

Registered number: 07475530

Cathay Investments 2 Limited

Directors' Report, Strategic Report and Audited Consolidated Financial Statements

for the Year Ended 31 December 2020

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Cathay Investments 2 Limited

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Cathay Investments 2 Limited

Company Information

Directors	B Chaing K Johnson D Nicholas G Thwaites M Chaing S Chaing
Registered office	Cathay Investments Ltd 43 Friends Road Croydon United Kingdom CR0 1ED
Independent auditors	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2A 1AG

Cathay Investments 2 Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

Fair review of the business

The group during the year made a loss which was primarily due to the performance of its ownership of Rhys Davies & Sons Limited (RD). RD was acquired in a distressed state and during 2020 suffered significantly from the effects of coronavirus which led to a partial shutdown of its network. The group lent significant sums to RD during the period to enable it to continue trading but ultimately this was not sustainable and RD entered into administration in December 2020. On entering into administration the group wrote off £4,327,042 of intercompany balances with RD which is included in exceptional costs.

The group made a loss before tax for the year from continuing operations of £1,130,998 (2019 as restated - £1,002,825). The group made a loss for the year from discontinued operations of £646,767 (2019 - £1,760,947). The statement of financial position shows total assets of £60,741,875 (As at 31 December 2019 as restated - £80,493,305), total liabilities of £60,760,691 (As at 31 December 2019 as restated - £76,826,084) and net liabilities of £18,816 (As at 31 December 2019 as restated - net assets of £3,667,221).

As referred to above, Rhys Davies and Sons Limited was placed into administration on 8 December 2020. The results of Rhys Davies and Sons Limited for the period 1 January 2020 to 8 December 2020 are presented in the Consolidated Income Statement within Discontinued Operations - Loss for the year from discontinued operations.

Following this, the group lost access to key accounting records for Rhys Davies and Sons Limited as a result of which our auditors have been unable to obtain all of the evidence they would usually expect to receive and the audit report includes a limitation of scope in this respect. However, the qualification has no impact on the results of continuing operations for the year or on the consolidated balance sheet as at 31 December 2020.

The group's key financial indicators and other performance indicators during the year were as follows:

	Unit	2020	As restated 2019
EBITDA [1] - Continuing operations	£	11,394,744	9,808,790
Cash generated from continuing operations	£	7,131,052	10,589,010

All key performance indicators have been calculated on the group's continuing businesses.

[1] - Adjusted EBITDA = Earnings before interest, tax, depreciation and amortisation adjusted to remove exceptional items.

Excluding the results of the discontinued operations, EBITDA improved from 2019 to 2020. This reflects a full year's contribution from the acquisition of Warehouse One Distribution Limited which was acquired part way through 2019, along with an improvement in the profitability of that company and of Perkins Group Services Limited which turned a loss in 2019 into a profit in 2020.

Principal risks and uncertainties

The performance of the company is to some extent determined by the sales performance of its clients. The range of markets covered by its clients and the quality of those clients helps to mitigate this risk, providing diversification and trading stability. The company is also dependant upon the performance of key service providers principally staffing agencies and transport providers. The company continually reviews the performance of its service providers to look for ways to mitigate risk.

The group imports products from overseas for sale in the UK and the situation post Brexit is being monitored closely by the directors. In addition, transport performance is influenced by the supply of skilled labour and continued pricing pressure.

During 2020, a new risk has developed through coronavirus. Although this has impacted on the business and its clients a number of clients provided essential products and have been able to continue trading, and the group has remained open as a key business throughout the crisis. Some of the companies in the group have seen improved performance due to being able to provide key services to clients, whereas others have been significantly impacted. The company is committed to ensuring a safe environment for its staff and customers and has made appropriate changes to manage coronavirus risks. Staff welfare is the company's primary concern.

Cathay Investments 2 Limited

Strategic Report for the Year Ended 31 December 2020

The group's overall risk management programme focuses on the unpredictability of the marketplace and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by the operating divisions under policies approved by the board of directors.

Directors' statement of compliance with duty to promote the success of the company

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the Companies Act 2006 which is summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

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

We provide key business services to our clients which underpin their business supply chains. It is important that we effectively identify, evaluate and manage risks we face, and we continue to evolve our approach to risk management. For details of principal risks and uncertainties see the relevant sections of the strategic and directors' reports. The following paragraphs summarise how the Directors fulfil their duties:

Our people

The Company is committed to being a responsible business and to consult and discuss with employees matters which are likely to affect their interest and we aim to increase awareness of the wider group with employees of the Company through regular briefings and newsletters.

Shareholders

Immediate shareholders comprise the parent undertakings within the Chaing Equities Limited group, the ultimate shareholders of Chaing Equities Limited and minority shareholders in intermediate holding companies. All of the individuals are either directors of the company or senior employees within the wider group structure. Communication and regular engagement with Shareholders is given a high priority by the Directors.

Business relationships

Our strategy prioritises cross selling and upselling of services to existing clients. To do this we need to maintain strong client relationships. We value all of our suppliers and enter into appropriate contracts where necessary. Further details are in the directors' report.

Community and environment

By its nature, the business has numbers of trucks driving on the road each day and the biggest impact on the wider community is how drivers and employees interact with the community as they carry out their business. We are committed to reducing incidents involving our fleet and we provide training and hold discussions to promote this with everyone involved in fleet operations.

Approved by the Board on 30/9/2021 and signed on its behalf by:

Kevin Johnson

.....
K Johnson
Director

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their report and the consolidated financial statements for the year ended 31 December 2020.

Directors of the group

The directors, who held office during the year, were as follows:

B Chaing
K Johnson
D Nicholas
G Thwaites
M Chaing
S Chaing

Principal activities

The principal activity of the company is that of a holding company.

The principal activities of the group are:

- import and distribution of toys, costumes, stationery and seasonal products;
- warehousing, storage services, road haulage, transport and logistics services;
- freight forwarding, associated logistics and distribution including e-fulfilment;
- design, manufacture and distribution of greeting cards; and
- information technology consultancy services.

