and cash equivalents at the end of the year (note 31)	1,705	–	1,705

The notes on pages 24 to 69 form part of the financial statements.

Consolidated and Company Statements of Changes in Equity

Group	At 1 January 2018	Share capital £'000	Share premium £'000	Retained earnings £'000	Attributable to owners of the parent £'000		Non- controlling interest £'000	Total equity £'000
					to owners of the parent £'000	Non- controlling interest £'000		
		1,320	4,843	(2,556)	3,607	1,347		4,954
Actuarial loss		–	–	(88)	(88)	–	(88)	
(Loss)/profit for the year		–	–	(1,369)	(1,369)	493	(876)	
Total comprehensive (loss)/income for the year		–	–	(1,457)	(1,457)	493	(964)	
Changes in ownership interest in a subsidiary		–	–	–	–	–	137	137
Dividend paid to non-controlling interest		–	–	–	–	–	(45)	(45)
Total distributions recognised directly in equity		–	–	–	–	92	92	
Correction of opening position		–	52	–	52	–	52	
Proceeds from shares issued net of costs		380	946	–	1,326	–	1,326	
At 31 December 2018		1,700	5,841	(4,013)	3,528	1,932	5,460	
Actuarial loss		–	–	(99)	(99)	–	(99)	
(Loss)/profit for the year		–	–	(2,696)	(2,696)	67	(2,629)	
Total comprehensive (loss)/ income for the year		–	–	(2,795)	(2,795)	67	(2,728)	
Acquisition of Milano group		–	–	–	–	–	19	19
At 31 December 2019		1,700	5,841	(6,808)	733	2,018	2,751	

Share capital comprises the nominal value of shares subscribed for.

Share premium represents the amount above nominal value received for shares issued, less transaction costs.

Retained earnings comprise accumulated comprehensive income for one year and prior periods attributable to the parent, less dividends paid.

Non-controlling interest represents the element of retained earnings which are not attributable to the owners of the parent.

The notes on pages 24 to 69 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 2018	1,320	4,895	(1,405)	4,810
Actuarial loss	–	–	(88)	(88)	
Loss for the year	–	–	(5,720)	(5,720)	
Total comprehensive loss for the year	–	–	(5,808)	(5,808)	
Proceeds from shares issued net of costs	380	946	–	1,326	
At 31 December 2018	1,700	5,841	(7,213)	328	
Actuarial loss	–	–	(99)	(99)	
Loss for the year	–	–	(3,155)	(3,155)	
Total comprehensive loss for the year	–	–	(3,254)	(3,254)	
At 31 December 2019	1,700	5,841	(10,467)	(2,926)	

The notes on pages 24 to 69 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 company limited by shares, 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 19. 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 19. The financial statements are to the year ended 31 December 2019 (2018: year ended 31 December 2018).

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 on a going concern basis under the historical cost convention 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 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 19.

Notes to the Financial Statements continued

1. Accounting policies

continued

Going concern

The lack of certainty over trading and the ability of the subsidiaries to generate cash in a socially distanced environment over the next 12 months created by the Coronavirus pandemic represents a material uncertainty over going concern. No adjustments have been made to the financial statements in respect of amounts should the going concern basis not be appropriate.

The directors consider that it is appropriate for the financial statements to be prepared on a going concern basis due to the additional funding from existing debt providers in place post year end which provides confidence to the directors that the Group will be able to operate within its current funding facilities to 30 June 2021.

As set out in the Strategic Report on pages 7 and 8, 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. The directors, therefore, continue to adopt the going concern basis in the preparation of these accounts.

Standards and interpretations

The Group has adopted the following new standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16, *Leases*;

Amendments to IFRS 9, *Prepayment Features with Negative Compensation*;

Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*;

Annual improvements to IFRS Standards 2015-2017 Cycle;

Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*;

Interpretation 23, *Uncertainty over Income Tax Treatments*.

The Group had to change its accounting policies as a result of adopting IFRS 16.

The Group elected to adopt the new rules on a modified retrospective basis from 1 January 2019. This is disclosed in note 29.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements continued

1. Accounting policies continued

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. For subsidiaries entering administration the disposal date is taken to be the date the administrator is appointed.

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.

Investments in subsidiaries are accounted for at cost less impairment. Acquisition related costs are expensed as incurred. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments within the relevant adjustment period.

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.

Notes to the Financial Statements continued

1. Accounting policies

continued

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 performance obligations 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, Davies Odell, Friedman's and Milano Pro-Sport 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 performance obligations satisfied by the year end date. Performance obligations are clearly defined within each customer contract.

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 33% on a reducing balance basis

Motor vehicles: Between three and 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.

Repairs and maintenance are charged to the Consolidated Statement of Comprehensive Income during the period in which they are incurred.

Depreciation on right-of-use assets is charged over the life of the lease.

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

Notes to the Financial Statements continued

1. Accounting policies

continued

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.

d) Licences for the distribution of certain products

Licences for the distribution of certain products are amortised evenly over three years.

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.

Notes to the Financial Statements continued

1. Accounting policies

continued

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.

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 are not recognised in the Statement of Financial Position as the Group does not have an unconditional right to the refund of surpluses under the scheme.

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.

Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company, but are presented separately due to their size or incidence.

Notes to the Financial Statements continued

1. Accounting policies

continued

Leasing

Prior to 1 January 2019 leases of property, plant and equipment and motor vehicles were classified as either finance or operating leases under IAS 17. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease. The impact of the change is disclosed in note 29. Under IFRS 16, which the Group has adopted effective for the period starting 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the Consolidated Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

In adopting this approach, the Group has applied the expedient to expense long-term leases with a remaining lease term of 12 months or less or short-term leases (less than 12 months). These leases are disclosed as operating leases. Rentals payable under operating leases are charged in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

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 27.

Share capital

Ordinary shares are classified as equity while redeemable preference shares are classified as liabilities (see note 28).

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.

Notes to the Financial Statements continued

1. Accounting policies

continued

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 administration expenses. 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.

	2019 £'000	2018 £'000
Fixed rate instruments		
Liabilities	<u>6,202</u>	<u>2,896</u>

	2019 £'000	2018 £'000
Floating rate instruments		
Liabilities	<u>1,124</u>	<u>966</u>

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 in greater than 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 2019				
Trade and other payables	2,423	—	—	—
Other loans	766	4,999	153	—
Bank overdraft	75	—	—	—
Bank loans	206	—	—	—
Trade receivables backed working capital facilities	1,030	—	—	—
Hire purchase obligations	97	—	—	—
IFRS 16 lease liability	200	207	414	362
	4,797	5,206	567	362
 At 31 December 2018				
Trade and other payables	1,271	—	—	—
Other loans	1,340	272	292	331
Bank loans	513	112	—	—
Trade receivables backed working capital facilities	796	—	—	—
Hire purchase obligations	85	110	11	—
	4,005	494	303	331

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 2019 and 2018 were as follows:

	2019 £'000	2018 £'000
Total borrowings	6,247	3,057
Less: cash	<u>(1,958)</u>	<u>(1,705)</u>
Net debt	<u>4,289</u>	<u>1,352</u>
Total equity	<u>2,751</u>	<u>5,460</u>
Gearing ratio	156%	25%

In order to provide a more meaningful gearing ratio, total borrowings have been revised to be the sum of bank borrowings, hire purchase obligations, excluding IFRS 16 lease liability, 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

The directors make estimates and assumptions concerning the future. They are also required to exercise judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are assessed below:

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 18).

b) Impairment of non-current assets

The Company assesses the impairment of tangible fixed assets subject to depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

c) Depreciation and residual values

The directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that asset lives and residual values are appropriate.

