RNS Number : 0642N
CEPS PLC
03 May 2024

3 May 2024

CEPS PLC

('CEPS' OR THE 'COMPANY' OR THE 'GROUP')

FINAL RESULTS

The Board of CEPS is pleased to announce its final results for the year ended 31 December 2023.

CHAIRMAN'S STATEMENT

I am delighted to present to shareholders the CEPS PLC ("CEPS" or "Company") final accounts for the year ended 31 December 2023.

Macro overview

The year we are reporting on has followed the pattern of the past few years with several momentous world events impacting on the UK economy. Firstly, we have the continuation of the war between Russia and Ukraine following Russia's invasion in February 2022. This has now been ongoing for more than two years and whilst the market economic repercussions of this were strongly felt in 2022, over the course of 2023 these have gradually dissipated. The demise of the Silicon Valley Bank, which was the 16th largest bank in the USA and with representation in the UK, in March 2023, was initially a major concern but its problems were highly localised and did not, in the end, spread contagion into the wider banking system.

The attack on Israel by Hamas in October 2023 and the subsequent reactions of Israel and Iran has caused a heightening in tensions in an already tense part of the World. This uncertainty has led to volatility in oil and gas prices and recently the Houthi pirates operating in Yemen have been attacking shipping in the Red Sea and off the coast of Yemen. This has led to increased costs and delays for shipping.

However, the two major factors in 2023, which we are still facing as I write today, were the rapid rise in inflation in 2022, the impact of which was largely felt in 2023, and the associated multiple rises in interest rates which rose 14 times from 0.1% in December 2021 to what we expect to be a peak today of 5.25%. This rate was reached in August 2023. Of greater importance to CEPS PLC is the impact on consumer spending and the public's disposable income. Initially, with the very rapid rise in inflation, real wages fell behind. However, more recently as wages have risen sharply and inflation has declined equally sharply, positive real wage growth has re-emerged.

Of equal importance, markets were expecting a dramatic rise in mortgage rates which would have severely reduced spending power as much higher rates would have replaced, historically, extraordinarily low rates. However, this impact has been far less than was feared as today some 80% of mortgages, as compared to almost none in 1988 when fixed rate mortgages were first introduced, are now on fixed terms. Therefore, there is, by definition, a long lead in time for the impact of these increases to have any effect. Mortgage rates, anticipating a future steady reduction in Bank of England rates, have fallen sharply to much more manageable levels and, consequently, what was expected to be a massive problem is now much reduced.

Some eighteen months ago the Bank of England warned that the UK was going to move into its longest recession for one hundred years and that unemployment would rise from 3.5% to 6.5%. The IMF also endorsed this view. Thankfully, the outturn was significantly different with the UK moving into a technical, very marginal recession in January 2024. Unemployment has risen to 4.2% in the past few months, still some way short of the long-term average.

Financial review and performance of the CEPS Group

Despite these issues on the macro level, total CEPS revenue increased to £29.7m from £26.4m, an increase of 12.2%, gross profits increased from £10.9m to £12.5m, an increase of 14.5%, and operating profits rose from £2.1m to £2.5m, an increase of 19.9%. Earnings per share increased from 2.19p to 2.65p an increase of 21.0%.

Looking at the financial performance of the underlying companies in more detail

Looking at the financial performance of the underlying companies in more detail:

Aford Awards

The company has had a year of consolidation, and, not unlike the Hickton Group in 2022, has built a stronger, more diversified and better controlled business. However, this has obviously come at a cost which is reflected in the modest improvements in profits below.

The market sector is experiencing some strategic change and Aford Awards is looking to position itself for the future. It has, as ever, several discussions under way with small competitor companies which would, if they are acquired, be integrated into the Aford Awards structure at Maidstone.

In addition, Aford Awards are creating and developing several new embryonic business streams which are related to their current activities, and which it is expected, in the future, will make high returns on capital employed.

Sales in 2023 were £3.5m as compared to £3.1m in 2022. The associated EBITDAs were £556,000 and £546,000, respectively.

Friedman's/Milano International

The two companies together had sales of £6.8m in 2023 as compared to £6.4m in 2022. The associated EBITDAs were £1.1m and £897,000.

Friedman's has continued to grow its profits, whilst Milano International is now responding well to management treatment and has now moved into profitability in 2023 and is expected to increase its profitability further in 2024.

Hickton Group

As expected, the Hickton Group had a strong recovery from the results of 2022.

