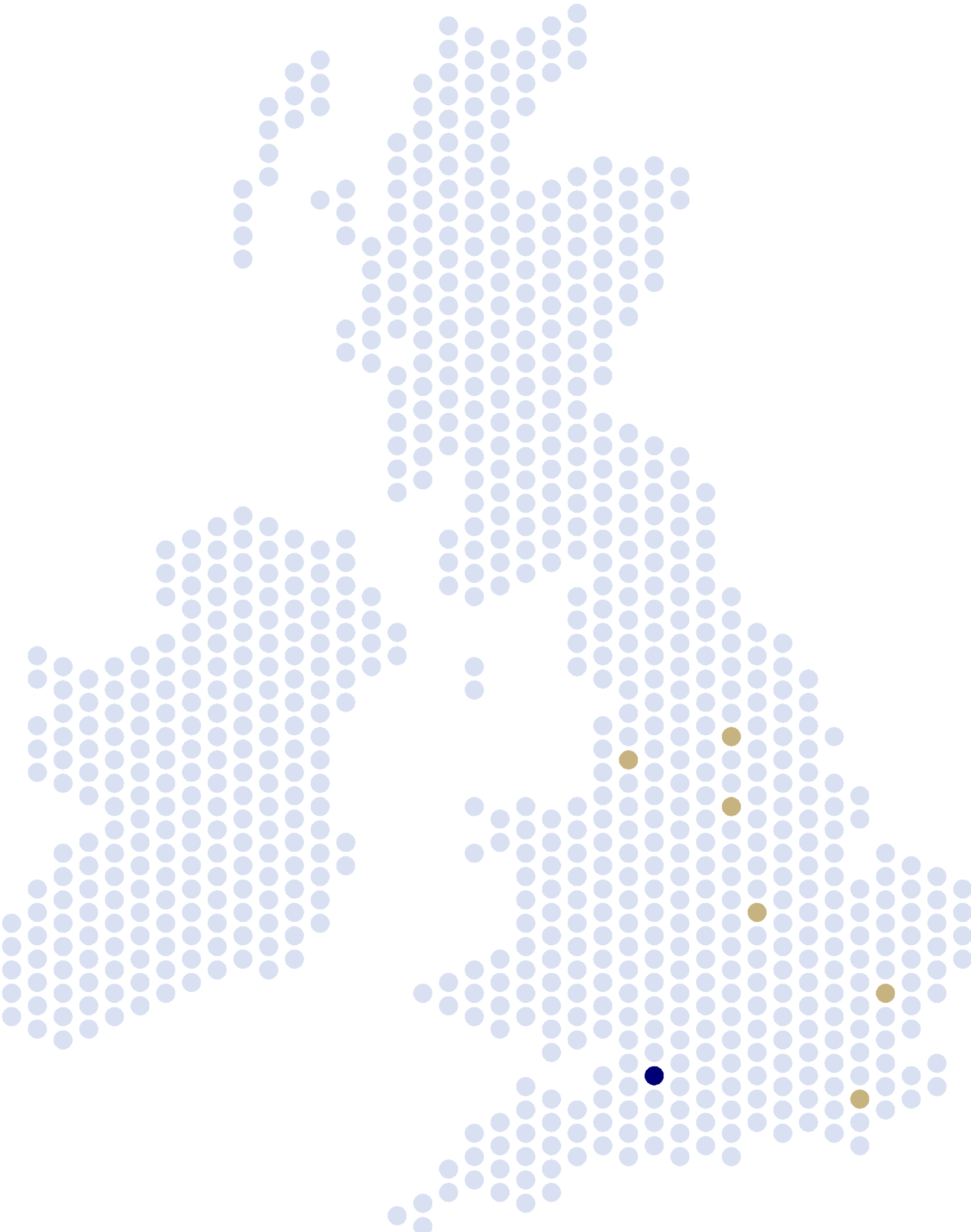
CEPS PLC

Partnering for success



Half-Yearly Report to Shareholders 2018

Contents

Chairman's Statement

Unfortunately, there is no getting away from it at the moment as the interminable "Brexit" discussions lumber forward to hopefully some sort of conclusion by the end of March next year.

Until the situation is clarified and we return to "normal" politics and business analysis, every comment from Brussels and counter comment from the Government and the numerous interested parties will dominate the investment and business landscape.

In the meantime, the CEPS Group of companies are getting on with getting on trying to manage in these extraordinary times.