The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projects' disposal values.

d) Carrying value of stocks

Management reviews the market value of and demand for its stocks on a periodic basis to ensure stock is recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of stocks. Management uses its knowledge of market conditions, historical experiences and estimates of future events to assess future demand for the Company's products and achievable selling prices.

e) Recoverability of trade debtors

Trade and other debtors are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of reserves required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

Management makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are applied to debtors where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the provision for doubtful debts. Where the expectation is different from the original estimate, such difference will impact the carrying value of debtors and the charge in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements continued

3. Critical accounting assumptions, judgements and estimates continued

f) Leases

Where the Group has an option to extend or terminate a lease, management uses its judgement to determine whether such an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including past practice and costs that would be incurred if an option were to be exercised, to help it determine the lease term. Management has also applied judgements in assessing the discount rate, which is based on the incremental borrowing rate. Such judgements could impact lease terms and associated lease liabilities. The Group has availed itself of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Consequently, the definition of a lease, in accordance with IAS 17 and the guidance in IFRIC 4, will continue to be applied to those leases entered into or modified before 1 January 2019.

g) Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

h) Retirement benefit liabilities

The Group operates a defined benefits pension scheme. 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 9 for further details.

Notes to the Financial Statements continued

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, including Travelfast (trading as Sampling International), a manufacturer of fabric, carpet 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, including Milano International (trading as Milano Pro-Sport), a designer and manufacturer of leotards;

Hickton, including BRCS, a provider of services to the construction industry;

Sunline, a supplier of services to the direct mail market. The company entered administration on 13 June 2018 and is therefore shown as a discontinued operation in these financial statements.

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. All Group revenue is recognised at a point in time, rather than over a period in time, in line with the requirements of IFRS 15.

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 2019 £'000	Davies Odell 2019 £'000	Fried- man's 2019 £'000	Hickton 2019 £'000	Continuing operations 2019 £'000	To be discontinued operations CEM Press 2019 £'000	Total 2019 £'000
Revenue	1,969	3,563	5,791	4,741	16,064	5,689	21,753
Expenses	(1,558)	(3,590)	(4,547)	(3,891)	(13,586)	(7,196)	(20,782)
Segmental result (EBITDA) before exceptional items	411	(27)	1,244	850	2,478	(1,507)	971
Depreciation and amortisation charge	(9)	(54)	(208)	(12)	(283)	(149)	(432)
IFRS 16 depreciation	(43)	(37)	(102)	(19)	(201)	—	(201)
Exceptional items					—	(1,836)	(1,836)
Group costs					(376)	—	(376)
Net finance costs (including IFRS 16)			(341)		(72)		(413)
Profit/(loss) before taxation				1,277	(3,564)	(2,287)	
Taxation				(342)	—	(342)	
Profit/(loss) for the year				935	(3,564)	(2,629)	

'To be discontinued' is defined as operations to be discontinued post year end as per the post balance sheet events note 33.

Notes to the Financial Statements continued

4. Segmental analysis continued

i) Results by segment continued

	Aford Awards 2018 £'000	CEM Press 2018 £'000	Davies Odell 2018 £'000	Fried- man's 2018 £'000	Hickton 2018 £'000	Continuing operations 2018 £'000	Discon- tinued operations 2018 £'000	Total 2018 £'000
Revenue	1,902	2,824	3,919	5,345	4,484	18,474	3,118	21,592
Expenses	(1,564)	(3,251)	(4,026)	(4,173)	(3,771)	(16,785)	(3,322)	(20,107)
Segmental result (EBITDA) before exceptional items	338	(427)	(107)	1,172	713	1,689	(204)	1,485
Depreciation and amortisation charge	(13)	(68)	(58)	(179)	(6)	(324)	(146)	(470)
Exceptional items						–	(53)	(53)
Customer lists impairment						(588)	–	(588)
Group costs						(386)	–	(386)
Net finance costs						(254)	(42)	(296)
Profit/(loss) before taxation						137	(445)	(308)
Taxation						(568)	–	(568)
Loss for the year						(431)	(445)	(876)

ii) Assets and liabilities by segment as at 31 December

	Segment assets		Segment liabilities		Segment net assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
CEPS Group	52	59	(5,041)	(1,623)	(4,989)	(1,564)
Aford Awards	1,576	1,762	(407)	(494)	1,169	1,268
CEM Press	1,386	1,090	(3,177)	(1,410)	(1,791)	(320)
Davies Odell	1,509	1,426	(964)	(966)	545	460
Friedman's	7,923	4,759	(2,490)	(1,017)	5,433	3,742
Hickton	3,663	3,487	(1,279)	(1,613)	2,384	1,874
Total – Group	16,109	12,583	(13,358)	(7,123)	2,751	5,460

Notes to the Financial Statements continued

5. Operating profit

	2019 £'000	2018 £'000
Operating profit is stated after charging/(crediting):		
Loss on disposal of property, plant and equipment	–	29
Exchange loss	38	58
Other operating lease rentals on land and buildings and on plant and machinery	187	640
	2019 £'000	2018 £'000
Fees payable to the Company's auditor		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	31	27
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	54	42
Other non-audit services	16	–
	<u>101</u>	<u>69</u>
Taxation compliance services	18	17
Taxation advisory services	–	2
	<u>119</u>	<u>88</u>
	2019 £'000	2018 £'000
Expenses by nature		
Raw materials and consumables	6,364	7,528
Employee benefit expenses	7,177	6,489
Depreciation on owned assets	367	412
Depreciation on right-of-use assets	201	–
Amortisation	65	58
Operating lease payments	187	640
Other expenses	7,430	5,836
	<u>21,791</u>	<u>20,963</u>

6. Exceptional items

	2019 £'000	2018 £'000
Exceptional loss		
Goodwill write-off	395	–
Write-down of subsidiary assets	1,455	–
Costs associated with the administration of a subsidiary	78	–
Onerous lease provision	(92)	200
Profit on disposal of subsidiary	–	(147)
	<u>1,836</u>	<u>53</u>

In January 2020, CEM Press Limited and Travelfast Limited (trading as Sampling International) went into administration. The goodwill write-off relates to Travelfast Limited which was purchased for £9 in March 2020. The write-down of subsidiary assets relates to CEM Press Limited (£469,000) and Travelfast Limited (£986,000).

The onerous lease provision arose on the disposal of Sunline Direct Mail Limited in 2018, with CEPS PLC being the guarantor of the remaining lease payments. A final sum was agreed in 2019 which reduced the provision to £108,000.

Notes to the Financial Statements continued

7. Employees

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

	2019 Number	2018 Number
Management and administration	108	53
Production and sales	213	161
	321	214

The aggregate costs of these persons were:

	2019 £'000	2018 £'000
Wages and salaries	6,539	5,839
Social security costs	476	537
Other pension costs (note 8)	162	113
	7,177	6,489

Key management personnel are deemed to be members of the Board and local management and their compensation is shown in note 8.

