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**CEPAC LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**



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**CEPAC LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	R C Ainslie J A R Cook S Hollingsworth H El Kasar N D Marsden D A Saeed M D A Saeed S J Moss M N Costa
<b>Company secretary</b>	Grays Inn Secretaries Limited
<b>Registered number</b>	03373762
<b>Registered office</b>	Prince Albert House 2 Kingsmill Terrace London NW8 6BN
<b>Independent auditor</b>	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor No 1 Whitehall Riverside Leeds LS1 4BN
<b>Bankers</b>	Lloyds Bank plc 14 Church Street Sheffield S1 1HP
<b>Solicitors</b>	Irwin Mitchell LLP Riverside East 2 Millsands Sheffield S3 8DT

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**CEPAC LIMITED**

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## CEPAC LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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#### **Business review**

The long term objective of the business is to grow shareholder value.

This is to be achieved through profitable growth in existing business and by acquisition where appropriate. In pursuit of its objectives the company offers, as an independent supplier into the UK and near European markets, an unrivalled range of superior print and performance packaging.

The strategy is constantly reviewed by the Board in the light of the company's performance and changing market conditions to ensure that it remains appropriate to achieve the business' objectives.

2018 was characterised by a buoyant market and escalation of paper costs throughout the year. Profitability was depressed somewhat due to the delays involved in recovering these increases through counter measures and higher prices.

Our independent status remains vital to our customers and offers them a real choice within a heavily consolidated market.

Cepac has developed a strong reputation for pioneering innovation and future initiatives are planned with our major customers.

#### **Principal risks and uncertainties**

##### ***Economic and market risk***

The cyclical nature of the paper industry provides challenges and risks that have to be managed, as clearly illustrated by the material cost increases in 2017 and 2018. Market risk is associated with both competitor activity and the paper cycle. Economically, the major risk will be how market demand, changes in the supply chain, environmental considerations and especially consumer spending across all sections of the economy influence demand for corrugated packaging.

The decision of the UK to leave the European Union has clearly had a financial impact on all markets. Whilst it might have been expected that some European material suppliers would reduce supply into the UK, we have continued to enjoy full support from our suppliers.

##### ***Operational continuity risk***

The company works actively to continuously reduce the risk of events happening that could disrupt operations. There are insurance policies to mitigate financial risk, and business continuity plans in place to safeguard customer service. Operational contingency from site to site continues to be reviewed and developed further where appropriate. Further investment is planned to both grow the business and to continue to develop and enhance the operational contingency.

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## CEPAC LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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#### **Financial risk management objectives and policies**

The company uses various financial instruments: these include loans, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations.

No transactions in derivatives take place and the main risks arising from these financial instruments are credit risk, interest rate risk, liquidity risk and currency risk.

#### ***Credit risk:***

The company's principal financial assets are its trade debtors and it uses invoice discounting facilities with external credit insurance. Assessment and monitoring of existing and potential customers is undertaken in conjunction with underwriters.

#### ***Interest rate risk:***

The company finances its operations through bank borrowings, which are all £STG denominated and therefore subject to UK interest rate movement. Funding is at fixed margin levels relative to base rate or LIBOR, depending on the type of facility. The Board keeps under review the potential for interest rate movement and its possible impact on debt servicing costs.

#### ***Liquidity risk:***

The company has facilities in place linked to invoice discounting that allow for draw downs of monies to operate the businesses and provide predictability of cash flow. Financing for major items of capital expenditure is being used to provide further balance and options in the company's funding going forward. Our facilities leave ample funding headroom and there are significant approved plans for investment in carefully selected capital expenditure projects in 2019 that will support and drive future development of the business. The directors are committed to our objective of maintaining a strong balance sheet.

#### ***Currency risk:***

Most paper purchases are denominated in £STG although a slightly higher percentage is now Euro denominated following the acquisitions of new businesses in recent years. This is effectively purchased at spot rates and will be closely monitored to ensure effectiveness and predictability. Other supplies bought, where necessary, in foreign currency are also paid at spot rate, the proportion and risk not being sufficiently material to require derivatives to manage the risk.