Dividends

During the year, an interim dividend totalling £2,000,000 was paid on 2 October 2020 (2019 - £nil).

Financial instruments

Price risk, credit risk, liquidity risk and cash flow risk

The group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, credit risk and liquidity risk.

The group does not have any material exposures in any of these areas and, consequently does not use derivative instruments to manage these exposures. The group's principal financial instruments comprise bank loans, preference shares, sterling cash and bank deposits, together with trade receivables and trade payables that arise directly from its operations.

The main risks arising from the group's financial instruments can be analysed as follows:

Price risk

The group is not exposed to equity securities price risk or commodities price risk.

Foreign currency risk

The group has no significant foreign currency risk as the majority of the group's transactions are carried out in sterling.

Credit risk

The group has no significant concentrations of customer credit risk. It has policies in place to ensure that sales of products and services are made to credit approved customers.

Liquidity risk

The group is funded by shareholders' funds, directors' loans and bank debt. The group is exposed to risk through having loan repayment obligations as described in note 22. There are no significant repayments falling due immediately and the group monitors its cash flow and loan maturities carefully to manage these risks.

Cash flow interest rate risk

Group policy is to obtain short term borrowing on fixed rates when required. All current borrowings are on variable rates.

Employment of disabled persons

The directors have maintained the group's established policy of giving full and fair consideration to applications for employment from disabled persons, and to continue the employment and training of employees who become disabled during their employment with the group.

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Directors' Report for the Year Ended 31 December 2020

Employee involvement

Maintaining the quality and commitment of employees is an important factor for the continued success of the group. Employees' performance is aligned to the group's objectives through an annual review process that is carried out with all employees.

Engagement with suppliers, customers and others

We engage with customers at all levels of the business. There is day to day engagement by operations staff making pick ups and deliveries and by the customer services team, regular engagement by operations managers and key client contacts, and where necessary by directors to ensure that clients are happy and appropriate contracts are in place.

We take reasonable steps to ensure our suppliers comply with our standards such as those relating to modern slavery.

Going concern

The directors have considered carefully the appropriateness of adopting the going concern basis for these accounts, particularly in the light of the impact of Covid-19 during the year and continuing since the year end.

The company is part of a larger group, headed by Chaing Equities Limited (the group) and the ability of the company to continue as a going concern is linked to the health of the group in general. The company and group has three primary sources of funding:

- Cash generated from the profits of the group;
- Loans from shareholders / directors (which are subordinate to the bank funding described below); and
- Bank facilities provided by HSBC UK Bank plc.

Although each company handles its own cash and bank accounts on a day to day basis, the group bank facilities and liquidity in general are managed centrally.

In considering the going concern basis, the directors have prepared a forecast model including monthly profit and loss accounts, balance sheets and cash flows for the period to 31 December 2022. The forecast is built on a bottom up basis, company by company, and adopts 2021 as its base year. The results for 2021 are based on six months of actual results (Q1 and Q2) and a forecast for Q3 and Q4. Notwithstanding the successful roll-out of vaccines and subsequent relaxation of Covid restrictions, the forecast for 2021 and 2022 assumes no significant improvement in conditions with regard to the continuing impact of Covid-19. Indeed, no significant growth is assumed generally.

The group as a whole has different lines of business and operates across several European countries. The effects of Covid-19 have been different across different countries and different business.

In our chemicals and materials business, there was a definite downturn in demand during the initial lockdowns across all territories and turnover fell significantly. Some customers were closed for a period of time and most saw their own customer demand fall, an effect that fed back through the supply chain. Turnover has improved since the tightest restrictions were lifted but remains below historical levels and this is forecast to continue. The operations of these companies have also been affected in 2021 by a worldwide shortage of raw materials and spiralling transport costs. This has been mitigated somewhat by an improvement in sales mix that has generated increased gross margins and our ability to source materials from a wide range of suppliers has also helped.

Our logistics businesses, which operate predominantly in the UK, have benefited from increased consumer demand online. Whilst we anticipate that this may soften slightly as the economy opens up it is expected to remain a focus for us in the future. As a result, this part of the group continues to trade well.

All of our companies have to date been able to trade throughout the Covid affected period and it is assumed that this will continue. No structural changes are required in order to achieve this.

With regard to bank facilities, these fall into two main categories:

- Invoice Finance facilities - these provide working capital funding for many of the Group companies, particularly those in the UK.
- Senior debt loan facilities that were used to fund previous acquisitions.

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2020

The loan facilities are fully drawn, but the invoice finance facilities are not. Whilst the drawn balance on invoice finance facilities fluctuates according to need, those facilities have never been fully drawn and there is no expectation that they will be. This is supported by the forecasts, which assume no additional draw on these facilities and suggest that considerable headroom will remain available. Cash balances and availability against these facilities are actively monitored by group management on a weekly basis.

The bank facilities contain certain covenants that need to be met. The principal covenants relate to leverage and debt service, ratios that take a measure of EBITDA divided by debt and a measure of cash flow divided by debt service respectively. Our leverage must remain below 2.75x in 2021 and below 2.50x thereafter. Our cash flows must remain above 1.2x debt service requirements. These covenants have been met throughout 2020 and the forecasts indicate that they will continue to be met.

New and extended facilities on these terms were signed in December 2020 and secure funding for the group until Q1 2025.

In forming their conclusion the directors have also considered various alternative scenarios, principally incorporating unexpected falls in sales into the forecast. In all scenarios the forecasts show continued strong levels of cash and continuing availability against invoice finance facilities. This also ignores any further mitigating actions that management could take if required, for example, further working capital management and/or cost reductions.

As a consequence the directors consider it appropriate to adopt the going concern basis for these accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the group's performance, business model and strategy and is fair, balanced and understandable.