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

	2019 Number	2018 Number
Management and administration	4	4

The aggregate costs of these persons were:

	2019 £'000	2018 £'000
Wages and salaries	140	136
Social security costs	11	21
	151	157

Notes to the Financial Statements continued

8. Directors' emoluments and interests

The aggregate remuneration of the directors was:

	2019 £'000	2018 £'000
Short-term employee benefits	140	136
	<hr/>	<hr/>

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

	Salaries and fees	
	2019 £'000	2018 £'000
D A Horner	24	24
V E Langford	80	76
G C Martin	18	18
M D Pollard	5	18
D E Johnson	13	–
	<hr/>	<hr/>
	140	136
	<hr/>	<hr/>

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 2019 shares	at 31 December 2018 shares
D A Horner (and close family)	4,831,310	4,831,310
V E Langford	41,667	41,667
G C Martin	10,000	10,000
D E Johnson	95,000	95,000

D A Horner's (and close family) shareholding is made up as follows:

	at 31 December 2019 shares	at 31 December 2018 shares
D A Horner	2,225,972	2,225,972
Held by Charles Stanley & Co Rock (Nominees) Ltd on behalf of		
D A Horner's SIPP	970,838	970,838
Held by Charles Stanley & Co Rock (Nominees) Ltd on behalf of D A Horner	84,500	84,500
Mrs M C Horner (wife)	1,000,000	1,000,000
H R Horner (son)	100,000	100,000
T A Horner (son)	100,000	100,000
Held by Charles Stanley & Co Rock (Nominees) Ltd on behalf of		
Mrs E Horner (mother)	350,000	350,000
	<hr/>	<hr/>
	4,831,310	4,831,310
	28.4%	28.4%

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

Notes to the Financial Statements continued

9. 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 £162,000 (2018: £113,000). At 31 December 2019 £24,412 (2018: £14,702) of pension contributions remain outstanding.

The Group also operates a defined benefits scheme (Dinkie Heel Defined Benefit Pension 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 2019 and the main actuarial assumptions were investment returns of 2.0% before retirement and 2.0% after retirement. The valuation showed that the total value of the scheme assets was £5,353,000 and that the level of funding on an ongoing basis is 117%. The preliminary assessment reveals a surplus in the scheme and, based on these results, no recovery plan is necessary.

With effect from 28 July 2017 CEPS PLC transferred the Dinkie Heel Defined Benefit Pension 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 2019 the results of the actuarial valuation at 1 July 2019. The results of the update are as follows:

	2019	2018
Assumptions at 31 December		
Interest rate for discounting liabilities	1.80%	2.60%
Expected return on plan assets	1.80%	2.60%
RPI price inflation	3.20%	3.30%
CPI price inflation	2.50%	2.60%
Pensions increase	3.10%	3.20%
 Mortality	 PCA00	 PCA00
Current and future pensioners	year of birth	year of birth
	long cohort	long cohort
Life expectancies (years)		
For a 65 year old male	21.8	22.8
For a 65 year old female	24.1	24.5
For a 65 year old male, currently aged 45	23.1	24.1
For a 65 year old female, currently aged 45	25.5	25.2

The independent actuary estimates that a 0.1% decrease in the discount rate before and after retirement would change the value of scheme liabilities by approximately £49,000.

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

9. Pension costs continued

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

	2019 £'000	2018 £'000
Amounts recognised in the Statement of Financial Position are as follows:		
Fair value of plan assets	4,991	4,762
Present value of defined benefit obligation	(3,754)	(3,725)
Actuarial surplus not recognised	<u>(1,237)</u>	<u>(1,037)</u>
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.		
Pension scheme finance income recognised in the Consolidated Statement of Comprehensive Income		
Interest on obligation	(94)	(91)
Interest income on plan assets	<u>122</u>	<u>105</u>
	28	14
Consolidated Statement of Comprehensive Income		
Financial assumption (loss)/gain	<u>(155)</u>	<u>(11)</u>
Actuarial (loss)/gain	(155)	(11)
Experience gains on assets	256	334
Movement in actuarial surplus not recognised	<u>(200)</u>	<u>(411)</u>
Total loss	(99)	(88)
Movement in Statement of Financial Position for the year		
Net pension liability at the start of the year	—	—
Employer's pension cost	18	8
Consolidated Statement of Comprehensive Income	<u>(99)</u>	<u>(88)</u>
Employer contributions	81	80
Net pension liability at the end of the year	—	—
Reconciliation of the defined benefit obligation		
Defined benefit obligation at the start of the year	3,725	3,819
Interest cost	94	91
Actuarial loss	155	11
Benefits paid	<u>(220)</u>	<u>(196)</u>
Defined benefit obligation at the end of the year	3,754	3,725

Notes to the Financial Statements continued

9. Pension costs continued	2019 £'000	2018 £'000
Reconciliation of plan assets		
Fair value of plan assets at the start of the year	4,762	4,445
Expected return on plan assets	122	105
Experience gains on assets	256	334
Employer contributions	81	80
Non investment expenses	(9)	(6)
Benefits and expenses paid	(221)	(196)
Fair value of plan assets at the end of the year	4,991	4,762
Asset categories at the end of the year	2019	2018
Equities	41.6%	39.0%
Bonds	47.8%	49.0%
Property	9.2%	11.1%
Cash	1.4%	0.9%
	2019 £'000	2018 £'000
	2017 £'000	2016 £'000
	2015 £'000	
Amounts for the current and previous four years are as follows:		
Plan assets	4,991	4,762
Defined benefit obligation	(3,754)	(3,725)
Actuarial surplus not recognised	(1,237)	(1,037)
Deficit in scheme	—	—
Actuarial (loss)/gain on liabilities due to assumptions	(155)	(11)
Experience gains on assets	256	334
Movement in actuarial surplus not recognised	(200)	(411)
Total losses recognised for the year	(99)	(88)
Cumulative amount of gains and losses recognised in the Consolidated Statement of Comprehensive Income	(463)	(364)

Notes to the Financial Statements continued

10. Net finance costs

	2019 £'000	2018 £'000
Bank interest receivable	—	1
Pension scheme finance income (note 9)	28	14
Total finance income	28	15
Interest payable on bank loans and overdrafts	40	56
Interest payable on other loans	250	198
Other interest payable	21	—
Amortisation of finance cost	15	15
Lease liability	103	—
Finance lease costs	12	42
Total finance costs	441	311
Net finance costs	413	296

Notes to the Financial Statements continued

11. Taxation

	2019 £'000	2018 £'000
Analysis of taxation in the year:		
Current tax		
Tax on profits of the year	340	323
Tax in respect of prior years	(7)	2
Total current tax	<u>333</u>	<u>325</u>
Deferred tax		
Current year deferred tax movement	2	237
Tax in respect of prior years	7	6
Total deferred tax	<u>9</u>	<u>243</u>
Total tax charge	<u>342</u>	<u>568</u>
The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK (19%) (2018: 19%).		
Factors affecting current tax:		
Loss before taxation	<u>(2,287)</u>	<u>(308)</u>
Loss multiplied by the standard rate of UK tax of 19% (2018: 19%)	(435)	(59)
Effects of:		
Expenses not deductible	613	16
Expenses not deductible goodwill impairment	75	112
Adjustments to brought-forward values	21	–
Amounts credited directly to Other Comprehensive Income	19	–
Capital allowances in excess of depreciation	3	4
Adjustments to tax in prior periods	(7)	2
Adjustments to deferred tax in prior periods	7	6
Transfer pricing adjustment	(15)	–
Other timing differences	–	(5)
Deferred tax write-off	–	220
Adjustments to deferred tax rate	3	–
Deferred tax not recognised	<u>58</u>	<u>272</u>
Total tax charge	<u>342</u>	<u>568</u>

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

As at 31 December 2019 the substantively enacted rate for deferred tax calculation purposes was 17% and deferred taxation has been calculated at this rate.