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## CEPAC LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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#### Financial key performance indicators

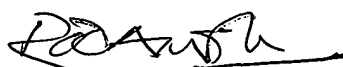
The company uses a number of financial measures to monitor progress against budgets, strategies and corporate objectives, with the main ones summarised below:

£000s	2018	2017
Turnover	106,284	95,268
EBITDA	8,523	6,216
Profit before Tax	4,537	2,068

Significant material price increases and competitive activity continued to influence selling and pricing decisions. It is anticipated that margin will be restored in 2019 as the recovery of material cost increases is completed.

In addition to financial measures the Board also monitors and proactively reviews health and safety in all its operating units. This is and will remain a key management priority and the objective of all involved in the businesses is to continually improve the working environment to avoid or minimise any threats to the safety and wellbeing of our employees.

This report was approved by the board on 27 August 2019 and signed on its behalf.



R C Ainslie  
Director

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## CEPAC LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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The directors present their report and the financial statements for the year ended 31 December 2018.

#### Principal activity

The company's principal activity is the design and production of corrugated packaging.

Information regarding the review of the business, principal risks and uncertainties and analysis relating to key performance indicators are found in the Strategic Report.

#### Results and dividends

The profit for the year, after taxation, amounted to £3,624,741 (2017 - £1,690,118).

A dividend of £Nil was paid during the year (2017: £Nil).

#### Directors

The directors who served during the year were:

R C Ainslie  
J A R Cook  
S Hollingsworth  
H El Kasar  
N D Marsden  
D A Saeed  
M D A Saeed  
S J Moss  
M N Costa

#### Going concern

The directors believe that with continued growth in profitability, increased capital investment and the market opportunities available, the company is in a position to continue its growth objectives. The strength of the Statement of financial position and the backing of the shareholders mean that the company is well positioned to move forward as a going concern.

#### Employee involvement

The company keeps its employees informed on matters affecting them as employees and on the performance of the company through periodic meetings. Other information is distributed through publications such as the Annual Accounts, the Staff Handbook and the company Intranet.

#### Disabled employees

It is the company's policy that full consideration is given to applications for employment by disabled persons, having regard to the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, continuity of employment and appropriate training is arranged where practicable. As far as possible, disabled employees are treated equally with other employees as regards training, career development and promotion.

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## CEPAC LIMITED

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### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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#### Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

#### Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



R C Ainslie  
Director

Date: 27 August 2019





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEPAC LIMITED

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### Opinion

We have audited the financial statements of Cepac Limited (the 'company') for the year ended 31 December 2018, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

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



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEPAC LIMITED (CONTINUED)**

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### **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 thereon. 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

### **Matter on which we are required to report under the Companies Act 2006**

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

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

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

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



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CEPAC LIMITED (CONTINUED)

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### Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 5, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's report.

### Use of our report

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

*Grant Thornton UK LLP*

Richard Hobson BA FCA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Leeds  
Date: 6 SEPTEMBER 2019

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**CEPAC LIMITED**

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	Note	2018 £	2017 £
Turnover	4	106,284,772	95,268,279
Cost of sales		(72,711,078)	(65,550,794)
<b>Gross profit</b>		<b>33,573,694</b>	<b>29,717,485</b>
Distribution costs		(4,952,164)	(5,071,187)
Administrative expenses		(23,756,288)	(22,233,664)
<b>Operating profit</b>	5	<b>4,865,242</b>	<b>2,412,634</b>
Interest receivable	9	8,522	33,249
Interest payable	10	(336,759)	(377,392)
<b>Profit on ordinary activities before tax</b>		<b>4,537,005</b>	<b>2,068,491</b>
Tax on profit on ordinary activities	11	(912,264)	(378,373)
<b>Profit for the financial year</b>		<b>3,624,741</b>	<b>1,690,118</b>

There was no other comprehensive income for 2018 (2017: £Nil).

The notes on pages 15 to 31 form part of these financial statements.