Sales were £19.4m in 2023 as compared to £16.9m in 2022. The associated EBITDAs were £2.1m and £1.8m, respectively.

Vale Brothers

Unfortunately, the company went into administration on 19 October 2023. This was in common with other companies providing equipment to the sporting leisure market where demand has been sharply reduced.

CEPS had held the shares and loan stock in Vale Brothers at nil value so there was no impact on the Company's profitability or balance sheet.

Dilapidations

A review of potential costs for leased properties within the Group has been undertaken in the year. Where applicable, provision has been made for dilapidations, including associated professional fees, which may be required. As at 31 December 2023 the provision amounted to £400,000.

Share capital

There was no share issuance in the current year and, therefore, the issued share capital remains at 21,000,000 shares as it has since September 2021.

A major shareholder of CEPS, Chelverton Growth Trust plc ("CGT"), owned 5,406,301 shares in CEPS PLC (26.0%) and was placed into a planned members voluntary liquidation to return its assets to its shareholders. For each share in Chelverton Growth Trust plc a shareholder received one share in CEPS. This transfer took place recently in March 2024. So, whilst there was no change in the number of shares in issue, the number of CEPS shareholders has increased to 220.

Because CEPS itself was an old fully listed public company and CGT was created from another old public company, there is now a long tail of long-term shareholders with small shareholdings. The bottom 177 shareholders, roughly 80% of shareholders by number, are estimated to own 8.7% of the issued share capital.

You will see below that the share capital reduction is expected to become effective in early May 2024. One of the reasons for doing this is to enable the Company, in time, to buy back its own shares. So, once the Company has sufficient distributable reserves, anticipated to be by the publication of the audited results for next year, the Company is expected to be in a position where it can technically buy back and cancel shares. This will be, hopefully, a great benefit to shareholders with very small shareholdings who are not registered with a stockbroker or trading platform.

The Takeover Panel, which is one of the bodies that monitors and regulates large shareholdings and takeovers of AIM and Listed companies, has designated that there is a new "Concert Party." A Concert Party is a group of shareholders which the Takeover Panel has decided are sufficiently closely related in business and socially that they should be deemed as acting together. The Horner Family, which owns 29.99% of CEPS' share capital, and a further six individuals, including two directors, are now deemed to be in this group making up a total of 33.7%.

Debt structure

The debt in CEPS, the parent company, remains unchanged with a £2.0m loan from a third party with a coupon of 7% and due to be repaid by 30 June 2025. In addition, the loan from Chelverton Asset Management Limited ("CAM") of £2.95m with a coupon of 5% is repayable with a notice period of 18 months and a loan of £192,000 to me remains outstanding.

Cash held by the Company at the financial year end was £185,000 (2022: £256,000) and Group cash was £916,000 (2022: £1.3m).

The reason CEPS has debt at this level is principally because we are acutely conscious of the cost of equity and have historically been very reluctant to issue shares and, in particular, at what we consider to be "the wrong price." The loan from CAM ("CAM Loan") referred to above is guaranteed by me. CAM is a fund management company that I founded 26 years ago which has a strong balance sheet.

CEPS' subsidiary companies are profitable and are strong cash generators and, therefore, using an element of debt in their financing is highly logical. The financing for our subsidiaries is largely provided through vendor loan notes when we buy companies and by CEPS providing finance to go with the modest equity investment.

So, for example, CEPS made a £1m loan to Signature Fabrics Limited, the holding company of Friedman's and Milano International, which was used to part finance the acquisition of Milano International in October 2019. As Friedman's and Milano International make profits and generate cash, then these funds will be used to service the interest and to repay this loan stock. Indeed, as at 31December 2023, repayments had been made to CEPS from Signature Fabrics such that the outstanding debt amounted to £816,000. As further repayments are made, the funds received will be used to repay the CEPS debts referred to above. So, although CEPS only owns 55% of the equity of Signature Fabrics, it has access to 100% of its cashflow until the loan notes are repaid.

In CEPS we have external debt, as referred to above of some £5,142,000 and loan notes and loans owed by the three subsidiaries of some £4,490,000.

Pension

As we brought to shareholders' attention late in 2022, the Dinkie Heel plc Retirement Benefits Scheme was transferred to Aviva. This was a really important step and the potential savings and, more importantly, the reduction of risk was probably underappreciated by market observers. We have been waiting for the payment from Aviva and were pleased to announce on the 18 April 2024 that £345,000 had been received on account and that, once all the fees and costs have been settled, then there may be further modest sums received in the future.