On 11 March 2020 the Chancellor of the Exchequer announced that the tax rate reduction from 19% to 17% was no longer going to be implemented.

There are unused trading losses within various subsidiaries. Please refer to the subsidiary accounts for further information.

Notes to the Financial Statements continued

12. Dividends

No dividends were paid during the year (2018: £nil).

13. 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 £2,696,000 (2018: loss £1,369,000) and on 17,000,000 (2018: 15,105,176) ordinary shares, being the weighted number in issue during the year.

Basic earnings per share for continuing operations is calculated on the profit for the year after taxation attributable to owners of the parent of £250,000 (2018: loss £946,000) and on 17,000,000 (2018: 15,105,176) ordinary shares, being the weighted number in issue during the year. Basic earnings per share for discontinued operations is calculated on the loss for the year after taxation attributable to owners of the parent of £2,946,000 (2018: loss £423,000) and on 17,000,000 (2018: 15,105,176) ordinary shares, being the weighted number in issue during the year.

14. Profit of the holding company

Of the Group loss for the year a loss of £3,254,000 (2018: loss of £5,808,000) is dealt with in the financial statement of CEPS PLC. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented the results for the Company alone.

Notes to the Financial Statements continued

15. Property, plant and equipment

Group	Cost	Leasehold property improvements £'000	Plant, machinery, tools and moulds £'000	Motor vehicles £'000	Total £'000
	at 1 January 2018	214	6,827	148	7,189
	Additions at cost	316	581	32	929
	Disposals	(146)	(4,648)	(142)	(4,936)
	at 31 December 2018	384	2,760	38	3,182
	Assets acquired on purchase of a subsidiary	255	1,313	8	1,576
	Additions at cost	38	203	–	241
	Transfers	–	(3)	–	(3)
	Disposals	–	(224)	–	(224)
	at 31 December 2019	677	4,049	46	4,772
	Accumulated depreciation				
	at 1 January 2018	155	4,614	100	4,869
	Charge for the year	32	340	40	412
	Disposals	(108)	(2,867)	(115)	(3,090)
	at 31 December 2018	79	2,087	25	2,191
	Accumulated depreciation acquired on purchase of a subsidiary	199	904	–	1,103
	Charge for the year	62	295	10	367
	Transfers	–	(3)	–	(3)
	Disposals	–	(214)	–	(214)
	Impairment	–	229	–	229
	at 31 December 2019	340	3,298	35	3,673
	Net book amount				
	at 31 December 2019	337	751	11	1,099
	at 31 December 2018	305	673	13	991

At the year end, assets held under hire purchase contracts and capitalised as plant, machinery, tools and moulds have a net book value of £nil (2018: £290,000) and an accumulated depreciation balance of £nil (2018: £2,410,000).

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

Company

Throughout 2018 and 2019 the Company held no property, plant and equipment.

Notes to the Financial Statements continued

16. Right-of-use assets

Group	Cost	Leasehold property improvements £'000	Motor vehicles £'000	Total £'000
	At 1 January 2019	1,238	99	1,337
	Additions at cost	83	50	133
	At 31 December 2019	<u>1,321</u>	<u>149</u>	<u>1,470</u>
	Accumulated depreciation			
	At 1 January 2019	160	37	197
	Charge for the year	160	41	201
	At 31 December 2019	<u>320</u>	<u>78</u>	<u>398</u>
	Net book amount			
	At 31 December 2019	<u>1,001</u>	<u>71</u>	<u>1,072</u>
	At 31 December 2018	<u>1,078</u>	<u>62</u>	<u>1,140</u>

Right-of-use assets relating to CEM Press and Travelfast have been excluded from the above analysis as their fair value is considered to be £nil as they entered into administration post year-end as detailed in note 33.

Company

Throughout 2018 and 2019 the Company held no right-of-use assets.

Notes to the Financial Statements continued

17. Business combinations

i) Acquisition in 2019 of Travelfast Limited (trading as Sampling International)

On 27 March 2019 CEMTeal Limited acquired 100 per cent of the issued share capital of Travelfast Limited, trading as Sampling International, for an initial consideration of £9 with up to a further £1.2m payable in cash over three years based on financial performance over the period.

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 liabilities acquired was £395,000.

Goodwill of £395,000 arose from the acquisition.

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 liabilities	
Cash and cash equivalents	28
Property, plant and equipment	380
Inventories	300
Trade and other receivables	935
Trade and other payables	<u>(2,038)</u>
	<u>(395)</u>
Consideration calculation	
Purchase price consideration	—
Goodwill	<u>395</u>
Analysis of cash flows on acquisition	
Cash paid	—
Less: net cash acquired with the subsidiary	<u>28</u>
Net cash inflow on acquisition	<u>28</u>

From the date of acquisition Travelfast Limited contributed £3,808,000 of revenue and £1,574,000 loss before tax. If the combination had taken place at the beginning of the year, revenue would have been £5,047,000 and the loss before tax would have been £1,716,000.

Despite management's efforts and cash injections from CEPS PLC it was not possible to achieve the envisaged savings and efficiencies from consolidating CEM Press and Sampling International's operations and streamlining the processes. As a result, Travelfast Limited was placed into administration on 15 January 2020. On 17 January 2020 the administrator sold the business and assets of Travelfast Limited to a newly-formed company called Sampling International Enterprises Limited (trading as Sampling International). No return to CEPS PLC arose from this sale.

Consequently, the £395,000 goodwill that arose on acquisition was written-off in 2019.

Notes to the Financial Statements continued

17. Business combinations continued

ii) Acquisition in 2019 of Milano International Limited (trading as Milano Pro-Sport)

On 4 October 2019 Signature Fabrics Limited acquired 90 per cent of the issued share capital of a newly incorporated company, Milano International Holdings Limited, which had been formed to acquire 100 per cent of the issued share capital of Milano International Limited, trading as Milano Pro-Sport, for a consideration of £1,850,000.

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 £186,000.

Goodwill of £1,683,000 arose from the acquisition.

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	32
Property, plant and equipment	65
Inventories	310
Trade and other receivables	35
Trade and other payables	(212)
Corporation tax liabilities	(44)
	<hr/>
	186
Consideration calculation	
Purchase price consideration	1,850
	<hr/>
Goodwill	
Goodwill	1,683
Non-controlling interest in equity on acquisition	(19)
	<hr/>
	1,664
Analysis of cash flows on acquisition	
Cash paid	1,850
Less: net cash acquired with the subsidiary	(32)
	<hr/>
Net cash outflow on acquisition	1,818

From the date of acquisition Milano International Limited contributed £578,000 of revenue and £177,000 profit before tax. If the combination had taken place at the beginning of the year, revenue would have been £1,725,000 and the profit before tax would have been £220,000.

Notes to the Financial Statements continued

18. Intangible assets

	Goodwill £'000	Customer lists £'000	Other £'000	Total £'000
Group				
Cost				
at 1 January 2018	8,950	772	100	9,822
Additions at cost	—	—	150	150
Fair value adjustment	(363)	—	—	(363)
Disposals	(2,981)	—	—	(2,981)
at 31 December 2018	5,606	772	250	6,628
Additions at cost	2,078	—	1	2,079
at 31 December 2019	7,684	772	251	8,707
Accumulated amortisation and impairment				
at 1 January 2018	4,158	5	59	4,222
Amortisation charge	44	4	10	58
Impairment	—	588	—	588
Disposals	(2,981)	—	—	(2,981)
at 31 December 2018	1,221	597	69	1,887
Amortisation charge	—	—	62	62
Adjustments	10	(7)	—	3
Impairment	395	—	—	395
at 31 December 2019	1,626	590	131	2,347
Net book amount				
at 31 December 2019	6,058	182	120	6,360
at 31 December 2018	4,385	175	181	4,741
Company				
Cost				
at 1 January 2018, 31 December 2018 and 31 December 2019	80	—	17	97
Accumulated amortisation				
at 1 January 2018, 31 December 2018 and 31 December 2019	80	—	17	97
Net book amount				
at 31 December 2019	—	—	—	—
at 31 December 2018	—	—	—	—

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 subject to annual impairment reviews.