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

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2020

Statement of directors' responsibilities (continued)

To the best of our knowledge:

- the financial statements, prepared in accordance with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to the auditor

The directors confirm that:

- so far as the directors are 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 director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Approved by the Board on 30/9/2021 and signed on its behalf by:

Kevin Johnson

.....
K Johnson
Director

Independent auditor's report to the members of Cathay Investments 2 Limited

Qualified opinion

We have audited the financial statements of Cathay Investments 2 Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, except for the matter described in the basis for qualified opinion section of our report:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

Rhys Davies and Sons Limited, a company acquired in 2019 by Cathay Investments 2 Limited, was placed into administration on 8 December 2020. The results of Rhys Davies and Sons Limited for the period 1 January 2020 to 8 December 2020 are presented in the Consolidated Income Statement within Discontinued Operations – Loss for the year from discontinued operations, with further analysis contained within Note 14 Analysis of Discontinued Operations.

Cathay Investments 2 Limited lost access to key accounting records for Rhys Davies and Sons Limited when the entity was placed into administration. We were therefore unable to obtain sufficient appropriate audit evidence about the loss for the year from discontinued operations totalling £646,767 which is comprised of a loss for the year from discontinued operations totalling £5,669,194 and a gain on disposal totalling £5,022,427. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Independent auditor's report to the members of Cathay Investments 2 Limited

Conclusions relating to going concern (continued)

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

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, except for the matter described in the basis for qualified opinion section of our report.

Opinions on other matters prescribed by the Companies Act 2006

Except for the matter described in the basis for qualified opinion section of our report, 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

Except for the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the group and the parent 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

In respect solely to the issue described in the basis for qualified opinion section of our report:

- adequate accounting records and returns have not been kept relating to Rhys Davies and Sons Limited

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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, except for the matter described in the basis for qualified opinion section of our report.

Responsibilities of directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Cathay Investments 2 Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We understood how the group and parent are complying with those legal and regulatory frameworks by making enquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and correspondence received from regulatory bodies.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and parent and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (*international accounting standards and the Companies Act 2006*).
- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental, and bribery and corruption practices.
- We assessed the susceptibility of the group and parent's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries that increased revenues; and
 - potential management bias in manual journals, determining accounting estimates and any significant transactions outside of the normal conduct of business operations.
- Our audit procedures involved:
 - evaluation of the design effectiveness and assessing the design effectiveness of controls that management has in place to prevent and detect fraud;
 - journal entry testing, with a focus on material manual journals, including those with unusual account combinations and those that reclassified costs from the income statement to the balance sheet;
 - challenging assumptions and judgements made by management in its significant accounting estimates; and
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- In addition, we completed audit procedures to conclude on the compliance of disclosures in the report and accounts with applicable financial reporting requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations through the following:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation; and
 - knowledge of the industry in which the client operates.

Independent auditor's report to the members of Cathay Investments 2 Limited

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

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Marc Summers BSc (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
LONDON
Date: 30/9/2021

Cathay Investments 2 Limited**Consolidated Income Statement for the Year Ended 31 December 2020**

		2020 £	As restated 2019 £
	Note		
Continuing operations			
Revenue	5	50,091,002	46,819,157
Cost of sales		<u>(21,365,678)</u>	<u>(21,173,195)</u>
Gross profit		28,725,324	25,645,962
Other income	8	377,728	-
Distribution costs		(5,411,284)	(5,388,684)
Administrative expenses		<u>(23,357,798)</u>	<u>(19,868,987)</u>
Operating profit	6	<u>333,970</u>	<u>388,291</u>
Finance income		4,730	22,445
Finance costs		<u>(1,469,698)</u>	<u>(1,413,561)</u>
Net finance costs	7	<u>(1,464,968)</u>	<u>(1,391,116)</u>
Loss before tax		(1,130,998)	(1,002,825)
Tax credit/(expense)	10	<u>91,728</u>	<u>(958,552)</u>
Loss for the year from continuing operations		<u><u>(1,039,270)</u></u>	<u><u>(1,961,377)</u></u>
Discontinued operations			
Loss for the year from discontinued operations	14	(646,767)	(1,760,947)
Loss for the year		<u><u>(1,686,037)</u></u>	<u><u>(3,722,324)</u></u>
Loss attributable to:			
Owners of the company		<u><u>(1,686,037)</u></u>	<u><u>(3,722,324)</u></u>

Cathay Investments 2 Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020 £	As restated 2019 £
Loss for the year	(1,686,037)	(3,722,324)
Total comprehensive income for the year	<u>(1,686,037)</u>	<u>(3,722,324)</u>
Total comprehensive income attributable to:		
Owners of the company	<u>(1,686,037)</u>	<u>(3,722,324)</u>

Cathay Investments 2 Limited**(Registration number: 07475530)****Consolidated Statement of Financial Position as at 31 December 2020**

	Note	2020 £	As restated 2019 £
Non-current assets			
Property, plant and equipment	11	37,449,731	51,185,822
Intangible assets	12	4,432,107	5,105,357
Deferred tax assets	10	127,204	30,750
		<u>42,009,042</u>	<u>56,321,929</u>
Current assets			
Inventories	17	1,035,716	1,542,549
Trade and other receivables	18	12,637,069	19,298,984
Cash and cash equivalents	19	5,060,048	3,329,843
		<u>18,732,833</u>	<u>24,171,376</u>
Total assets		<u>60,741,875</u>	<u>80,493,305</u>
Equity			
Share capital	20	14,802	14,802
Retained earnings		(33,618)	3,652,419
Equity attributable to owners of the company		<u>(18,816)</u>	<u>3,667,221</u>
Non-current liabilities			
Loans and borrowings	22	7,382,011	6,133,986
Provisions	24	2,975,000	2,227,000
Lease liability	16	31,804,839	40,987,914
Deferred tax liabilities	10	447,454	468,759
		<u>42,609,304</u>	<u>49,817,659</u>
Current liabilities			
Trade and other payables	25	11,686,454	18,227,308
Loans and borrowings	22	944,041	1,275,788
Lease liability	16	4,371,095	6,496,007
Corporation tax liability		1,149,797	1,009,322
		<u>18,151,387</u>	<u>27,008,425</u>
Total liabilities		<u>60,760,691</u>	<u>76,826,084</u>
Total equity and liabilities		<u>60,741,875</u>	<u>80,493,305</u>

Approved by the Board on 30/9/2021 and signed on its behalf by:

Kevin Johnson

 K Johnson
 Director

Cathay Investments 2 Limited**(Registration number: 07475530)****Company Statement of Financial Position as at 31 December 2020**

	Note	2020 £	2019 £
Non-current assets			
Investments	13	12,766,699	12,766,698
Current assets			
Trade and other receivables	18	1,736,568	240,526
Cash and cash equivalents	19	102,259	178,891
		<u>1,838,827</u>	<u>419,417</u>
Total assets		<u>14,605,526</u>	<u>13,186,115</u>
Equity			
Share capital	20	14,802	14,802
Retained earnings		<u>388,875</u>	<u>3,953,519</u>
Total equity		<u>403,677</u>	<u>3,968,321</u>
Non-current liabilities			
Loans and borrowings	22	7,382,011	5,287,418
Current liabilities			
Trade and other payables	25	5,875,797	2,730,376
Loans and borrowings	22	<u>944,041</u>	<u>1,200,000</u>
		<u>6,819,838</u>	<u>3,930,376</u>
Total liabilities		<u>14,201,849</u>	<u>9,217,794</u>
Total equity and liabilities		<u>14,605,526</u>	<u>13,186,115</u>

Approved by the Board on 30/9/2021 and signed on its behalf by:

Kevin Johnson

.....
K Johnson
Director

Cathay Investments 2 Limited**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020**

	Share capital	Retained earnings	Total equity attributable to the owners of the parent company	Non-controlling interests	Total
	£	£	£	£	£
At 1 January 2019	14,802	7,357,894	7,372,696	16,849	7,389,545
Loss for the year (as restated)	-	(3,722,324)	(3,722,324)	-	(3,722,324)
Total comprehensive income	-	(3,722,324)	(3,722,324)	-	(3,722,324)
Acquisition of minority shareholding	-	16,849	16,849	(16,849)	-
At 31 December 2019 (as restated)	14,802	3,652,419	3,667,221	-	3,667,221
	Share capital	Retained earnings	Total equity attributable to the owners of the parent company		
	£	£	£		
At 1 January 2020 (as previously stated)	14,802	4,868,580	4,883,382		
Prior year adjustment (note 15)	-	(1,216,161)	(1,216,161)		
At 1 January 2020 (as restated)	14,802	3,652,419	3,667,221		
Loss for the year	-	(1,686,037)	(1,686,037)		
Total comprehensive income	-	(1,686,037)	(1,686,037)		
Dividends paid	-	(2,000,000)	(2,000,000)		
At 31 December 2020	14,802	(33,618)	(18,816)		

Cathay Investments 2 Limited**Company Statement of Changes in Equity for the Year Ended 31 December 2020**

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2019	14,802	4,112,641	4,127,443
Loss for the year	-	(159,122)	(159,122)
Total comprehensive income	-	(159,122)	(159,122)
At 31 December 2019	14,802	3,953,519	3,968,321

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2020	14,802	3,953,519	3,968,321
Loss for the year	-	(1,564,644)	(1,564,644)
Total comprehensive income	-	(1,564,644)	(1,564,644)
Dividends paid	-	(2,000,000)	(2,000,000)
At 31 December 2020	14,802	388,875	403,677

Cathay Investments 2 Limited**Consolidated Statement of Cash Flows for the Year Ended 31 December 2020**

	Note	2020 £	As restated 2019 £
Cash flows from operating activities			
Loss for the year from continuing and discontinued operations		(1,686,037)	(3,722,324)
Adjustments to cash flows from non-cash items:			
Depreciation, amortisation and impairment		8,412,548	9,402,759
Loss on disposal of property, plant and equipment		44,822	130,558
Loss on disposal of goodwill	6	-	4,904
Gain on disposal of discontinued operation	14	(5,022,427)	-
Finance income	7	(4,730)	(22,445)
Finance costs		1,713,939	1,520,499
Tax (credit)/expense	10	(320,928)	1,055,883
		<u>3,137,187</u>	<u>8,369,834</u>
Working capital adjustments:			
Decrease in inventories	17	310,703	175,238
Decrease in trade and other receivables	18	217,050	3,429,866
Increase/(decrease) in trade and other payables	25	5,335,860	(2,155,730)
Increase in provisions	24	748,000	788,336
(Decrease)/increase in deferred tax	10	(62,104)	148,397
Cash generated from operations		<u>9,686,696</u>	<u>10,755,941</u>
Income taxes received/(paid)		<u>5,383</u>	<u>(56,862)</u>
Net cash flow from operating activities		<u>9,692,079</u>	<u>10,699,079</u>
Cash flows from investing activities			
Interest received	7	4,730	22,445
Acquisitions of property, plant and equipment		(279,372)	(162,522)
Proceeds from sale of property, plant and equipment		-	780,112
Acquisition of subsidiaries	13	-	(6,335,085)
Cash disposed in discontinued operation		(4,480)	-
Acquisition of minority shareholding		-	(10)
Net cash used in investing activities		<u>(279,122)</u>	<u>(5,695,060)</u>

Cathay Investments 2 Limited**Consolidated Statement of Cash Flows for the Year Ended 31 December 2020**

			As restated
	Note	2020	2019
		£	£
Cash flow from financing activities			
Interest paid		(1,713,939)	(1,520,499)
Dividends paid		(2,000,000)	-
Proceeds from bank borrowing drawdowns	22	6,445,126	-
Repayment of loans and borrowings	22	(5,272,889)	(1,046,223)
Repayment of lease liabilities		(7,006,278)	(3,319,915)
(Repayment)/proceeds of other borrowing	22	(255,959)	511,040
Repayment of shares classified as liabilities	22	-	(926,415)
Increase/(decrease) in invoice discounting facility	25	2,121,187	(112,326)
Net cash used in financing activities		<u>(7,682,752)</u>	<u>(6,414,338)</u>
Net increase/(decrease) in cash and cash equivalents		1,730,205	(1,410,319)
Cash and cash equivalents at 1 January	19	<u>3,329,843</u>	<u>4,740,162</u>
Cash and cash equivalents at 31 December	19	<u><u>5,060,048</u></u>	<u><u>3,329,843</u></u>
Cash and cash equivalents included in disposal group		-	(80,001)
Cash and cash equivalents for continuing operations at 31 December		<u><u>5,060,048</u></u>	<u><u>3,249,842</u></u>