**CEPAC LIMITED**  
**REGISTERED NUMBER:03373762**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Intangible assets	12	5,182,560	6,294,772
Tangible assets	13	20,677,067	19,726,166
		<u>25,859,627</u>	<u>26,020,938</u>
<b>Current assets</b>			
Stocks	14	6,192,818	6,138,019
Debtors: amounts falling due within one year	15	23,357,394	22,468,802
Cash at bank and in hand	16	2,191,017	102,456
		<u>31,741,229</u>	<u>28,709,277</u>
Creditors: amounts falling due within one year	17	(15,120,736)	(17,285,924)
<b>Net current assets</b>		<u>16,620,493</u>	<u>11,423,353</u>
<b>Total assets less current liabilities</b>		<u>42,480,120</u>	<u>37,444,291</u>
Creditors: amounts falling due after more than one year	18	(4,270,176)	(2,890,088)
<b>Provisions for liabilities</b>			
Deferred tax	21	(546,000)	(515,000)
		<u>(546,000)</u>	<u>(515,000)</u>
<b>Net assets</b>		<u>37,663,944</u>	<u>34,039,203</u>
<b>Capital and reserves</b>			
Called up share capital	23	10,000,000	10,000,000
Profit and loss account	22	27,663,944	24,039,203
		<u>37,663,944</u>	<u>34,039,203</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

27 August 2019.

  
**R C Ainslie**  
 Director

The notes on pages 15 to 31 form part of these financial statements.

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**CEPAC LIMITED**

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2018	10,000,000	24,039,203	34,039,203
<b>Comprehensive income for the year</b>			
Profit for the year	-	3,624,741	3,624,741
<b>Total comprehensive income for the year</b>	-	3,624,741	3,624,741
<b>At 31 December 2018</b>	<b>10,000,000</b>	<b>27,663,944</b>	<b>37,663,944</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2017	10,000,000	22,349,085	32,349,085
<b>Comprehensive income for the year</b>			
Profit for the year	-	1,690,118	1,690,118
<b>Total comprehensive income for the year</b>	-	1,690,118	1,690,118
<b>At 31 December 2017</b>	<b>10,000,000</b>	<b>24,039,203</b>	<b>34,039,203</b>

The notes on pages 15 to 31 form part of these financial statements.

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**CEPAC LIMITED**

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**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	2018 £	2017 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	3,624,741	1,690,118
<b>Adjustments for:</b>		
Amortisation of intangible fixed assets	1,231,776	1,305,037
Depreciation of tangible fixed assets	2,425,973	2,498,014
Loss on disposal of tangible fixed assets	7,094	(21,042)
Interest paid	336,759	377,392
Interest received	(8,522)	(33,249)
Taxation charge	912,264	378,373
(Increase) in stocks	(54,799)	(758,147)
(Increase)/decrease in debtors	(922,666)	418,431
Increase in creditors	1,280,307	72,635
Corporation tax (paid)	(707,663)	(795,063)
<b>Net cash generated from operating activities</b>	<u>8,125,264</u>	<u>5,132,499</u>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(119,564)	(58,494)
Purchase of tangible fixed assets	(3,294,190)	(3,754,281)
Sale of tangible fixed assets	15,142	108,877
Interest received	8,522	33,249
<b>Net cash from investing activities</b>	<u>(3,390,090)</u>	<u>(3,670,649)</u>

**CEPAC LIMITED**

**STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
<b>Cash flows from financing activities</b>		
New secured loans	3,167,400	-
Repayment of loans	(238,500)	-
Repayment of invoice discounting facility	(3,199,475)	(902,140)
Repayment of finance leases	(1,253,762)	(731,534)
Interest paid	(336,759)	(377,392)
<b>Net cash used in financing activities</b>	<u>(1,861,096)</u>	<u>(2,011,066)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>2,874,078</u>	<u>(549,216)</u>
Cash and cash equivalents at beginning of year	(1,052,118)	(502,902)
<b>Cash and cash equivalents at the end of year</b>	<u><u>1,821,960</u></u>	<u><u>(1,052,118)</u></u>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	2,191,017	102,456
Bank overdrafts	(369,057)	(1,154,574)
	<u><u>1,821,960</u></u>	<u><u>(1,052,118)</u></u>

The notes on pages 15 to 31 form part of these financial statements.



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**CEPAC LIMITED**

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**ANALYSIS OF NET DEBT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	At 1 January 2018 £	Cash flows £	New finance leases £	At 31 December 2018 £
Cash at bank and in hand	102,456	2,088,561	-	2,191,017
Bank overdrafts	(1,154,574)	785,517	-	(369,057)
Debt due after 1 year	-	(2,610,900)	-	(2,610,900)
Debt due within 1 year	(5,846,003)	2,881,475	-	(2,964,528)
Finance leases	(4,124,833)	1,253,762	(104,920)	(2,975,991)
	<u>(11,022,954)</u>	<u>4,398,415</u>	<u>(104,920)</u>	<u>(6,729,459)</u>

The notes on pages 15 to 31 form part of these financial statements.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 1. Company information

Cepac Limited is a private company limited by shares and incorporated in England and Wales. Its registered head office is located at Prince Albert House, 2 Kingsmill Terrace, London, NW8 6BN.