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

18. Intangible assets continued

Impairment tests for goodwill and intangible assets

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	Total £'000
at 1 January 2018	1,047	588	1,528	2,396	5,559
Fair value adjustment	–	–	–	(363)	(363)
Amortisation charge	(4)	–	(44)	–	(48)
Impairment	–	(588)	–	–	(588)
	—	—	—	—	—
at 31 December 2018	1,043	–	1,484	2,033	4,560
Additions at cost	–	395	1,683	–	2,078
Amortisation charge	(3)	–	–	–	(3)
Impairment	–	(395)	–	–	(395)
	—	—	—	—	—
at 31 December 2019	1,040	–	3,167	2,033	6,240
	—	—	—	—	—

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 10.60% (2018: 9.36%), 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	
	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Aford Awards	1.0	1.0	31.5	32.2	1.0	1.0
CEM Press	–	4.7	–	33.0	–	1.0
Friedman's	3.0	3.0	45.0	45.0	2.0	2.0
Hickton	2.0	2.0	39.6	40.6	1.0	1.0
Milano	2.0	–	53.0	–	2.0	–

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, Friedman's, including Milano Pro-Sport, 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 31 December 2019 an impairment charge of £395,000 was taken against the goodwill arising on the acquisition of Travelfast Limited (trading as Sampling International) as it went into administration on 15 January 2020.

Notes to the Financial Statements continued

19. Investments

Company	Cost	Shares in Group subsidiaries £'000	Loans to Group subsidiaries £'000	Total investments subsidiaries £'000
	at 1 January 2018	358	3,277	3,635
	Disposals	(80)	(1,370)	(1,450)
	Repayment	—	(163)	(163)
	at 31 December 2018	278	1,744	2,022
	Repayment	—	(327)	(327)
	at 31 December 2019	278	1,417	1,695
	Accumulated amortisation and impairment at 1 January 2018 and 31 December 2019	80	592	672
	Net book amount at 31 December 2019	198	825	1,023
	at 31 December 2018	198	1,152	1,350

The loans to Group subsidiaries' balance is represented by 8% loan stock which has no set repayment date. Repayments will only be requested when surplus cash is available.

Notes to the Financial Statements continued

19. Investments continued

Investments in subsidiary companies are stated at cost less provision for impairment. 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 <i>Holding company for Aford Awards Limited</i> 11 Laura Place, Bath BA2 4BL	England	70%	Non-wholly
Aford Awards Limited <i>Suppliers of trophies and awards and engraving specialists</i> Grange House, The Green, Bearsted, Maidstone, Kent ME14 4DZ	England	70%	Non-wholly
BRCS (Building Control) Limited <i>Provider of building control services</i> Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT	England	52%	Non-wholly
CemTeal Limited <i>Holding company for CEM Press Holdings Limited</i> 11 Laura Place, Bath BA2 4BL	England	80%	Non-wholly
CEM Press Holdings Limited <i>Holding company for CEM Group Limited</i> 11 Laura Place, Bath BA2 4BL	England	78%	Non-wholly
CEM Group Limited <i>Holding company for C.E.M. Press Limited</i> Teal Close, Victoria Business Park, Netherfield, Nottingham NG24 2PE	England	78%	Non-wholly
C.E.M. Press Limited <i>Design and compilation of fabric, wallpaper and carpet sample books</i> Teal Close, Victoria Business Park, Netherfield, Nottingham NG24 2PE	England	78%	Non-wholly
Davies Odell Limited <i>Manufacturer and distributor of protection equipment, matting and footwear components</i> 11 Laura Place, Bath BA2 4BL	England	85%	Non-wholly
Friedman's Limited <i>Conversion and distribution of specialist Lycra</i> Unit E, Altrincham Business Park, 3 Tudor Road, Cheshire WA14 5RZ	England	55%	Non-wholly

Notes to the Financial Statements continued

19. 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 <i>Holding company for Hickton Consultants Limited</i> Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT	England	52%	Non-wholly
Hickton Consultants Limited <i>Clerk of Works specialists</i> Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT	England	52%	Non-wholly
Milano International Holdings Limited <i>Holding company for Milano International Limited</i> 11 Laura Place, Bath BA2 4BL	England	50%	Non-wholly
Milano International Limited (trading as Milano Pro-Sport) <i>Design and manufacture of leotards</i> 11 Laura Place, Bath BA2 4BL	England	50%	Non-wholly
Signature Fabrics Limited <i>Holding company for Friedman's Limited</i> Unit E, Altrincham Business Park, 3 Tudor Road, Cheshire WA14 5RZ	England	55%	Non-wholly
Travelfast Limited (trading as Sampling International) <i>Design and compilation of fabric, wallpaper and carpet sample books</i> Unit 11, Grange Road Industrial Estate, Grange Road, Batley, West Yorkshire WF17 6LN	England	80%	Non-wholly
Davies & Co (Kettering) Limited* <i>Dormant company</i> 11 Laura Place, Bath BA2 4BL	England	100%	Wholly
Phillips Rubber Limited* <i>Dormant company</i> 11 Laura Place, Bath BA2 4BL	England	100%	Wholly
Farmat Limited* <i>Dormant company</i> 11 Laura Place, Bath BA2 4BL	England	100%	Wholly
Davies and Company Limited* <i>Dormant company</i> 11 Laura Place, Bath BA2 4BL	England	100%	Wholly

* These entries are excluded from the consolidation on the basis that they are dormant.

Notes to the Financial Statements continued

19. Investments continued

The non-controlling interests disclosed below are considered to be material based on percentage holding and performance contributed to the Group.

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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
As at 31 December				
Current				
Assets	3,215	2,525	1,466	1,439
Liabilities	(2,330)	(855)	(1,028)	(1,117)
Total current net assets	885	1,670	438	322
Non-current				
Assets	4,708	2,235	2,197	2,048
Liabilities	(160)	(163)	(251)	(496)
Total non-current net assets	4,548	2,072	1,946	1,552
Net assets	5,433	3,742	2,384	1,874

Statement of Comprehensive Income	Signature Fabrics Group		Hickton Holdings Group	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
For year ended 31 December				
Revenue	5,791	5,345	4,741	4,484
Profit before income tax	855	988	748	636
Income tax expense	(151)	(170)	(134)	(127)
Post-tax profit from continuing operations	704	818	614	509
Total comprehensive income	704	818	614	509
Total comprehensive income allocated to non-controlling interests	331	368	292	242
Dividends paid to non-controlling interests	—	45	—	—

20. Inventories

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Raw materials and consumables	578	440	—	—
Work in progress	14	17	—	—
Finished goods and goods for resale	1,662	1,358	—	—
	2,254	1,815	—	—

The cost of inventories recognised as an expense and included in cost of sales amounted to £6,364,000 (2018: £7,528,000).