Shareholder value creation

It has been raised in the past by investors and potential investors that the "CEPS Model" is unusual as compared to most public companies. The model has been developed over some 20 years and the objective is to acquire companies in niche sectors, at a size level where there are little or no competitive buyers, with the companies being too big for individual purchasers, but also too small for corporate or private equity investors. The "business drivers" in the target company are incentivised and commit to at least a five-year programme.

An example of the CEPS acquisition model would be as follows: all but £100,000, which is the equity, is committed and the rest of the purchase price is financed by the sellers providing vendor loan notes, CEPS providing acquisition loan notes and the shareholders in the new company, set up to make the acquisition, providing shareholder loan notes. Whilst this seems to be a lot of debt, all the loan stocks are unsecured and the payment of the interest on the loan notes and, indeed, their repayment is decided by the Board. So, in fact these loan notes have many of the characteristics of equity but can be repaid from surplus cash generation.

There are several profit/value drivers which we will harness going forward, and we hope that they will increase the value of CEPS:

1. Expected increase in the profits of the three subsidiaries;

2. Self-funded "bolt-on deals" in each of the three subsidiaries in the manner that has occurred over the past five years;

3. Repayment of loan stocks from the subsidiaries, absent any acquisitions, leading firstly to the repayment of the £2m third party loan in 2025 and then the CAM Loan of £2.95m;

4. Increase in CEPS' shareholdings in the subsidiary companies. For example, shareholders will be aware that CEPS increased its shareholding in the Hickton Group from 52.4% to 53.8% by buying shares from exiting external minority investors. Clearly, this is a very low risk form of acquisition;

5. Share buy backs and cancellation in the future as the small shareholders may wish to sell their shares with CEPS acting as the buyer of last resort. This shrinking of the share capital should, at the right price, and over time, prove to be very earnings accretive; and

6. As we grow the businesses, it is likely that we will be approached by larger corporates and private equity funds to buy one or more of the subsidiaries. This would likely be for a significant one-off gain.

Share price

Shareholders may be aware of the recent decline in the share price. The Board, who collectively owns 6,709,000 shares (32.0%), is of course, acutely aware of this!

The recent announcement that CEPS had received £345,000, net of tax, from Aviva prompted a 12.5% decline in the share price which I have to say, even to someone who has been managing funds investing in Listed and AIM shares for 30 years, I found to be completely perverse. Because the Horner Family owns 6,299,000 shares, if we were to buy another 1,000 shares we would be obliged to make an offer for the whole Company. It is not our intention to do this currently.

One of the reasons why I have produced such a long statement is to ensure that what we are trying to do and how we are doing it at CEPS is in the "public domain." This will enable me to go and introduce CEPS to new buyers who may well be able to buy up small parcels of shares to try to ensure that the market makers are not worried about being left with CEPS shares on their books.

As it is not our intention, at this point, to instigate a major fundraising exercise then there will not be availability of significant blocks of shares for larger buyers to build a significant holding. This explains the intention of finding private clients who are prepared to gradually build a holding, over time, from multiple small purchases.

It is important to point out the Board is focused on not only improving the profits of the underlying subsidiaries, but also to improve their quality and to gradually transform privately run companies, with all the good and bad that suggests, to be properly accountable and well-run businesses.

It is also important to bear in mind that we believe that CEPS' shares qualify for Business Relief which means that if the shares are owned for more than two years, they fall out of an individual's estate for Inheritance Tax purposes. Whilst this is, of course, very attractive, our primary focus is making the shares much more valuable.

Capital reduction

The capital reduction received Court approval on 30 April 2024 and is expected to become effective in early May 2024. It is something of a technical issue as the total balance sheet value of the Company does not change and the constituent parts are reclassified. The effect of this is to reduce the historical deficit on retained earnings in the reserves and to accelerate the time when the Company can be able to pay dividends or, more likely, buy back shares.

Outlook

Going forward in 2024 we are very hopeful that the continued anticipated decline in inflation will lead to a steady, but regular, decline in interest rates in the second half of the calendar year. Historically, that sort of environment has been very positive for small company share prices.

As mentioned in my introduction, things are currently very uncertain across the UK and Europe. This year, 2024, is being labelled as the Year of Elections, as more than half the World will be voting in national elections. In the UK, the polling currently shows that we are set for a change of government. After all the instability over the past eight years, a period of political renewal and revitalisation is to be welcomed.