Review of the period

On the face of it the most significant corporate event in the period was Sunline Direct Mail going into administration, but as we said at the time of this unfortunate event the impact on CEPS' balance sheet was effectively neutral and, of course, the removal of a loss-making company going forward is positive for the rest of the Group.

In addition, just before the period end on the 27 June, 3.8m new shares were placed at 35p with my family and two other existing shareholders. Of the net proceeds of £1.325m, £1m was used to repay the short-term loan that the company had drawn down over the previous year.

As a result of this placing there are now 17m shares in issue.

Financial review

The interim accounts are even more complicated than normal because of the removal of Sunline from the consolidated accounts. The gross profit from continuing operations of £3.437m (2017: £2.236m) on sales of £9.056m (2017: £8.497m) is a much healthier 38% (2017: 26%) than the historical comparatives which have been dragged back by the underperformance at Sunline. The profit before tax from continuing operations of £346,000 compares to £642,000 for the same period last year, when a bank interest refund of £123,000 boosted results.

The taxation charge has been inflated by the writing-off of a deferred tax asset. This is a non-cash item and it remains as an unrecognised asset when it can be utilised against profits.

Gearing has been reduced to 14% from 33% for the comparable period last year.

Operational review

1. Aford Awards

The company has continued its steady progress and with all the vendor loans now repaid the company has commenced repaying the outstanding CEPS acquisition loan notes.

The company has continued to review a number of acquisition opportunities and remains keen to add to its business activities, at the right time and at the right price.

2. CEM Press

The company has continued to make progress on sales but is currently struggling to produce all the orders it has won during the course of the year on time. The negative impact of this will be felt in the second half.

Again, it is our belief that the business needs to be scaled-up and opportunities are being reviewed to achieve this.

3. Davies Odell

The company is beginning to make steady progress with sales increasing for the first time in a number of years on the back of the new product development reported a year ago.

The company has been able to reduce the cost of production and has also reduced overheads.

Chairman's Statement continued

4. Friedman's

The company has relocated to new premises for the second time in our ownership. The company has doubled its premises and has secured the necessary power supply to continue the development of the company.

The costs of the move have been expensed through the profit and loss account. This explains the reduction in profit in these accounts even though sales have increased.

The move to larger premises and the installation of new machines has increased capacity and also means that the company is able to develop new product areas which will provide the growth in the next few years.

5. Hickton

Integration of the two companies continues with the harmonisation of systems and the employment of a senior recruit for BRCS based at Hickton's premises in Elsecar. This will further facilitate the alignment of cultures over time.

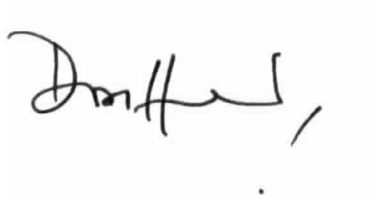
Against this back-drop both companies continue to perform well. There has been a complete change to the finance function and an IT systems overhaul, the benefits of which will filter through in the second half.

Dividend

With the administration of Sunline Direct Mail, the Board has placed the payment of a dividend on hold for the time being.

Prospects

Despite the Group suffering the loss of Sunline, the Board is confident that the remaining Group companies, as a whole, will make progress over the next year.



David Horner
Chairman
27 September 2018

Consolidated Statement of Comprehensive Income

	Note	Continuing operations unaudited 6 months to 30 June 2018 £'000	Discontinued operations unaudited 6 months to 30 June 2018 £'000	Unaudited 6 months to 30 June 2018 £'000	Unaudited 6 months to 30 June 2017 £'000	Audited 12 months to 31 December 2017 £'000
Revenue	3	9,056	3,118	12,174	12,077	23,601
Cost of sales		(5,619)	(3,172)	(8,791)	(9,446)	(18,187)
Gross profit/(loss)		3,437	(54)	3,383	2,631	5,414
Net operating expenses		(2,952)	(296)	(3,248)	(1,763)	(4,313)
Operating profit/(loss)		485	(350)	135	868	1,101
Exceptional item		–	20	20	–	(847)
Adjusted operating profit/(loss)		485	(330)	155	868	254
Analysis of adjusted operating profit/(loss)						
Trading		650	(350)	300	1,036	1,423
Exceptional item	2	–	20	20	–	(847)
Group costs	3	(165)	–	(165)	(168)	(322)
		485	(330)	155	868	254
Net finance costs	3	(139)	21	(118)	(35)	(209)
Profit on disposal of investment		–	–	–	–	10
Profit/(loss) before tax		346	(309)	37	833	55
Taxation	3	(180)	–	(180)	(158)	(276)
Profit/(loss) for the period		166	(309)	(143)	675	(221)
Other comprehensive loss						
Items that will not be reclassified to profit or loss						
Actuarial loss on defined benefit pension plans		–	–	–	–	(66)
Items that may be subsequently reclassified to profit or loss		–	–	–	–	–
Other comprehensive loss for the period, net of tax		–	–	–	–	(66)
Total comprehensive income/(loss) for the period		166	(309)	(143)	675	(287)
(Loss)/profit attributable to:						
Owners of the parent		(419)	(309)	(728)	418	(532)
Non-controlling interest		585	–	585	257	311
		166	(309)	(143)	675	(221)
Total comprehensive (loss)/income attributable to:						
Owners of the parent		(419)	(309)	(728)	418	(598)
Non-controlling interest		585	–	585	257	311
		166	(309)	(143)	675	(287)
Earnings per share attributable to owners of the parent during the year						
– basic and diluted	4	(3.17)p	(2.34)p	(5.51)p	3.30p	(4.11)p