Cathay Investments 2 Limited**Company Statement of Cash Flows for the Year Ended 31 December 2020**

	Note	2020 £	2019 £
Cash flows from operating activities			
Loss for the year		(1,564,644)	(159,122)
Adjustments to cash flows from non-cash items:			
Impairment of investments	13	250,000	3,790,562
Finance income		(3,600,204)	(4,666,870)
Finance costs		174,620	170,674
Tax expense		-	8,060
		<u>(4,740,228)</u>	<u>(856,696)</u>
Working capital adjustments:			
(Increase)/decrease in trade and other receivables	18	(1,496,042)	1,045,151
Increase in trade and other payables	25	<u>3,145,421</u>	<u>2,682,474</u>
Net cash flow (used in)/from operating activities		<u>(3,090,849)</u>	<u>2,870,929</u>
Cash flows from investing activities			
Interest received		204	1,670
Dividends received		3,600,000	4,665,200
Acquisition of subsidiaries	13	(1)	(6,855,730)
Additional investment in subsidiaries	13	<u>(250,000)</u>	<u>-</u>
Net cash flows from/(used in) investing activities		<u>3,350,203</u>	<u>(2,188,860)</u>
Cash flow from financing activities			
Interest paid		(174,620)	(170,674)
Dividends paid		(2,000,000)	-
Proceeds from bank borrowing drawdowns		6,445,126	-
Repayment of bank borrowing	22	(4,350,533)	(125,539)
Repayment of shares classified as liabilities	22	-	(926,415)
(Repayment)/proceeds of other borrowings		<u>(255,959)</u>	<u>511,040</u>
Net cash flows used in financing activities		<u>(335,986)</u>	<u>(711,588)</u>
Net decrease in cash and cash equivalents		<u>(76,632)</u>	<u>(29,519)</u>
Cash and cash equivalents at 1 January	19	<u>178,891</u>	<u>208,410</u>
Cash and cash equivalents at 31 December	19	<u><u>102,259</u></u>	<u><u>178,891</u></u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

The company is a private company limited by share capital incorporated and domiciled in England and Wales.

The nature of the group's and the company's operations and its principal activities are set out in the Strategic Report and the Directors' Report.

The address of its registered office and principal place of business is:

Cathay Investments Ltd
43 Friends Road
Croydon
United Kingdom
CR0 1ED

2 Adoption of new and revised standards

New standards, interpretations and amendments effective

During the financial year, there were no new IFRSs or IFRIC interpretations that were effective for the first time that would be expected to have a material impact on the group and the company.

The following pronouncements have been adopted in the year and either had no impact on the financial statements or resulted in changes to presentation and disclosure only:

- Definition of a Business (Amendments to IFRS 3); effective 1 January 2020
- Definition of Material (Amendments to IAS 1 and IAS 8); effective 1 January 2020
- COVID-19 Rent Related Concessions (Amendments to IFRS 16); effective 1 June 2020
- Amendments to References to the Conceptual Framework (Various Standards)

New standards, interpretations and amendments not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the group and the company, which have not been applied in these financial statements, were in issue but not yet effective:

- References to the Conceptual Framework; effective 1 January 2021
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37); effective 1 January 2022
- Annual improvements to the IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16); effective 1 January 2022
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1); effective 1 January 2023

None of the other standards, interpretations and amendments which are effective for periods beginning after 31 December 2020 and which have not been adopted early are expected to have a material effect on the financial statements.

3 Accounting policies

Statement of compliance

The group and company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and under historical cost accounting rules.

The preparation of financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

Going concern

The directors have considered carefully the appropriateness of adopting the going concern basis for these accounts, particularly in the light of the impact of Covid-19 during the year and continuing since the year end.

The company is part of a larger group, headed by Chaing Equities Limited (the group) and the ability of the Company to continue as a going concern is linked to the health of the group in general. The company and group has three primary sources of funding:

- Cash generated from the profits of the group;
- Loans from shareholders / directors (which are subordinate to the bank funding described below); and
- Bank facilities provided by HSBC UK Bank plc.

Although each company handles its own cash and bank accounts on a day to day basis, the group bank facilities and liquidity in general are managed centrally.

In considering the going concern basis, the directors have prepared a forecast model including monthly profit and loss accounts, balance sheets and cash flows for the period to 31 December 2022. The forecast is built on a bottom up basis, company by company, and adopts 2021 as its base year. The results for 2021 are based on six months of actual results (Q1 and Q2) and a forecast for Q3 and Q4. Notwithstanding the successful roll-out of vaccines and subsequent relaxation of Covid restrictions, the forecast for 2021 and 2022 assumes no significant improvement in conditions with regard to the continuing impact of Covid-19. Indeed, no significant growth is assumed generally.

The group as a whole has different lines of business and operates across several European countries. The effects of Covid-19 have been different across different countries and different business.

In our chemicals and materials business, there was a definite downturn in demand during the initial lockdowns across all territories and turnover fell significantly. Some customers were closed for a period of time and most saw their own customer demand fall, an effect that fed back through the supply chain. Turnover has improved since the tightest restrictions were lifted but remains below historical levels and this is forecast to continue. The operations of these companies have also been affected in 2021 by a worldwide shortage of raw materials and spiralling transport costs. This has been mitigated somewhat by an improvement in sales mix that has generated increased gross margins and our ability to source materials from a wide range of suppliers has also helped.

Our logistics businesses, which operate predominantly in the UK, have benefited from increased consumer demand online. Whilst we anticipate that this may soften slightly as the economy opens up it is expected to remain a focus for us in the future. As a result, this part of the group continues to trade well.

All of our companies have to date been able to trade throughout the Covid affected period and it is assumed that this will continue. No structural changes are required in order to achieve this.