Whilst a reader and listener to the mainstream media might well believe that the UK economy is in a disastrous place, in my opinion this is not completely correct. Certainly, things could be better, but when could they not! The UK has for far too long suffered with low growth and whilst UK GDP has grown modestly, GDP per capita has not. It seems that all parties accept that much of what Liz Truss and Kwasi Kwarteng were saying was correct, it was just their ham-fisted way of introducing it that was wrong.

With the management teams continuing to perform in the subsidiaries, we expect our companies to be winners and to outperform. A long overdue period of stability will assist them in their endeavours. As I wrote last year, and frankly I believe I could not put better, "*it is the Board's intention to continue to develop the underlying companies and, where appropriate, to make judicious acquisitions to accelerate this anticipated organic growth. Improvements in productivity, quality, service and margins are the universal targets.*"

David Horner
Chairman

2 May 2024

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 (which forms part of domestic UK law pursuant to the European Union (Withdrawal) Act 2018).

The directors of the Company accept responsibility for the content of this announcement.

Enquiries

CEPS PLC
Vivien Langford, Group Finance Director +44 1225 483030

Cairn Financial Advisers LLP
James Caithie / Sandy Jamieson / Emily Staples +44 20 7213 0880

Caution regarding forward looking statements

Certain statements in this announcement, are, or may be deemed to be, forward looking statements. Forward looking statements are identified by their use of terms and phrases such as ''believe'', ''could'', "should" ''envisage'', ''estimate'', ''intend'', ''may'', ''plan'', ''potentially'', "expect", ''will'' or the negative of those, variations or comparable expressions, including references to assumptions. These forward-looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities. Such forward looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors.

CEPS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2023

	Audited 2023 £'000	**Audited 2022 £'000**
Revenue (note 4)	29,675	26,449
Cost of sales	(17,187)	(15,538)
Gross profit	12,488	10,911
Other operating income	7	47
Exceptional income and expenses (note 5)	137	-
Administration expenses	(10,086)	(8,835)
Operating profit	**2,546**	**2,123**
Analysis of operating profit		
- Trading	2,875	2,523
- Group net costs	(329)	(400)
	2,546	2,123

Share of associate loss	-	(66)
Finance income	38	27
Finance costs	(793)	(738)
Profit before tax	**1,791**	**1,346**
Taxation (note 6)	(567)	(270)
Profit for the financial year	**1,224**	**1,076**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial gain on defined benefit pension plans	13	54
Other comprehensive income for the year, net of tax	13	54
Total comprehensive income for the financial year	**1,237**	**1,130**
Income attributable to:		
Owners of the parent	556	460
Non-controlling interests	668	616
	1,224	**1,076**
Total comprehensive income attributable to:		
Owners of the parent	569	514
Non-controlling interests	668	616
	1,237	**1,130**
Earnings per share		
- basic and diluted (pence) (note 7)	**2.65**	**2.19p**

All activity relates to continuing operations.

CEPS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	2023 **£'000**	**2022** **£'000**
Assets		
Non-current assets		
Property, plant and equipment (note 8)	974	671
Right-of-use assets (note 9)	2,025	1,694
Intangible assets (note 11)	11,605	11,728
	14,604	14,093
Current assets		
Inventories	2,388	2,138
Trade and other receivables	4,837	4,006
Cash and cash equivalents (excluding bank overdrafts)	916	1,284
	8,141	7,428
Total assets	**22,745**	**21,521**
Equity		
Capital and reserves attributable to owners of the parent		
Called up share capital (note 12)	2,100	2,100
Share premium (note 12)	7,017	7,017
Retained earnings	(6,931)	(7,526)
	2,186	1,591
Non-controlling interests in equity	3,407	2,924
Total equity	5,593	4,515
Liabilities		
Non-current liabilities		
Borrowings	6,889	8,367
Lease liabilities	1,721	1,522
Trade and other payables	60	208
Provisions	400	-
Deferred tax liability	372	338
	9,442	10,435
Current liabilities		
Borrowings	2,178	1,487
Lease liabilities	449	313
Trade and other payables	3,683	3,325

Current tax liabilities	1,400	1,446
	7,710	6,571
Total liabilities	17,152	17,006
Total equity and liabilities	**22,745**	**21,521**

The comprehensive expense within the parent Company financial statements for the year was a loss of £110,000 (2022: loss of £24,000).