Notes to the Financial Statements continued

21. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables	2,987	2,738	—	—
less: provision for impairment of trade receivables	(40)	(13)	—	—
Trade receivables – net	2,947	2,725	—	—
Amount due from subsidiary companies	—	—	1,039	541
Other receivables	187	94	11	8
Prepayments and accrued income	232	512	20	4
	3,366	3,331	1,070	553

As at 31 December 2019, trade receivables of £1,259,000 (2018: £1,006,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2019, trade receivables of £1,416,000 (2018: £1,718,000) 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 2019 trade receivables of £311,000 (2018: £230,000) were impaired. A significant portion of the receivables is expected to be recovered and a provision of £40,000 (2018: £13,000) 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:

	2019 £'000	2018 £'000
3 to 6 months	188	216
Over 6 months	123	14
	311	230

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

	2019 £'000	2018 £'000
Sterling	2,790	2,505
Euro	42	126
US \$	115	93
	2,947	2,724

Notes to the Financial Statements continued

21. Trade and other receivables continued

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

	2019 £'000	2018 £'000
At 1 January	13	13
Provision for receivables impairment	27	–
	<hr/>	<hr/>
At 31 December	40	13
	<hr/>	<hr/>

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.

22. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current:				
Trade payables	2,423	1,126	19	–
Deferred consideration	–	145	–	–
Other payables	418	253	108	200
Accruals and deferred income	703	656	179	111
	<hr/>	<hr/>	<hr/>	<hr/>
	3,544	2,180	306	311
	<hr/>	<hr/>	<hr/>	<hr/>

At the end of the year contingent consideration of £nil (2018: £145,000) was payable relating to the acquisition of BRCS (Building Control) Limited on 18 May 2017.

23. Current tax liabilities

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Other tax and social security				
Corporation tax	912	745	4	2
	284	248	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	1,196	993	4	2

Notes to the Financial Statements continued

24. Borrowings

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current:				
Bank loans	—	112	—	—
Other loans	5,152	895	4,730	—
Hire purchase obligations	—	121	—	—
	5,152	1,128	4,730	—
IFRS 16 lease liability	982	—	—	—
	6,134	1,128	4,730	—
Current:				
Bank overdraft	75	—	—	—
Bank loans	206	513	—	—
Trade receivables backed working capital facilities	1,030	796	—	—
Other loans	766	1,340	—	1,310
Hire purchase obligations	97	85	—	—
	2,174	2,734	—	1,310
IFRS 16 lease liability	201	—	—	—
	2,375	2,734	—	1,310
Total borrowings	8,509	3,862	4,730	1,310

Other loans can be analysed as follows:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current:				
From an entity under common control	2,730	—	2,730	—
From a third party	2,000	—	2,000	—
Acquisition loan notes	351	805	—	—
From a director of a subsidiary	60	90	—	—
Other	11	—	—	—
	5,152	895	4,730	—
Current:				
From an entity under common control	—	1,310	—	1,310
Acquisition loan notes	728	—	—	—
From a director of a subsidiary	30	30	—	—
Other	8	—	—	—
	766	1,340	—	1,310

Notes to the Financial Statements continued

24. Borrowings continued

The loan from an entity under common control has a total available facility of £3,000,000. Amounts were initially repayable by 31 March 2020, but the repayment date has been extended to 31 December 2021. Amounts due are unsecured and attract interest at 5% per annum. The loan is guaranteed by D A Horner. See also note 30.

The loan from a third party is repayable in full by 30 June 2021. Amounts due are unsecured and attract interest at 10% per annum. The loan is guaranteed by D A Horner. See also note 30.

The acquisition loan note balance is made up as follows:

Aford Award (Holdings) Limited – £90,000 Shareholder Loan Notes which are unsecured, attract interest at 8% per annum and are repayable on demand as there is no repayment date.

CEMTeal Limited – £223,000 Vendor Loan Notes and £108,000 Shareholder Loan Notes both of which are unsecured, attract interest at 7% per annum and are repayable on demand as there is no repayment date. See also note 33.

Hickton Holdings Limited – £398,000 of Shareholder Loan Notes which are unsecured and attract interest at 8% per annum. Amounts are repayable by quarterly instalments between 31 March 2020 and 31 July 2022. See also note 33.

Milano International Limited – £160,000 Vendor Loan Notes which are unsecured, attract interest at 4% per annum and are repayable by 3 October 2020 and £100,000 Shareholder Loan Notes which are unsecured, attract interest at 6% per annum and are repayable on demand as there is no repayment date.

The loan from a director of a subsidiary is repayable in annual instalments ending 31 July 2022. Amounts due are unsecured and attract interest at 5% per annum. See also note 30.

Bank borrowings and overdrafts are secured by fixed and floating charges over the assets of the subsidiaries to which they relate. Trade receivable backed working capital facilities are secured by the trade receivable to which they relate. The facilities are renegotiated on an annual basis. Obligations under hire purchase contracts are secured against the assets to which they relate. All borrowings are denominated in Sterling.

At 31 December 2019 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	–	816	816
Davies Odell	169	214	383
Hickton	112	–	112
	<hr/>	<hr/>	<hr/>
	281	1,030	1,311

Notes to the Financial Statements continued

24. Borrowings continued

At 31 December 2018 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	—	395	395
Davies Odell	350	229	579
Hickton	275	172	447
	625	796	1,421

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:

	2019		2018	
	Bank £'000	Hire purchase £'000	Bank £'000	Hire purchase £'000
Within one year	1,311	97	1,309	85
Between one and two years	—	—	112	110
Between two and five years	—	—	—	11
	1,311	97	1,421	206

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.

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

	2019 £'000	2018 £'000
Not more than one year	97	95
Between one and two years	—	74
Between two and five years	—	77
	97	246
Finance charge	—	(40)
	97	206
Present value of hire purchase agreement liabilities		

Notes to the Financial Statements continued

25a. Financial instruments by category The accounting policies for financial instruments have been applied to the line items below:

Group	31 December 2019	Assets as per Statement of Financial Position	Loans and receivables £'000
Trade and other receivables (excluding prepayments and accrued income)			3,134
Cash and cash equivalents			1,958
Total			5,092

Liabilities at amortised cost as per Statement of Financial Position	Other financial liabilities £'000
Bank borrowings (excluding hire purchase obligations)	1,311
Hire purchase obligations	97
IFRS 16 lease liability	1,183
Trade payables	2,423
Other loans	5,918
Total	10,932

Group	31 December 2018	Assets as per Statement of Financial Position	Loans and receivables £'000
Trade and other receivables (excluding prepayments and accrued income)			2,819
Cash and cash equivalents			1,705
Total			4,524

Liabilities at amortised cost as per Statement of Financial Position	Other financial liabilities £'000
Bank borrowings (excluding hire purchase obligations)	1,421
Hire purchase obligations	206
Trade payables	1,126
Other loans	2,235
Total	4,988

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

Notes to the Financial Statements continued

25b. 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	2019 £'000	2018 £'000
CEPS Group	31	12
Aford Awards	106	91
CEM Press	1,134	751
Davies Odell	496	548
Friedman's	552	570
Hickton	1,047	1,359
	<hr/>	<hr/>
	3,366	3,331

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 £1,958,000 (2018: £1,705,000) 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+.

Notes to the Financial Statements continued

26. 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 2018, asset/(liability) (Debit)/credit to the Consolidated Statement of Comprehensive Income	189	(34)	–	155
	<u>(189)</u>	<u>31</u>	<u>(85)</u>	<u>(243)</u>
at 31 December 2018, liability	–	(3)	(85)	(88)
Credit/(debit) to the Consolidated Statement of Comprehensive Income	–	3	(24)	(21)
	<u>–</u>	<u>–</u>	<u>(109)</u>	<u>(109)</u>
at 31 December 2019, liability	–	–	(109)	(109)

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.