With regard to bank facilities, these fall into two main categories:

- Invoice Finance facilities - these provide working capital funding for many of the group companies, particularly those in the UK.
- Senior debt loan facilities that were used to fund previous acquisitions.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Going concern (continued)

The loan facilities are fully drawn, but the invoice finance facilities are not. Whilst the drawn balance on invoice finance facilities fluctuates according to need, those facilities have never been fully drawn and there is no expectation that they will be. This is supported by the forecasts, which assume no additional draw on these facilities and suggest that considerable headroom will remain available. Cash balances and availability against these facilities are actively monitored by group management on a weekly basis.

The bank facilities contain certain covenants that need to be met. The principal covenants relate to leverage and debt service, ratios that take a measure of EBITDA divided by debt and a measure of cash flow divided by debt service respectively. Our leverage must remain below 2.75x in 2021 and below 2.50x thereafter. Our cash flows must remain above 1.2x debt service requirements. These covenants have been met throughout 2020 and the forecasts indicate that they will continue to be met.

New and extended facilities on these terms were signed in December 2020 and secure funding for the group until Q1 2025.

In forming their conclusion the directors have also considered various alternative scenarios, principally incorporating unexpected falls in sales into the forecast. In all scenarios the forecasts show continued strong levels of cash and continuing availability against invoice finance facilities. This also ignores any further mitigating actions that management could take if required, for example, further working capital management and/or cost reductions.

As a consequence the directors consider it appropriate to adopt the going concern basis for these accounts.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2020.

Three of the subsidiary undertakings has a reporting date of 30 December 2020. This is not deemed to be materially different to the Cathay Investments 2 Limited reporting date.

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The company made a loss after tax for the financial year of £1,564,644 (2019 - £159,122).

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full on consolidation.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Profit or loss from discontinued operations

A discontinued operation is a component of the group that either has been disposed of, or is classified as held for sale. A discontinued operation represents a separate major line of the business. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group constituting the discontinued operation.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Revenue

Revenue arises mainly from the provision of third party logistics services (including warehousing and freight forwarding) and the sale of toys, stationery and greetings cards.

To determine whether to recognise revenue, the group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

The group often enters into transactions involving a range of the group's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. Revenue is recognised either at a point in time or over time, when (or as) the group satisfies performance obligations by transferring the promised goods or services to its customers.

The group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other payables in the statement of financial position. Similarly, if the group satisfies a performance obligation before it receives the consideration, the group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

For third party logistics services, performance obligations are satisfied and revenue is recognised on the basis of activity performed by the group in the supply of the service. For the sale of toys, stationery and greetings cards revenue is recognised when the risks and rewards of ownership of the goods have transferred to the buyer which is usually at the point the customer has signed for delivery of the goods.

Amounts recoverable on long term contracts, being the amount by which recorded as turnover is in excess of payments on account, is classified under debtors.

Government grant

The group has benefited from government grant support, in light of the Coronavirus pandemic, by way of the Coronavirus Job Retention Scheme (CJRS). These grants were received to compensate the group for the wages, associated national insurance and employers pension contributions of employees on furlough leave.

The CJRS grants are recognised at the date at which it is reasonably assured that the company and group will comply with the conditions attached and the grants will be received. The CJRS grants are recognised within other income in the Statement of Comprehensive Income and not netted against the wages and salaries expenses.

Foreign currency transactions and balances

In preparing the financial statements, transactions in foreign currencies are recognised at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Tax

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

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The group's and company's corporation tax liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end the reporting period.

Deferred tax is tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that such taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. The group and the company recognises the carrying amount of property, plant and equipment, and the subsequent costs of replacing part of such items when there is an indication of future economic benefit. All other costs are recognised in the statement of comprehensive income as an expense as they are incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Depreciation

Property, plant and equipment is not depreciated until it is brought into use.

Depreciation is charged so as to write off the cost of assets less their estimated residual values over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold buildings	2% per annum straight line
Leasehold buildings	10% per annum straight line and shorter of lease life and 15 years per annum straight line
Plant and equipment	Between 3 and 15 years per annum straight line and 15% per annum reducing balance
Fixtures and fittings	10 - 33% per annum straight line and 15 - 25% per annum reducing balance
Motor vehicles	12.5 - 33% per annum reducing balance

In the case of right-of-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. Acquisition costs are expensed as incurred.

Goodwill

Goodwill comprises goodwill arising on consolidation and goodwill arising at acquisition.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit and loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to units of the business to which independent cash flows can largely be attributed ("cash-generating units"). Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a cash-generating unit the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss.

Customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Amortisation

Goodwill is not subject to amortisation but is tested for impairment.

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Contractual customer relationships	25% - 50% per annum straight line
Development expenditure	Between 3 and 6 years per annum straight line

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Leasing

All leases are negotiated on an individual basis and contain a wide variety of different terms and conditions.

The group assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Measurement and recognition of leases as a lessee:

At the lease commencement date, the group recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which comprises of the initial measurement of the liability, any initial direct costs incurred by the group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The group depreciates right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the group incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the group would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value.

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Investments

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. This definition is also used for the statement of cash flows.

Trade and other receivables

Trade and other receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using either the first-in, first-out (FIFO) method.

Cost includes all directly attributable expenditure necessary to bring the stocks to their existing condition and location.

An allowance is recorded for obsolescence.

Trade and other payables

Trade and other payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the statement of comprehensive income over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

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

Provisions

Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money. A contingent liability is disclosed where the existence of the obligations will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability.

Impairment of non-financial assets

At the end of each reporting period, the group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Redeemable preference shares have the characteristics of a liability and are recognised in the statement of financial position as a liability, net of issue costs.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders prior to the reporting date.

Defined contribution pension obligation

Payments to group defined contribution retirement benefit schemes are charged as an expense as they fall due.

Financial assets and liabilities

Recognition and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

3 Accounting policies (continued)

Financial assets and liabilities (continued)

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the group does not have any financial assets categorised as FVTPL or FVOCI.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

Recognition of credit losses is no longer dependent on the group first identifying a credit loss event. Instead the group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics.