CEPS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2023

	2023 £'000	2022 £'000
Cash flows from operating activities		
Profit for the financial year	1,224	1,076
Adjustments for:		
Depreciation and amortisation	821	719
Loss on disposal of fixed assets	21	6
Pension contributions less than administrative charge	50	69
Share of associate loss	-	66
Net finance costs	755	711
Taxation charge	567	270
Changes in working capital:		
Movement in inventories	(250)	(518)
Movement in trade and other receivables	(965)	(970)
Movement in trade and other payables	652	301
Movement in provisions	400	-
Cash generated from operations	**3,275**	**1,730**
Corporation tax paid	(450)	(61)
Net cash generated from operations	**2,825**	**1,669**
Cash flows from investing activities		
Interest received	1	12
Acquisition of businesses and subsidiaries including deferred consideration paid	(320)	(611)
Purchase of property, plant and equipment	(610)	(120)
Proceeds from sale of assets	70	3
Purchase of intangibles assets	(80)	(75)
Purchase of loan notes in subsidiary from holder	(57)	-
Net cash used in investing activities	**(996)**	**(791)**
Cash flows from financing activities		
Purchase of subsidiary shares from minority holders	(2)	-
Proceeds from borrowings	502	396
Repayment of borrowings	(1,253)	(773)
Dividends paid to non-controlling interests	(157)	(157)
Interest paid	(889)	(815)
Lease liability payments	(398)	(326)
Net cash used in financing activities	**(2,197)**	**(1,675)**
Net decrease in cash and cash equivalents	**(368)**	**(797)**
Cash and cash equivalents at the beginning of the year	1,284	2,081
Cash and cash equivalents at the end of the year	**916**	**1,284**

Major non-cash movements: there were £733,000 of non-cash additions to right-of-use assets and lease liabilities in the year (2022: £807,000 of non-cash additions to right-of-use assets and lease liabilities).

CEPS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2023

Attributable

	Share capital £'000	Share premium £'000	Retained earnings £'000	to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2022	**2,100**	**7,017**	**(8,040)**	**1,077**	**2,465**	**3,542**
Actuarial gain	-	-	54	54	-	54
Profit for the year	-	-	460	460	616	1,076
Total comprehensive income for the financial year	-	-	514	514	616	1,130
Dividends paid in respect of non controlling interests	-	-	-	-	(157)	(157)
Total amounts recognised directly in equity	-	-	-	-	(157)	(157)
At 31 December 2022	**2,100**	**7,017**	**(7,526)**	**1,591**	**2,924**	**4,515**
Actuarial gain	-	-	13	13	-	13
Profit for the year	-	-	556	556	668	1,224
Total comprehensive income for the financial year	-	-	569	569	668	1,237
Changes in ownership interest in subsidiaries	-	-	26	26	(27)	(1)
Dividends paid in respect of a non-controlling interest	-	-	-	-	(158)	(158
At 31 December 2023	**2,100**	**7,017**	**(6,931)**	**2,186**	**3,407**	**5,593**

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 the current year and prior periods attributable to the parent, less dividends paid.

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

Notes to the financial information

1. General information

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 admitted to trading on the AIM market of the London Stock Exchange. The address of the registered office is11 Laura Place, Bath BA2 4BL.

The principal activities of the Company are that of a holding company for service and manufacturing companies, acquiring stakes in stable and steadily growing entrepreneurial companies. 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 financial statements are to the year ended 31 December 2023 (2022: year ended 31 December 2022).

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.

2. Basis of preparation and going concern

This announcement is an extract from the consolidated financial statements of the Company for the year ended 31 December 2023 and comprises the Company and its subsidiaries. The consolidated financial statements were authorised for issue on 2 May 2024. The financial information set out below does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2023 within the meaning of Section 434 of the Companies Act 2006, but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the Company's Annual General Meeting. The auditor's reports on the statutory accounts for the years ended 31 December 2022 and 31 December 2023 were unqualified and do not contain statements under s498(2) or (3) Companies Act 2006.

These financial statements have been prepared on a going concern basis under the historical cost convention in accordance with UK adopted International Financial Reporting Standards ('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.

Going concern

The directors have considered the trading performance and financial position of the Company and of the Group together with detailed forecasts for the period to the end of 2025. The Aford Awards Group Holdings, Signature Fabrics and Hickton Group sub-groups service their bank and shareholder held debt from cash generated in the trading subsidiaries which are trading profitably and which have recovered from the impacts of the pandemic. The Group is generating cash from operations with significant headroom in the banking covenants and mitigating actions could be taken to compensate for the current inflationary pressures and a degree of fluctuation in the economy. The Company had cash balances at 31 December 2023 and is receiving interest and fees from the trading subsidiary groups.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to operate and to meet liabilities for the foreseeable future. Accordingly, the going concern basis of preparation continues to be adopted in the financial statements.