The notes on pages 7 to 12 form part of the half-yearly results.

Consolidated Statement of Financial Position

		Note	Unaudited as at 30 June 2018 £'000	Unaudited as at 30 June 2017 £'000	Audited as at 31 December 2017 £'000
Assets	Non-current assets				
	Property, plant and equipment		1,121	2,336	2,320
	Intangible assets		5,600	6,153	5,600
	Deferred tax asset		5	220	226
			6,726	8,709	8,146
	Current assets				
	Inventories		2,287	2,323	1,770
	Trade and other receivables		3,561	4,030	3,691
	Cash and cash equivalents (excluding bank overdrafts)		1,528	1,369	1,371
			7,376	7,722	6,832
	Total assets	3	14,102	16,431	14,978
Equity	Capital and reserves attributable to owners of the parent				
	Called up share capital	4	1,700	1,320	1,320
	Share premium		5,789	4,843	4,843
	Retained earnings		(3,284)	(1,506)	(2,556)
			4,205	4,657	3,607
	Non-controlling interest in equity		1,932	1,371	1,347
	Total equity		6,137	6,028	4,954
Liabilities	Non-current liabilities				
	Borrowings		1,284	2,504	2,223
	Trade and other payables		–	–	313
	Deferred tax liability		71	83	71
	Provisions for liabilities and charges		–	50	50
			1,355	2,637	2,657
	Current liabilities				
	Borrowings		2,320	3,336	3,503
	Trade and other payables		4,253	4,061	3,556
	Current tax liabilities		37	307	258
	Provisions for liabilities and charges		–	62	50
			6,610	7,766	7,367
	Total liabilities		7,965	10,403	10,024
	Total equity and liabilities		14,102	16,431	14,978

The notes on pages 7 to 12 form part of the half-yearly results.

Consolidated Statement of Cash Flows

	Unaudited 6 months to 30 June 2018 £'000	Unaudited 6 months to 30 June 2017 £'000	Audited 12 months to 31 December 2017 £'000
Cash flows from operating activities			
Cash generated from operations	1,439	598	1,765
Income tax paid	–	–	(229)
Interest received	–	26	128
Interest paid	(118)	(158)	(337)
Net cash generated from operations	1,321	466	1,327
Cash flows used in investing activities			
Acquisition of subsidiary net of cash acquired	–	(145)	(444)
Purchase of property, plant and equipment	(548)	(170)	(266)
Proceeds from sale of assets	–	–	32
Purchase of intangibles	–	(3)	(11)
Increase in interest in subsidiary	–	(7)	(7)
Net cash used in investing activities	(548)	(325)	(696)
Cash flows from financing activities			
Repayment of borrowings	(1,157)	(522)	(476)
Dividend paid to non-controlling interest	–	(113)	(225)
Proceeds from share issue (net of costs)	1,326	1,263	1,263
Repayment of capital element of finance leases	(265)	(103)	(386)
Net cash (used in)/generated from financing activities	(96)	525	176
Net increase in cash and cash equivalents	677	666	807
Cash and cash equivalents at the beginning of the period	851	44	44
Cash and cash equivalents at the end of the period	1,528	710	851
Cash generated from/(used in) operations			
Profit before income tax	37	833	55
Adjustments for:			
Depreciation and amortisation	308	268	497
Intangible assets written off	–	–	847
Exceptional item	(20)	–	–
Loss on disposal of property, plant and equipment	–	–	(17)
Net finance costs	118	35	209
Operating profit before changes in working capital and provisions	443	1,136	1,591
(Increase)/decrease in inventories	(517)	(303)	250
Decrease/(increase) in trade and other receivables	349	(329)	11
Increase/(decrease) in trade and other payables	1,264	94	(75)
Decrease in provisions	(100)	–	(12)
Cash generated from operations	1,439	598	1,765
Cash and cash equivalents			
Cash at bank and in hand	1,528	1,369	1,371
Bank overdrafts repayable on demand	–	(659)	(520)
	1,528	710	851

The notes on pages 7 to 12 form part of the half-yearly results.