Classification and measurement of financial liabilities

The group's financial liabilities include borrowings, leases, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are reported in profit or loss and are included within finance costs or finance income.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

4 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the group's accounting policies, the following judgements and key assumptions concerning the future have had the most significant effect on the amounts recognised in the financial statements:

Deferred tax assets

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Significant assumptions are made in estimating the level of future profits, including market conditions and growth rates. Changes in these assumptions could affect the recognition of deferred tax assets.

Provision for dilapidations

Provision is made for dilapidations due to be carried out on leased properties. Provisions are recognised when management are satisfied that an outflow of economic benefits is probable and a reliable estimate can be made of the obligation. The determination of the dilapidation provision requires significant judgement.

In making this judgement, the group considers the likelihood of being able to sublet the properties, the expected level of rentals, expected future trading conditions, whether uneconomic sites will be closed and sublet, the dilapidations required under the terms of the lease, and the anticipated condition of properties at the end of the lease.

Provision for rates

Provision is made for rates due at one of the sites in which the group operates. The site has not been assessed for rates and therefore no invoice for rates has been provided to date. Provisions are recognised when management are satisfied that an outflow of economic benefits is probable, and a reliable estimate can be made of the obligation. The determination of the rates provision requires significant judgement.

Leases - Incremental borrowing rate

At the commencement date of a lease, the company measures the lease liability as the present value of the lease payments unpaid at that date, discounted using the company's incremental borrowing rate (IBR).

The IBR is the estimated rate that the company would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. A different IBR has been selected for each class of leased asset; buildings, cars, commercial equipment and office equipment.

In determining the IBR for each class of leased asset, current commercially available information for comparable lease types were reviewed and the most appropriate rates selected. The determination of the IBR requires significant judgement.

Impairment of property, plant and equipment and intangible assets

The group tests goodwill, at least annually for impairment, and tests all other tangible and intangible assets when indicators of impairment exist. Impairment is determined with reference to the higher of net realisable value and value in use. Value in use is estimated using adjusted future cash flows from the cash-generating unit and a suitable discount rate in order to calculate present value. Significant other assumptions are made in estimating future cash flows about future events, including future market conditions and future growth rates. Changes in these assumptions could affect the outcome of impairment reviews.

Goodwill and intangible assets

The group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combination. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which any goodwill is attributed, any legal or regulatory provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Provision for bad debts

The directors have reviewed the ageing of the trade debtors at the year end and the level of recovery following the year end. The provision is based on historical experience of recovery and the ageing of debts as well as specific knowledge of the solvency ability to pay of the group's customers at the reporting date and the level of coverage provided by the group's credit insurance.

Inventory valuation

Inventories are stated at the lower of cost and net realisable value. The determination of inventory provisions requires significant judgement. In making this judgement the group evaluates amongst other factors the age and physical condition of inventory and its expected saleability based on forecast demand for the products taking into account expected trading conditions.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

5 Revenue

The analysis of the group's revenue for the year from continuing operations is as follows:

	2020	As restated 2019
	£	£
Revenue from contracts with customers	50,091,002	46,691,712
Other revenue	-	127,445
	<u>50,091,002</u>	<u>46,819,157</u>

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major product and service lines and timing of revenue recognition:

	2020	As restated 2019
	£	£
<i>Primary geographical markets</i>		
UK	49,881,911	46,049,956
Europe	172,609	499,245
Rest of world	36,482	142,511
	<u>50,091,002</u>	<u>46,691,712</u>

Major products and service lines

Third party logistics	40,600,474	37,104,543
Toys, stationery and greetings cards	9,490,528	9,587,169
	<u>50,091,002</u>	<u>46,691,712</u>

Timing of revenue recognition

Products transferred at a point in time	9,490,528	9,626,081
Services transferred over time	40,600,474	37,065,631
	<u>50,091,002</u>	<u>46,691,712</u>

6 Operating profit from continuing operations

Arrived at after charging/(crediting):

	2020	As restated 2019
	£	£
Depreciation expense	5,435,650	3,961,863
Amortisation expense	673,250	435,499
Foreign exchange losses/(gains)	237,978	(278,866)
Loss on disposal of property, plant and equipment	2,926	138,602
Loss on disposal of goodwill	-	4,904
Exceptional item - redundancy costs	228,316	171,819
Exceptional item - warehouse and premises reorganisation	-	27,690
Exceptional item - other costs	18,698	-
Exceptional item - impairment of goodwill	-	4,188,237
Exceptional item - Rhys Davies & Sons Limited - write off of group funding on administration	4,327,042	-
Exceptional item - Rhys Davies & Sons Limited - administration costs	358,417	-
Exceptional item - acquisition costs	-	199,290
Exceptional item - provision for disputed exit charges	-	156,847
Exceptional item - bad debts	-	192,558
Exceptional item - aborted transaction and other legal costs	19,401	86,696

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

7 Net finance costs

	2020	As restated 2019
	£	£
Finance income		
Interest income on bank deposits	4,730	22,445
Finance costs		
Interest on bank overdrafts and borrowings	(230,744)	(312,051)
Interest expense on leasing arrangements	(1,238,954)	(1,101,510)
	<u>(1,469,698)</u>	<u>(1,413,561)</u>
Net finance costs from continuing operations	<u>(1,464,968)</u>	<u>(1,391,116)</u>

8 Staff costs

The aggregate payroll costs from continuing operations were as follows:

	2020	As restated 2019
	£	£
Wages and salaries	7,785,364	6,549,849
Social security costs	680,957	563,395
Pension and other post-employment benefit costs	181,794	173,014
Redundancy and payment in lieu	228,316	171,819
	<u>8,876,431</u>	<u>7,458,077</u>

During the year, the group received government grant support by way of the Coronavirus Job Retention Scheme (CJRS). The total grant income received for continuing operations was £377,728 which is included within other income in the statement of comprehensive income. The staff costs are shown gross of the CJRS grants received.

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2020	As restated 2019
	No.	No.
Administration and support	67	56
Sales	12	14
Marketing	1	1
Distribution	252	214
Management	6	12
	<u>338</u>	<u>297</u>

Directors' remuneration is borne by Cathay Investments Limited - a related party due to common control.