The company's principal activity is the design and production of corrugated packaging.

#### 2. Accounting policies

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland, and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

##### 2.2 Going concern

The directors believe that with continued growth in profitability, increased capital investment and the market opportunities available, the company is in a position to continue its growth objectives. The strength of the Statement of financial position and the backing of the shareholders mean that the company is well positioned to move forward as a going concern.

##### 2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

###### Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is possible that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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## 2. Accounting policies (continued)

### 2.4 Intangible fixed assets

#### Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the over its useful economic life.

#### Software costs

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

### 2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold buildings	-	2.5% straight line
Leasehold property	-	4.0% straight line
Plant & machinery	-	5.0% to 25.0% straight line
Fixtures & fittings	-	10.0% to 25.0% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

### 2.6 Operating leases

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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## 2. Accounting policies (continued)

### 2.7 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

### 2.8 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

### 2.9 Pensions

#### Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 2. Accounting policies (continued)

##### 2.10 Foreign currency translation

###### **Functional and presentation currency**

The company's functional and presentational currency is GBP.

###### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

##### 2.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### 2.12 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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## 2. Accounting policies (continued)

### 2.13 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.14 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

### 2.15 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

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## CEPAC LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 2. Accounting policies (continued)

##### 2.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

##### 2.17 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

##### 2.18 Borrowing costs

All borrowing costs are recognised in the Statement of comprehensive income in the year in which they are incurred.

##### 2.19 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

#### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include the useful lives of fixed assets, the amortisation policy regarding intangible assets, the carrying value of stocks and recoverability of debts. Although these estimates and associated assumptions are based on historical experience and management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

#### 4. Turnover

All turnover arose from the company's principal activity and within the United Kingdom.

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CEPAC LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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**5. Operating profit**

The operating profit is stated after charging/ (crediting):

	2018 £	2017 £
Depreciation of tangible fixed assets	2,425,973	2,498,014
Amortisation of intangible assets, including goodwill	1,231,776	1,305,037
Other operating lease rentals	1,208,984	1,144,622
Loss/(profit) on sale of tangible fixed assets	7,094	(21,042)
	<u>7,094</u>	<u>(21,042)</u>

**6. Auditor's remuneration**

	2018 £	2017 £
Fees payable to the company's auditor for the audit of the company's annual accounts	31,700	32,000
<b>Fees payable to the company's auditor in respect of:</b>		
Taxation compliance services	8,950	6,450
Accounting support services	16,375	-
Tax advisory services	7,500	-
	<u>7,500</u>	<u>-</u>



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**CEPAC LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**7. Employees**

Staff costs, including directors' remuneration, were as follows:

	2018 £	2017 £
Wages and salaries	17,121,248	17,081,469
Social security costs	1,719,364	1,666,273
Cost of defined contribution pension scheme	916,044	941,797
	<u>19,756,656</u>	<u>19,689,539</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Sales	46	46
Production	382	396
Administration	102	98
	<u>530</u>	<u>540</u>

**8. Directors' remuneration**

	2018 £	2017 £
Directors' emoluments	705,564	610,608
Company contributions to defined contribution pension schemes	50,348	97,090
	<u>755,912</u>	<u>707,698</u>

During the year retirement benefits were accruing to 4 directors (2017 - 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £286,945 (2017 - £228,581).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £15,948 (2017 - £15,230).