27. Provisions for liabilities and charges

	Dilapidations £'000
At 1 January 2018	100
Release of provision in year	(100)
At 31 December 2018 and 31 December 2019	–

28. Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2018	13,199,940	1,320	4,843	6,163
Shares issued	3,800,060	380	950	1,330
Transaction costs	–	–	(4)	(4)
Adjustment	–	–	52	52
At 31 December 2018 and 31 December 2019	17,000,000	1,700	5,841	7,541

Notes to the Financial Statements continued

29. Leases

On 1 January 2019, the Group applied IFRS 16 *Leases* using the modified retrospective approach without restatement of the comparative information.

Total commitments payable under non-cancellable operating leases in 2018 were as follows:

	2019 £'000	2018 £'000
Land and buildings:		
within one year	—	377
within two to five years	—	1,314
after more than five years	—	696
	<hr/>	<hr/>
	—	2,387
	<hr/>	<hr/>

Impact on financial statements

On transition to IFRS 16, the Group recognised an additional £1,606,000 of right-of-use assets and £1,228,000 of lease liabilities.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 8%.

	£'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	2,387
Discounted using the incremental borrowing rate at 1 January 2019	1,625
Leases omitted from IFRS 16 calculation relating to administration, see below	(496)
Differences in application of discount rates	99
	<hr/>
Lease liabilities recognised at 1 January 2019	1,228
	<hr/>

The operating lease commitment note as per the December 2018 financial statements classified all leases as 'land and buildings'. This included an amount for motor vehicles and other leases which will now be disclosed separately.

The operating lease commitment disclosure at 31 December 2018 included leases of £617,000, with a discounted value of £496,000 relating to CEM Press Limited and Travelfast Limited. These subsidiaries entered into administration post year end and the leases relating to these subsidiaries have, therefore, been omitted from the IFRS 16 transition calculations. See note 33 for more detail.

The Group leases a number of properties under operating leases. The leases typically run for a period of five to twenty years. Rents are generally reviewed every five years.

During the year ended 31 December 2018, £640,000 was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of operating leases and other hire charges.

£187,000 was recognised in the Consolidated Statement of Comprehensive Income, principally for short-term leases, during the year ended 31 December 2019, details of which are set out in note 5.

Notes to the Financial Statements continued

30. 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 Holdings Limited £'000	Sunline Direct Mail (Holdings) Limited £'000
Receipt of equity share dividend						
– 2019	–	–	–	–	–	–
– 2018	–	–	–	55	–	–
Receipt of loan interest						
– 2019	32	–	27	15	49	–
– 2018	51	111	12	–	49	–
Receipt of management charge income						
– 2019	20	–	15	35	13	–
– 2018	20	–	15	35	13	1
Amount owed to the Company						
– 31 December 2019	216	–	808	1,026	623	–
– 31 December 2018	537	–	534	–	623	–
Loans and investments written-off or impaired						
– 2019	–	1,955	808	–	–	–
– 2018	–	2,719	–	–	–	2,702

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

At the year end the parent company owed £2,730,000 (2018: £1,310,000) to an entity under common control and interest of £115,000 (2018: £29,000) was charged on this loan during the year. The loan is guaranteed by D A Horner.

At the year end the parent company owed £2,000,000 to a third party. Interest of £56,000 (2018: £nil) was charged on this loan during the year. The loan is guaranteed by D A Horner.

At the year end amounts owed to directors of subsidiary companies and their close family members in respect of acquisition loan notes amounted to £1,079,000 (2018: £805,000). Interest paid on these loans in the year amounted to £73,000 (2018: £79,000).

At the year end amounts owed to a director of a subsidiary company in relation to a loan amounted to £90,000. Interest paid on this loan in the year amounted to £5,000 (2018: £3,000).

At the year end the total amounts owed by a director shareholder of a subsidiary company was £70,000 (2018: £70,000) in respect of unpaid share capital and associated expenses.

During the year a subsidiary company paid rent on a property amounting to £9,000 (2018: £21,000) to a pension scheme in which a director of the company was a trustee.

During the year a subsidiary company purchased goods totalling £nil (2018: £362,000) from entities under the control of one of the subsidiary directors. At the year end the subsidiary company owed £nil (2018: £56,000) to these entities. All transactions were conducted under normal commercial terms.

Notes to the Financial Statements continued

31. Cash and cash equivalents

	Group 2019 £'000	2018 £'000	Company 2019 £'000	2018 £'000
Cash at bank and in hand	1,958	1,705	21	48
Bank overdrafts repayable on demand	—	—	—	—
	<u>1,958</u>	<u>1,705</u>	<u>21</u>	<u>48</u>

32. Changes in liabilities arising from financing activities

	1 January 2019 £'000	Movement £'000	31 December 2019 £'000
Current			
Borrowings	2,649	(572)	2,077
Finance lease obligations	85	1,195	1,280
	<u>2,734</u>	<u>623</u>	<u>3,357</u>
Non-current			
Borrowings	1,007	4,145	5,152
Finance lease obligations	121	(121)	—
	<u>1,128</u>	<u>4,024</u>	<u>5,152</u>
	<u>3,862</u>	<u>4,647</u>	<u>8,509</u>

33. Post balance sheet events

Administration of CEM Press Limited

On 8 January 2020 CEM Press Limited was placed in administration. The remaining entities in the CEMTeal group will be wound-up in the near future.

Administration of Travelfast Limited (trading as Sampling International)

On 15 January 2020 Travelfast Limited (trading as Sampling International) was placed in administration.

On 17 January 2020 the administrator sold the business and assets of Travelfast Limited to a newly-formed company called Sampling International Enterprises Limited (trading as Sampling International). No return to CEPS PLC arose from the sale.

Acquisition of Cook Brown Building Control Limited and Cook Brown Energy Limited

A new sub-holding company called Hickton Group Limited was formed by CEPS PLC to own Hickton Holdings Limited, Hickton Consultants Limited and BRCs (Building Control) Limited. On 11 March 2020 Hickton Group Limited purchased 100% of the share capital of Cook Brown Building Control Limited and Cook Brown Energy Limited for a consideration of £3,530,445. CEPS PLC's equity holding in Hickton Group Limited moved to 54.7% from its previous 52.4% stake in Hickton Holdings Limited.

Coronavirus

Subsequent to the year end, there has been an outbreak of Coronavirus which has developed into a global pandemic. At this stage the directors are assessing what impact this may have on the Group, but although there is a high level of uncertainty about the extent and the timeframe of the virus on the global economy, they believe the Group is strongly positioned to handle any downturn that may occur in the sectors in which the Group operates.