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. 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 11).

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.

f) *Leases*

Management utilise judgement in respect of any option clauses in leases and whether such an option to extend would be reasonably certain to be exercised. Management consider all facts and circumstances including past practice, costs of alternatives and future forecasts to determine the lease term. Management also apply judgement and estimation in assessing the discount rate, which is based on the incremental borrowing rate. These judgements impact on the lease term and associated lease liabilities.

g) *Recognition of revenue in respect of services and change in accounting estimate*

Revenue is recognised in the period in which the services are provided in accordance with the stage of completion of the contract. This requires a degree of estimation in respect of the stage of completion and time required to complete the services but is based on experience and data from completed services.

In the prior year ended 31 December 2022, the directors recognised that the prior estimates in a subsidiary were too prudent by reference to actual outcomes and the specific tasks to be completed and have applied a revised method with increased reference to experience and the expected costs as services progress. This was treated as a change in accounting estimate and application of the new method resulted in a reduction in deferred income and increase in revenue of £681,000 for the year ended 31 December 2022, of which £363,000 related to income which would not have been deferred at 31 December 2021 under the new method and a further £318,000 recognised for services that commenced in 2022.

h) *Acquisitions*

Fair values have been applied on the acquisition of businesses which involve a degree of judgement and estimation, in particular in the identification and evaluation of intangible assets including customer relationships. The values recognised are derived from discounted cash flow forecasts and assumptions based on experience and estimated factors relevant to the nature of the business activity.

Where contingent consideration arises in respect of acquisitions, the best estimate of further payments to be made is accrued. The actual trading results may result in different amounts being payable and subsequent adjustments to the deferred consideration.

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;

Friedman's, a convertor and distributor of specialist lycra, including Milano International (trading as Milano Pro-Sport), a designer and manufacturer of leotards; and

Hickton Group, comprising Hickton Quality Control, Cook Brown, Morgan Lambert and Qualitas Compliance, providers of services to the construction industry.

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

The United Kingdom is the main country of operation from which the Group derives its revenue and operating profit and is the principal location of the assets and liabilities of the Group.

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

i) Results by segment

	Aford Awards	Friedman's	Hickton Group	Total Group
	2023	**2023**	**2023**	**2023**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	3,476	6,826	19,373	29,675
Expenses	(2,920)	(5,759)	(17,304)	(25,983)
Segmental result (EBITDA)	556	1,067	2,069	3,692
Depreciation and amortisation charge	(142)	(208)	(125)	(475)
IFRS 16 depreciation	(75)	(168)	(99)	(342)
Group costs				(329)
Net finance costs (including IFRS 16)				(755)
Profit before taxation				1,791
Taxation				(567)
Profit for the year				1,224

	Aford Awards	Friedman's	Hickton Group	Total Group
	2022	**2022**	**2022**	**2022**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	3,086	6,423	16,940	26,449
Expenses	(2,540)	(5,526)	(15,140)	(23,206)
Segmental result (EBITDA)	546	897	1,800	3,243
Depreciation and amortisation charge	(115)	(183)	(117)	(415)
IFRS 16 depreciation	(75)	(129)	(100)	(304)
Group costs				(400)
Share of associate loss				(66)
Net finance costs (including IFRS 16)				(712)
Profit before taxation				1,346
Taxation				(270)
Profit for the year				1,076

ii) Assets and liabilities by segment as at 31 December

	Segment assets		**Segment liabilities**		**Segment net assets/(liabilities)**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Continuing operations						
CEPS Group	626	286	(5,729)	(5,410)	(5,103)	(5,124)
Aford Awards	3,828	4,014	(1,769)	(2,170)	2,059	1,844
Friedman's	7,872	7,575	(2,709)	(2,244)	5,163	5,331
Hickton Group	10,419	9,646	(6,945)	(7,182)	3,474	2,464
Total - Group	22,745	21,521	(17,152)	(17,006)	5,593	4,515

(iii) Revenue by geographical destination

	2023	**2022**
	£'000	**£'000**
UK	27,843	24,782

UK	27,943	24,782
Europe	1,265	1,113
Rest of world	467	554
	29,675	26,449

(iv) Nature of revenue

	2023	2022
	£'000	£'000
Products - recognised at a point in time	10,302	9,509
Services - recognised over time delivered	19,373	16,940
	26,449	26,449