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Retained earnings £'000	Attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2017 (audited)	957	3,943	(1,924)	2,976	1,227	4,203
Profit for the period	–	–	418	418	257	675
Total comprehensive income for the period	–	–	418	418	257	675
Proceeds from shares issued net of expenses	363	900	–	1,263	–	1,263
Total contributions by owners of the parent recognised in equity	363	900	–	1,263	–	1,263
Dividend paid to non-controlling interest	–	–	–	–	(113)	(113)
Total transactions recognised directly in equity	–	–	–	–	(113)	(113)
At 30 June 2017 (unaudited)	1,320	4,843	(1,506)	4,657	1,371	6,028
Actuarial loss	–	–	(66)	(66)	–	(66)
(Loss)/profit for the period	–	–	(950)	(950)	54	(896)
Total comprehensive (loss)/ income for the period	–	–	(1,016)	(1,016)	54	(962)
Changes in ownership interest in a subsidiary	–	–	(34)	(34)	34	–
Dividend paid to non-controlling interest	–	–	–	–	(112)	(112)
Total distributions recognised directly in equity	–	–	(34)	(34)	(78)	(112)
At 31 December 2017 (audited)	1,320	4,843	(2,556)	3,607	1,347	4,954
(Loss)/profit for the period	–	–	(728)	(728)	585	(143)
Total comprehensive (loss)/ income for the period	–	–	(728)	(728)	585	(143)
Proceeds from shares issued net of expenses	380	946	–	1,326	–	1,326
Total contributions by owners of the parent recognised in equity	380	946	–	1,326	–	1,326
At 30 June 2018 (unaudited)	**1,700**	**5,789**	**(3,284)**	**4,205**	**1,932**	**6,137**

The notes on pages 7 to 12 form part of the half-yearly results.

Notes to the Financial Information

1. General information

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 11 Laura Place, Bath, BA2 4BL and the registered number of the company is 00507461.

The Company is listed on AIM.

This condensed consolidated half-yearly financial information was approved by the Directors for issue on 27 September 2018.

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board of directors on 10 May 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed consolidated half-yearly financial information has not been reviewed or audited.

There is no seasonality or cyclicality in relation to the condensed consolidated half-yearly financial information.

Basis of preparation

This condensed consolidated half-yearly financial information for the six months ended 30 June 2018 has been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the European Union. The condensed consolidated half-yearly financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements. Where new standards, or amendments to existing standards, have become effective during the year there has been no material impact on the results of the Group.

2. Exceptional item

Sunline Direct Mail Limited

As announced on 13 June 2018, Sunline Direct Mail Limited (“SDM”) filed a notice of intention to appoint an administrator. The company went into liquidation on 26 June 2018. The impact of the new General Data Protection Regulation (“GDPR”), as highlighted by the Royal Mail in its recent results where it forecast a severe decline in volumes, coupled with the reaction to the plastics debate prompted by the BBC's Blue Planet television series, had an impact on the sector. As a result, SDM's order book did not fill at the rate that management would have expected it to at that time of year, being the “golden period” from August to November. As the business was likely to have required significant amounts of additional funding to carry on trading, the CEPS PLC Board made the decision to make no further funding available.

The exceptional item relates to SDM. At 30 June 2018 this is a provisional result as the company is subject to liquidation processes. This will be updated at the year end.

Notes to the Financial Information continued

3. Segmental analysis

All activities, apart from those relating to Sunline, are classed as continuing.

The chief operating decision maker 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.

Operating segments and their principal activities are as follows:
- Aford Awards, a sports trophy and engraving company;
- CEM Press, a manufacturer of fabric and wallpaper pattern books, swatches and shade cards;
- Davies Odell, a manufacturer and distributor of protection equipment, matting and footwear components;
- Friedman's, a convertor and distributor of specialist Lycra;
- Hickton Consultants, a provider of services to the construction industry together with BRCS (Building Consultants), a leading provider of building control services nationally;
- Sunline, a supplier of services to the direct mail market (see note 2).