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**CEPAC LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**9. Interest receivable**

	2018 £	2017 £
Bank interest receivable	<u>8,522</u>	<u>33,249</u>

**10. Interest payable**

	2018 £	2017 £
Bank interest payable	232,342	252,771
Invoice discounting interest	104,417	124,621
	<u>336,759</u>	<u>377,392</u>

**11. Taxation**

	2018 £	2017 £
<b>Corporation tax</b>		
Current tax on profits for the year	878,523	512,363
Adjustments in respect of previous periods	2,741	(49,990)
<b>Total current tax</b>	<u>881,264</u>	<u>462,373</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	41,000	(125,000)
Adjustments in respect of previous periods	(10,000)	41,000
<b>Total deferred tax (note 21)</b>	<u>31,000</u>	<u>(84,000)</u>
<b>Taxation on profit on ordinary activities</b>	<u>912,264</u>	<u>378,373</u>

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CEPAC LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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11. Taxation (continued)

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	<u>4,537,005</u>	<u>2,068,491</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%(2017: 19.25%)	862,031	398,185
Effects of:		
Expenses not deductible for tax purposes	61,466	49,208
Adjustments to tax charge in respect of prior periods	(7,259)	(8,990)
Rate differences	(3,974)	(60,030)
<b>Total tax charge for the year</b>	<u><b>912,264</b></u>	<u><b>378,373</b></u>

**Factors that may affect future tax charges**

A reduction in the UK corporation tax rate from 20% to 19% took effect from 1 April 2017. A further reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in September 2016.

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**CEPAC LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**12. Intangible fixed assets**

	Software costs £	Goodwill £	Total £
<b>Cost</b>			
At 1 January 2018	1,118,718	11,964,282	13,083,000
Additions	119,564	-	119,564
At 31 December 2018	<u>1,238,282</u>	<u>11,964,282</u>	<u>13,202,564</u>
<b>Amortisation</b>			
At 1 January 2018	1,035,659	5,752,569	6,788,228
Charge for the year	35,348	1,196,428	1,231,776
At 31 December 2018	<u>1,071,007</u>	<u>6,948,997</u>	<u>8,020,004</u>
<b>Net book value</b>			
At 31 December 2018	<u>167,275</u>	<u>5,015,285</u>	<u>5,182,560</u>
At 31 December 2017	<u>83,059</u>	<u>6,211,713</u>	<u>6,294,772</u>

**CEPAC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**13. Tangible fixed assets**

	Freehold property £	Plant & machinery £	Fixtures & fittings £	Other fixed assets £	Total £
<b>Cost</b>					
At 1 January 2018	6,677,613	39,885,697	2,028,449	594,068	49,185,827
Additions	1,498	-	-	3,397,612	3,399,110
Disposals	-	(44,540)	(3,555)	-	(48,095)
Transfers between classes	263,896	1,084,647	351,413	(1,699,956)	-
At 31 December 2018	6,943,007	40,925,804	2,376,307	2,291,724	52,536,842
<b>Depreciation</b>					
At 1 January 2018	141,231	27,801,349	1,517,081	-	29,459,661
Charge for the year on owned assets	85,819	1,478,107	100,071	-	1,663,997
Charge for the year on financed assets	-	761,976	-	-	761,976
Disposals	-	(24,559)	(1,300)	-	(25,859)
At 31 December 2018	227,050	30,016,873	1,615,852	-	31,859,775
<b>Net book value</b>					
At 31 December 2018	6,715,957	10,908,931	760,455	2,291,724	20,677,067
At 31 December 2017	6,536,382	12,084,348	511,368	594,068	19,726,166

The net book value of assets held under finance leases or hire purchase contracts, included above, is as follows:

	2018 £	2017 £
Plant and machinery	4,751,147	5,406,599

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CEPAC LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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14. Stocks

	2018 £	2017 £
Raw materials and consumables	4,408,430	4,277,593
Work in progress	360,754	396,746
Finished goods and goods for resale	1,423,634	1,463,680
	<u>6,192,818</u>	<u>6,138,019</u>

Stock recognised in cost of sales during the year as an expense was £61,219,028 (2017: £53,591,680).

15. Debtors

	2018 £	2017 £
Trade debtors	22,185,673	21,222,674
Other debtors	71,811	147,784
Prepayments and accrued income	1,099,910	1,064,270
Corporation tax repayable	-	34,074
	<u>23,357,394</u>	<u>22,468,802</u>

16. Cash and cash equivalents

	2018 £	2017 £
Cash at bank and in hand	2,191,017	102,456
Less: bank overdrafts	(369,057)	(1,154,574)
	<u>1,821,960</u>	<u>(1,052,118)</u>

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**CEPAC LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**17. Creditors: Amounts falling due within one year**

	2018 £	2017 £
Bank overdrafts	369,057	1,154,574
Bank loans	318,000	-
Amounts due under invoice discounting facility	2,646,528	5,846,003
Trade creditors	5,852,142	4,698,600
Corporation tax	139,527	-
Taxation and social security	2,728,960	2,513,491
Obligations under finance leases and hire purchase contracts	1,316,715	1,234,745
Accruals and deferred income	1,749,807	1,838,511
	<u>15,120,736</u>	<u>17,285,924</u>

Bank overdrafts are secured by a fixed and floating charge over the company's assets. Bank loans are secured by 1st legal charges over the relevant properties.