5. Operating profit - exceptional income and costs

Pension scheme surplus

The Trustee of the Dinkie Heel Defined Benefit Pension Scheme entered into a buy-in contract with Aviva in December 2021 and this contract converted to a full buy-out policy in 2023. It was agreed that that the surplus is repaid to the Company and an amount of £403,000 net of tax and remaining expenses is expected to be paid to the Company after the year end. This was included as an exceptional credit of £537,000 in comprehensive income and £403,000 net of tax of £134,000 in other debtors at 31 December 2023. On 17 April 2024 an interim payment of £345,000 was paid to CEPS PLC.

Property dilapidations provision

The Group occupies various leased properties. In addition, the Company is named as tenant on two leases which are no longer extant. Where applicable, provision has been made for dilapidations, including associated professional fees, which may be required. As at 31 December 2023 this falls within the above provision of £400,000 (2022: £nil).

6. Taxation

	2023	2022
	£'000	£'000
Analysis of taxation in the year:		
Current tax		
Tax on profits of the year	410	295
Tax deducted at source on pension surplus	134	-
Tax in respect of prior years	(11)	(7)
Total current tax	533	288
Deferred tax		
Current year deferred tax movement	5	(34)
Tax in respect of prior years	29	16
Total deferred tax	34	(18)
Total tax charge	567	270

The tax assessed for the year is higher (2022: higher) than the standard rate of corporation tax in the UK (23.5%) (2022: 19%)

Factors affecting current tax:		
Profit before taxation	1,791	1,346
Profit multiplied by the standard rate of UK tax of 23.5% (2022: 19%)	421	256
Effects of:		
Expenses not deductible	20	39
Additional capital allowances	(1)	(9)
Higher tax rate on pension credit	8	-
Adjustments to tax in prior periods	18	9
Adjustments to deferred tax rate	2	(2)
Deferred tax not recognised	99	(23)
Total tax charge	567	270

In May 2021 a change in rate to 25% from April 2023 was substantively enacted. The rate of 25% is accordingly applied to UK deferred taxation balances at 31 December 2023 (2022: 25%).

There are tax losses carried forward in the Company of approximately £1.5m (2022: £1.55m).

7. Earnings per share

Basic earnings per share is calculated on the profit for the year after taxation attributable to the owners of the parent of

£556,000 (2022: £460,000) and on 21,000,000 (2022: 21,000,000) ordinary shares, being the weighted number in issue during the year.

There are no potentially dilutive shares in the Group.

8. Property, plant and equipment

	Freehold property	Leasehold property improvements	Plant and machinery	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
at 1 January 2022	-	487	766	21	1,274
Additions at cost	-	-	120	-	120
Disposals	-	-	(13)	-	(13)
at 31 December 2022	-	487	873	21	1,381
Additions at cost	398	24	188	-	610
Disposals	-	-	(143)	(21)	(164)
at 31 December 2023	398	511	918	-	1,827
Accumulated depreciation					
at 1 January 2023	-	234	268	8	510
Charge for the year	-	42	159	3	204
Disposals	-	-	(4)	-	(4)
at 31 December 2022	-	276	423	11	710
Charge for the year	8	46	161	1	216
Disposals	-	-	(61)	(12)	(73)
at 31 December 2023	8	322	523	-	853
Net book amount					
at 31 December 2023	**390**	**189**	**395**	**-**	**974**
at 31 December 2022	-	211	450	10	671

9. Right-of-use assets

	Leasehold property	Plant and machinery	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
at 1 January 2022	1,614	197	-	1,811
Additions at cost	753	54	-	807
At 31 December 2022	2,367	251	-	2,618
Additions at cost	284	252	197	733
Disposals at the end of the lease term	(230)	(11)	-	(241)
At 31 December 2023	2,421	492	197	3,110
Accumulated depreciation				
At 1 January 2022	532	54	-	586
Charge for the year	282	56	-	338
at 31 December 2022	814	110	-	924
Charge for the year	314	79	9	402
Disposals at the end of the lease term	(230)	(11)	-	(241)
At 31 December 2023	**898**	**178**	**9**	**1,085**
Net book amount				
at 31 December 2023	**1,523**	**314**	**188**	**2,025**
at 31 December 2022	1,523	141	-	1,694

At the year end, assets held under hire purchase contracts and capitalised as plant and machinery right-of-use assets have a net book value of £318,000 (2022: £97,000).