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 of the Group. The Group information provided below, therefore, also represents the geographical segmental analysis. Of the £12,174,000 (2017: £12,077,000) revenue, £10,790,000 (2017: £10,735,000) is derived from UK customers.

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

i) Results by segment

Unaudited 6 months to 30 June 2018

	Aford Awards £'000	CEM Press £'000	Davies Odell £'000	Fried-man's £'000	Hickton £'000	Continuing operations £'000	Discont-inued Sunline £'000	Total Group £'000
Revenue	1,065	1,245	1,956	2,792	1,998	9,056	3,118	12,174
Segmental result (EBITDA) before exceptional costs	231	(48)	(16)	358	285	810	(202)	608
Exceptional item	–	–	–	–	–	–	20	20
Segmental result (EBITDA) after exceptional costs	231	(48)	(16)	358	285	810	(182)	628
Depreciation and amortisation charge	(4)	(35)	(11)	(60)	(50)	(160)	(148)	(308)
Group costs						(165)	–	(165)
Net finance costs						(139)	21	(118)
Profit/(loss) before taxation						346	(309)	37
Taxation						(180)	–	(180)
Profit/(loss) for the period						166	(309)	(143)

Notes to the Financial Information continued

3. Segmental analysis
continued

i) Results by segment continued

Unaudited 6 months to 30 June 2017

	Aford Awards £'000	CEM Press £'000	Davies Odell £'000	Fried-man's £'000	Hickton £'000	Continuing operations £'000	Discont-inued Sunline £'000	Total Group £'000
Revenue	1,044	1,204	1,817	2,610	1,822	8,497	3,580	12,077
Segmental result (EBITDA)	243	(84)	(5)	486	286	926	378	1,304
Depreciation and amortisation charge	(11)	(39)	(39)	(17)	(26)	(132)	(136)	(268)
Group costs						(168)	–	(168)
Net finance costs						16	(51)	(35)
Profit before taxation						642	191	833
Taxation						(158)	–	(158)
Profit for the period						484	191	675

Audited year to 31 December 2017

	Aford Awards £'000	CEM Press £'000	Davies Odell £'000	Fried-man's £'000	Hickton £'000	Continuing operations £'000	Discont-inued Sunline £'000	Total Group £'000
Revenue	1,907	2,414	3,804	5,053	3,748	16,926	6,675	23,601
Segmental result (EBITDA)	328	(310)	33	1,198	447	1,696	224	1,920
Depreciation and amortisation charge						(213)	(284)	(497)
Goodwill impairment						(847)	–	(847)
Group costs						(322)	–	(322)
Net finance costs						(107)	(102)	(209)
Net profit on disposal of investments						10	–	10
Profit before taxation						217	(162)	55
Taxation						(276)	–	(276)
Loss for the year						(59)	(162)	(221)

Notes to the Financial Information continued

3. Segmental analysis continued

ii) Assets and liabilities by segment

Unaudited as at 30 June

	Segment assets		Segment liabilities		Segment net assets/(liabilities)	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
CEPS Group	**627**	746	**(755)**	(542)	**(128)**	204
Aford Awards	**1,796**	1,623	**(424)**	(419)	**1,372**	1,204
CEM Press	**1,928**	2,401	**(2,286)**	(1,907)	**(358)**	494
Davies Odell	**1,993**	2,007	**(1,921)**	(1,429)	**72**	578
Friedman's	**4,284**	3,741	**(999)**	(993)	**3,285**	2,748
Hickton	**3,474**	2,976	**(1,580)**	(1,675)	**1,894**	1,301
Sunline	**–**	2,937	**–**	(3,438)	**–**	(501)
Total – Group	**14,102**	16,431	**(7,965)**	(10,403)	**6,137**	6,028

Audited as at 31 December 2017

	Segment assets	Segment liabilities	Segment net assets/(liabilities)
	£'000	£'000	£'000
CEPS Group	41	(1,078)	(1,037)
Aford Awards	1,558	(346)	1,212
CEM Press	1,400	(1,627)	(227)
Davies Odell	1,974	(1,401)	573
Friedman's	3,860	(800)	3,060
Hickton	3,368	(1,942)	1,426
Sunline	2,777	(2,830)	(53)
Total – Group	14,978	(10,024)	4,954

4. Earnings per share

Basic earnings per share is calculated on the loss after taxation for the period attributable to owners of the Company of £728,000 (2017: profit of £418,000) and on 13,199,940 (2017: 12,659,027) ordinary shares, being the weighted number in issue during the period.