Amounts due under the invoice discounting facility are secured on the company's trade debtors.

Obligations under finance leases and hire purchase contracts are secured on the related assets.

**18. Creditors: Amounts falling due after more than one year**

	2018 £	2017 £
Bank loans	2,610,900	-
Obligations under finance leases and hire purchase contracts	1,659,276	2,890,088
	<u>4,270,176</u>	<u>2,890,088</u>

Bank loans are secured by 1st legal charges over the relevant properties.

**CEPAC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**19. Borrowings**

Analysis of the maturity of loans is given below:

	2018 £	2017 £
<b>Amounts falling due within one year</b>		
Bank loans	318,000	-
Amounts due under invoice discounting facility	2,646,528	5,846,003
Finance leases	1,316,715	1,234,745
	<u>4,281,243</u>	<u>7,080,748</u>
<b>Amounts falling due 1-2 years</b>		
Bank loans	318,000	-
Finance leases	1,169,488	1,281,816
	<u>1,487,488</u>	<u>1,281,816</u>
<b>Amounts falling due 2-5 years</b>		
Finance leases	489,788	1,608,272
	<u>6,258,519</u>	<u>9,970,836</u>

**20. Financial instruments**

	2018 £	2017 £
<b>Financial assets</b>		
Financial assets measured at amortised cost	<u>24,480,126</u>	<u>21,472,914</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<u>(16,554,050)</u>	<u>(17,662,521)</u>

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, bank overdrafts and loans, amounts due under invoice discounting facility, amounts due under finance leases and hire purchase contracts and accruals.



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CEPAC LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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**21. Deferred taxation**

	2018 £	2017 £
At beginning of year	515,000	599,000
Charged to profit or loss (note 11)	31,000	(84,000)
<b>At end of year</b>	<b>546,000</b>	<b>515,000</b>

The provision for deferred taxation is made up as follows:

	2018 £	2017 £
Excess of taxation allowances over depreciation of fixed assets	577,000	550,000
Other timing differences	(31,000)	(35,000)
	<b>546,000</b>	<b>515,000</b>

**22. Reserves**

**Profit & loss account**

Includes all current and prior period retained profits and losses.

**23. Share capital**

	2018 £	2017 £
<b>Allotted, called up and fully paid</b>		
10,000,000 (2017 - 10,000,000) Ordinary shares of £1 each	10,000,000	10,000,000

**24. Capital commitments**

The company had capital commitments for plant and machinery of £1,239,669 (2017: £Nil).

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**CEPAC LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**25. Pension commitments**

The company operates a defined contribution scheme for the benefit of all employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The total cost of £916,044 (2017: £941,797) represents contributions payable to the scheme at the rate specified in the plan. As at 31 December 2018, contributions of £133,064 (2017: £136,389) due in respect of the current reporting period had not been paid into the scheme and are included in creditors.

**26. Commitments under operating leases**

At 31 December 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
<b>Land and buildings</b>		
Not later than 1 year	876,000	876,000
Between 2 and 5 years	-	876,000
	<u>876,000</u>	<u>1,752,000</u>
	2018 £	2017 £
<b>Other</b>		
Not later than 1 year	376,285	419,031
Between 1 and 5 years	513,363	436,662
	<u>889,648</u>	<u>855,693</u>

**27. Related party transactions**

The company has chosen to take the exemption from the requirement to disclose transactions with other group companies on the basis that it is a wholly owned subsidiary and its results are consolidated into that of the parent company.

The directors represent key management personnel for the purposes of the FRS 102 related party requirements and their compensation is disclosed in note 8.

**28. Controlling party**

Capital House Investment Limited owns 100% of the share capital of Europa Holdings Limited, which in turn owns 100% of the share capital of Cepac Limited. Both Capital House Investment Limited and Europa Holdings Limited are incorporated in the Cayman Islands.