The depreciation of £60,000 (2022: £33,000) in respect of these has been charged to cost of sales in the Consolidated Statement of Comprehensive Income.

10. Business combinations

In 2023, deferred consideration of £320,000 was paid in respect of earlier acquisitions.

Acquisition in 2022 of Impact Promotional Merchandise Limited

On 12 April 2022, a subsidiary, Aford Awards Limited, acquired the trade and certain assets of Impact Promotional Merchandise Limited. This supplies trophies, awards and medals together with customised promotional merchandise including mugs and clothing merchandise including mugs and clothing.

The acquisition has been accounted for using the acquisition method of accounting. Fair value adjustments were made in respect of a website and customer relationships amounting to £420,000 together with a related deferred tax liability of £101,000.

Goodwill of £681,000 arose from the acquisition primarily in respect of the ability to win further business including the business synergies and opportunities from being integrated into the company.

Acquisition fees of £16,000 were incurred which have been expensed as an administrative cost in 2022.

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 and liabilities	
Intangible assets	420
Inventories	8
Deferred taxation	(101)
	327
Goodwill	681
	1,008
Consideration	
Cash consideration paid at completion	558
Deferred consideration	450
	1,008

The cash outflow at the date of acquisition was £558,000 with deferred consideration of £210,000 payable on 14 March 2023; £60,000 on 30 September 2023; £60,000 on 31 March 2024; £60,000 on 30 September 2024 and £60,000 on 31 March 2025.

The business contributed £864,000 of revenue for the 8 months in 2022 after the acquisition date. It is integrated into the overall Aford Awards business and generates similar margins.

£53,000 of deferred consideration was also paid in 2022 in respect of businesses acquired in 2021.

11. Intangible assets

	Goodwill	Customer relationship assets	Other	Total
	£'000	£'000	£'000	£'000
Cost				
at 1 January 2022	10,646	1,329	357	12,332
Additions at cost	681	230	265	1,176
Disposals	(385)	(578)	-	(963)
At 31 December 2022	**10,942**	**981**	**622**	**12,545**
Additions at cost	-	-	80	80
At 31 December 2023	**10,942**	**981**	**702**	**12,625**
Accumulated amortisation and impairment				
at 1 January 2022	557	822	224	1,603
Amortisation charge	-	112	65	177
Disposals	(385)	(578)	-	(963)
at 31 December 2022	172	356	289	817
Amortisation charge	-	124	79	203
at 31 December 2023	172	480	368	1,020
Net book amount				
at 31 December 2023	**10,770**	**501**	**334**	**11,605**
at 31 December 2022	10,770	625	333	11,728

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 relationship related assets and other intangibles in respect of computer software, website costs and licences are amortised over their estimated economic lives. The annual amortisation charge is expensed to cost of sales in the

Consolidated Statement of Comprehensive Income.

Impairment tests for goodwill and intangible assets

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

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

	Aford Awards £'000	Friedman's £'000	Hickton Group £'000	Total £'000
Goodwill				
At 31 December 2022 and 2023	1,838	3,167	5,765	10,770

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 increase only by a long-term growth rate of 1.5%. A discount rate of 13.4% (2022: 12.8%), representing the estimated pre-tax cost of capital, has been applied to these projections.

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 a UK long-term growth rate and management's general expectations for the relevant CGU.

In respect of all three CGUs, the value-in-use calculation gives rise to sufficient headroom such that reasonable changes in the key assumptions do not eliminate the headroom.

12. Share capital and share premium

	Number of shares	Ordinary £0.10 shares £'000	Share premium £'000	Total £'000
At 31 December 2022 and 2023	21,000,000	2,100	7,017	9,117

Subsequent to the year end in March 2024, a special resolution was passed to reduce the nominal value of each share from 10 pence to 0.3 pence and to cancel the share premium resulting in a total nominal value of £63,000, no share premium and with an amount of £9,054,000 transferred to retained earnings. The capital reduction received Court approval on 30 April 2024 and is expected to become effective in early May 2024.

13. Distribution of the Annual Report and Notice of AGM

A copy of the 2023 Annual Report, together with a notice of the Company's Annual General Meeting ('AGM') to be held at 11:30am on Monday 10 June 2024 at 11 Laura Place, Bath BA2 4BL, will be sent to all shareholders on Friday 10 May 2024, Further copies will be available to the public from the Company Secretary at the Company's registered address at 11 Laura Place, Bath BA2 4BL and from the Group website, www.cepsplc.com.

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