The new shares authorised were not admitted to the AIM market until 3 July 2018. Consequently, the additional 3,800,060 shares have not been included in the EPS calculation.

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

5. Net debt and gearing

Gearing ratios at 30 June 2018, 30 June 2017 and 31 December 2017 are as follows:

	Group unaudited 30 June 2018 £'000	**Company unaudited 30 June 2018 £'000**	Group unaudited 30 June 2017 £'000	Group audited 31 December 2017 £'000
Total borrowings	**2,376**	**485**	3,366	4,103
Less: cash and cash equivalents	**(1,528)**	**(304)**	(1,369)	(1,371)
Net debt	**848**	**181**	1,997	2,732
Total equity	**6,137**	**3,427**	6,028	4,954
Gearing ratio	**14%**	**5%**	33%	55%

In order to provide a more meaningful gearing ratio, total borrowings have been revised to be the sum of bank borrowings and third-party debt, excluding loan notes used to finance the Group's acquisitions. The prior period comparatives have also been revised.

Notes to the Financial Information continued

6. Share capital and premium

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2018	13,199,940	1,320	4,843	6,163
Shares authorised, but not issued	3,800,060	380	950	1,330
Transaction costs	–	–	(4)	(4)
At 30 June 2018	17,000,000	1,700	5,789	7,489

7. Related-party transactions

The Group has no material transactions with related parties which might reasonably be expected to influence decisions made by users of these financial statements.

During the period the Company entered into the following transactions with its subsidiaries:

	Aford Awards (Holdings) Limited £'000	CEM Teal 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						
2018	–	–	–	–	–	–
2017	–	–	–	137	–	–
For the year to 31 December 2017 (audited)	–	–	–	275	–	–
Receipt/(write-back) of preference share dividend						
2018	–	–	–	–	–	(52)
2017	–	–	–	–	–	13
For the year to 31 December 2017 (audited)	–	–	–	–	–	26
Receipt/(write-back) of loan note interest						
2018	27	48	3	–	24	(125)
2017	28	21	–	–	20	21
For the year to 31 December 2017 (audited)	56	69	7	–	49	93
Receipt/(write-back) of management charge income						
2018	10	–	8	18	6	1
2017	10	–	9	18	5	8
For the year to 31 December 2017 (audited)	20	–	15	35	13	5
Amount owed to the Company						
30 June 2018	618	1,872	194	–	623	–
30 June 2017	700	1,066	155	–	627	1,811
31 December 2017 (audited)	700	1,593	153	–	627	2,414

Notes to the Financial Information continued

8. AIM compliance committee

CEPS PLC is quoted on AIM and, as such, under AIM Rule 31 the Company is required to:

1. have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
2. seek advice from its nominated advisor ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account;
3. 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;
4. ensure that each of the Company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
5. ensure that each director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

In order to ensure that these obligations are being discharged the Board has established a committee of the Board (the "AIM Compliance Committee"), chaired by Vivien Langford, an executive director of the Company.

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 Compliance Committee is satisfied that the Company's obligations under AIM Rule 31 have been satisfied during the period under review.

9. Equity placing

On 28 June 2018 CEPS PLC successfully placed 3,800,060 new ordinary shares at a price of 35 pence per share to raise £1,330,021 (before expenses of £4,000) with institutional and private investors. The placing's proceeds were used to repay a loan and for general working capital purposes.

Following the issue of the placing shares on 3 July 2018 (post period end), the enlarged issued share capital of CEPS PLC comprised 17,000,000 ordinary shares of 10 pence each.

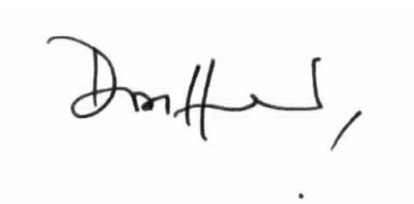
Statement of Directors' Responsibility

The directors confirm that, to the best of their knowledge, these condensed consolidated half-yearly financial statements have been prepared in accordance with IAS 34 as adopted by the European Union. The interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and
- material related-party transactions in the first six months of the financial year and any material changes in the related-party transactions described in the last Annual Report.

A list of current directors is maintained on the CEPS PLC Group website: www.cepsplc.com.

By order of the Board



David Horner
Chairman
27 September 2018