Supplementary Analysis of Consolidated Statement of Comprehensive Income

	Notes	Continuing operations 2019 £'000	To be discontinued operations 2019 £'000	2019 £'000
Revenue	4	16,064	5,689	21,753
Cost of sales		(10,218)	(5,370)	(15,588)
 Gross profit		5,846	319	6,165
Administration expenses		(4,228)	(1,975)	(6,203)
 Adjusted operating profit/(loss)		1,618	(1,656)	(38)
Exceptional item	6	—	(1,836)	(1,836)
 Operating profit/(loss)	5	1,618	(3,492)	(1,874)
 Analysis of operating profit/(loss)				
Trading		1,994	(1,656)	338
Exceptional item		—	(1,836)	(1,836)
Group costs		(376)	—	(376)
		1,618	(3,492)	(1,874)
 Finance income	10	28	—	28
Finance costs	10	(369)	(72)	(441)
 Profit/(loss) before tax		1,277	(3,564)	(2,287)
Taxation	11	(342)	—	(342)
 Profit/(loss) for the year		935	(3,564)	(2,629)
 Other comprehensive loss:				
Items that will not be reclassified to profit or loss				
Actuarial loss on defined benefit pension plans	9	(99)	—	(99)
 Other comprehensive loss for the year, net of tax		(99)	—	(99)
 Total comprehensive income/(loss) for the year		836	(3,564)	(2,728)
 Income/(loss) attributable to:				
Owners of the parent		250	(2,946)	(2,696)
Non-controlling interest		685	(618)	67
		935	(3,564)	(2,629)
 Total comprehensive income/(loss) attributable to:				
Owners of the parent		151	(2,946)	(2,795)
Non-controlling interest		685	(618)	67
		836	(3,564)	(2,728)
 Earnings per share				
basic and diluted	13	1.47p	(17.33p)	(15.86p)

Supplementary Analysis of Group Statement of Cash Flows

			To be discontinued operations	2019	2019
				£'000	£'000
Cash flows from operating activities	Profit/(loss) for the financial year			309	(2,938)
	Adjustments for:				(2,629)
	Depreciation and amortisation	484	149	633	
	Impairment of goodwill	395	—	395	
	Write-down of fixed assets	—	229	229	
	Net finance costs	141	272	413	
	Taxation charge	342	—	342	
	Changes in working capital:				
	Movement in inventories	(225)	397	172	
	Movement in trade and other receivables	729	199	928	
	Movement in trade and other payables	(749)	631	(118)	
	Cash generated from/(used in) operations	1,426	(1,061)	365	
	Corporation tax paid	(444)	103	(341)	
	Net cash generated from/(used in) operations	982	(958)	24	
Cash flows from investing activities	Interest received	28	—	28	
	Acquisition of subsidiary net of cash acquired	(1,818)	28	(1,790)	
	Purchase of property, plant and equipment	(222)	(19)	(241)	
	Net cash (used in)/generated from investing activities	(2,012)	9	(2,003)	
Cash flows from financing activities	Proceeds from borrowings	1,620	1,265	2,885	
	Interest paid	(38)	(272)	(310)	
	Repayment of finance leases/IFRS 16 leases	(281)	(62)	(343)	
	Net cash generated from financing activities	1,301	931	2,232	
	Net increase in cash and cash equivalents	271	(18)	253	
	Cash and cash equivalents at the beginning of the year	1,684	21	1,705	
	Cash and cash equivalents at the end of the year (note 31)	1,955	3	1,958	

Notes to the Financial Statements continued

Group Information

Directors	D A Horner, Chairman V E Langford, Group Finance D E Johnson, Non-executive G C Martin, Non-executive
Secretary and registered office	V E Langford 11 Laura Place, Bath BA2 4BL Company number 00507461 www.cepsplc.com
Operating locations	<p>Aford Awards Limited Grange House, Bearsted Green Business Centre, Maidstone, Kent ME14 4DF telephone 01622 738711; email orders@afordawards.co.uk; www.afordawards.co.uk</p> <p>BRCS (Building Control) Limited Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT telephone 01226 743959; email info@brcs.co.uk; www.brcs.co.uk</p> <p>Cook Brown Building Control Limited and Cook Brown Energy Limited Unit 4, Middle Bridge Business Park, Bristol Road, Portishead, Bristol BS20 6PN telephone 01275 848228; email admin@cookbrown.co.uk; www.cookbrown.co.uk</p> <p>Davies Odell Limited Portland Road, Rushden, Northants NN10 0DJ telephone 01933 410818 email info@daviesodell.co.uk; www.forcefieldbodyarmour.com email info@davieskett.co.uk; www.equimat.co.uk</p> <p>Friedman's Limited Unit E, Altrincham Business Park, 3 Tudor Road, Cheshire WA14 5RZ telephone 0161 975 9002; email info@friedmans.co.uk; www.friedmans.co.uk; www.funkifabrics.com; www.alexandermaverick.co.uk</p> <p>Hickton Consultants Limited Amber Court, 51 Church Street, Elsecar, Barnsley, South Yorkshire S74 8HT telephone 01226 743959; email info@hickton.co.uk; www.hickton.co.uk</p> <p>Milano International Limited (trading as Milano Pro-Sport) The Arena, 65 Bow Lane, Preston, Lancashire PR1 8ND telephone 01772 277777; email info@milano-pro-sport.com; www.milano-pro-sport.com</p>
Registrars and share transfer office	Share Registrars Limited The Courtyard, 17 West Street, Farnham GU9 7DR 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 auditor	Cooper Parry Group Limited Sky View, Argosy Road, East Midlands Airport, Castle Donington, Derby DE74 2SA
Solicitors	Roxburgh Milkins Limited Merchants House North, Wapping Road, Bristol BS1 4RW
Nominated adviser and broker	Cairn Financial Advisers LLP 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 Tuesday 23 June 2020 at 11.30am for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which resolutions numbered 1 to 5 will be proposed as ordinary resolutions and resolutions numbered 6 to 9 will be proposed as special resolutions.

- 1 To receive, consider and adopt the Company's annual accounts for the financial year ended 31 December 2019 together with the Directors' Report and Auditor's Report on those accounts.
- 2 To re-appoint V E Langford as a director, being a director who retires by rotation pursuant to Article 72 of the Company's articles of association ('the Articles').
- 3 To re-appoint Cooper Parry Group Limited, Chartered Accountants and Statutory Auditor, as auditor 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.
- 4 To authorise the directors to agree the auditor's remuneration.
- 5 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 £1,700,000, 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.
- 6 THAT subject to and conditional on the passing of resolution number 5 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 5 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:

6.1 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.

6.2 otherwise than pursuant to sub-paragraph 6.1 above up to an aggregate nominal amount of £1,700,000 (such shares representing 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

Notice of Meeting continued

Annual General Meeting continued

6 continued

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.

7 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:

7.1 the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate of 1,700,000 (such shares representing approximately 10% of the Company's issued ordinary capital as at the date of this notice);

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

7.3 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(6) of the Market Abuse Regulation, (EU) No 596/2014 (as amended); and

7.4 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).

8 THAT the Articles be and are hereby altered by:

8.1 the deletion of the heading to and the text of article 3 of the Articles and the replacement of them with the words 'THERE IS NO ARTICLE 3';

8.2 the deletion of all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated, with effect from 1 October 2009, as provisions of the Company's Articles of Association; and

8.3 the deletion, in accordance with paragraph 42(2)(b) of Schedule 2 of the Companies Act 2006 (Commencement No 8, Transitional Provisions and Savings) Order 2008 (SI 2008/2860) (the 'Order'), of any provision of the Articles which sets a maximum to the amount of shares that may be allotted by the Company ('Maximum Share Amount'), as became applicable to the Company, with effect from 1 October 2009, by virtue of paragraph 42(2)(a) of the Order.

9 THAT the making by the Company of all allotments of shares in the capital of the Company since 1 October 2009 which caused any Maximum Share Amount to be exceeded be and is hereby ratified and any breaches of the Articles which may have been incurred by the directors in approving any such allotments be and are hereby waived.

On behalf of the Board
V E Langford
Company Secretary
21 May 2020

Notice of Meeting continued

Annual General Meeting continued

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

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 Friday 19 June 2020 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.