9 Auditor's remuneration

	2020	As restated 2019
	£	£
Audit of the financial statements	20,000	18,500
Audit of the financial statements of subsidiaries of the company pursuant to legislation	86,000	111,500
	<u>106,000</u>	<u>130,000</u>
Other fees to auditors		
Taxation compliance services	<u>19,000</u>	<u>23,000</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****10 Tax**

Tax charge/(credit) in the income statement:

	2020	As restated 2019
	£	£
Current taxation		
UK corporation tax	47,992	686,345
Group relief payable	248,880	-
UK corporation tax adjustment to prior periods	<u>(270,841)</u>	<u>148,307</u>
Total current income tax	<u>26,031</u>	<u>834,652</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(58,076)	35,079
Adjustments in respect of previous periods	<u>(59,683)</u>	<u>88,821</u>
Total deferred taxation	<u>(117,759)</u>	<u>123,900</u>
Tax (credit)/expense in the income statement	<u>(91,728)</u>	<u>958,552</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020	As restated 2019
	£	£
Loss before tax from continuing operations	<u>(1,130,998)</u>	<u>(1,002,825)</u>
Corporation tax at standard rate	(214,890)	(190,537)
(Decrease)/increase in current tax from adjustment for prior periods	(156,940)	148,307
Increase from effect of capital allowances depreciation	64,011	32,500
Decrease from effect of revenues exempt from taxation	-	(256,296)
Increase from effect of expenses not deductible in determining taxable profit	772,988	910,135
Decrease arising from group relief	(363,500)	(33,887)
Deferred tax (credit)/expense from unrecognised tax loss or credit	(145,540)	10,996
Deferred tax credit relating to changes in tax rates of laws	(37,281)	(5,255)
(Decrease)/increase in deferred tax from adjustment for prior periods	(59,683)	111,518
Other difference leading to an increase in taxation	49,107	-
Effect of prior year adjustment	-	231,071
Total tax (credit)/charge	<u>(91,728)</u>	<u>958,552</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****10 Tax (continued)****Deferred tax****Group**

Deferred tax assets and liabilities

	Asset	Liability	Net deferred tax
	£	£	£
2020			
Accelerated tax depreciation	122,819	(106,341)	16,478
Tax losses carry-forwards	3,804	-	3,804
Other items	581	(341,113)	(340,532)
	<u>127,204</u>	<u>(447,454)</u>	<u>(320,250)</u>
			Net deferred tax
	Asset	Liability	£
	£	£	
2019			
Accelerated tax depreciation	24,577	-	24,577
Tax losses carry-forwards	6,173	-	6,173
Other items	-	(468,759)	(468,759)
	<u>30,750</u>	<u>(468,759)</u>	<u>(438,009)</u>

Deferred tax movement during the year:

	At 1 January 2020	Recognised in income	At 31 December 2020
	£	£	£
Accelerated tax depreciation	24,577	(8,099)	16,478
Tax losses carry-forwards	6,173	(2,369)	3,804
Other items	(468,759)	128,227	(340,532)
Net tax liabilities	<u>(438,009)</u>	<u>117,759</u>	<u>(320,250)</u>

Deferred tax movement during the prior year:

	At 1 January 2019	Recognised in income	Recognised on acquisition	At 31 December 2019
	£	£	£	£
Accelerated tax depreciation	189,756	(94,179)	(71,000)	24,577
Tax losses carry-forwards	15,479	(26,306)	17,000	6,173
Other items	70,808	(27,912)	(511,655)	(468,759)
Net tax assets/(liabilities)	<u>276,043</u>	<u>(148,397)</u>	<u>(565,655)</u>	<u>(438,009)</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

11 Property, plant and equipment Group

	Land and buildings £	Furniture, fittings and equipment £	Motor vehicles £	Total £
Cost of valuation				
At 1 January 2019	7,603,875	9,699,163	26,000	17,329,038
Adjustment on transition to IFRS 16	29,094,859	1,370,552	38,231	30,503,642
Additions (as restated)	107,006	1,418,718	74,038	1,599,762
Acquired through business combinations	12,069,916	9,625,046	13,325,555	35,020,517
Disposals	(1,111,606)	(391,514)	(142,135)	(1,645,255)
At 31 December 2019 (as restated)	47,764,050	21,721,965	13,321,689	82,807,704
At 1 January 2020	47,764,050	21,721,965	13,321,689	82,807,704
Additions	967,982	509,436	57,636	1,535,054
Additions (discontinued operations)	16,395	2,428	-	18,823
Disposals	(194,864)	(89,779)	(68,042)	(352,685)
Disposals (discontinued operations)	(6,002,698)	(7,419,956)	(12,998,200)	(26,420,854)
At 31 December 2020	42,550,865	14,724,094	313,083	57,588,042
Depreciation and impairment losses				
At 1 January 2019	2,355,884	8,999,884	21,287	11,377,055
Charge for the year (as restated)	3,514,182	890,348	374,493	4,779,023
Depreciation on assets acquired	325,539	6,254,747	9,607,371	16,187,657
Eliminated on disposals	(211,941)	(374,797)	(135,115)	(721,853)
At 31 December 2019 (as restated)	5,983,664	15,770,182	9,868,036	31,621,882
At 1 January 2020	5,983,664	15,770,182	9,868,036	31,621,882
Charge for the year	4,007,152	1,349,966	78,532	5,435,650
Charge for the year (discontinued operations)	743,774	408,206	1,151,668	2,303,648
Eliminated on disposals	(194,864)	(88,779)	(57,226)	(340,869)
Eliminated on disposals (discontinued operations)	(1,434,141)	(6,557,209)	(10,890,650)	(18,882,000)
At 31 December 2020	9,105,585	10,882,366	150,360	20,138,311
Carrying amount				
At 31 December 2020	33,445,280	3,841,728	162,723	37,449,731
At 31 December 2019 (as restated)	41,780,386	5,951,783	3,453,653	51,185,822
At 1 January 2019	5,247,991	699,279	4,713	5,951,983

Included within the net book value of land and buildings above is £101,634 (2019 - £101,634) in respect of freehold land and buildings and £33,343,646 (2019 as restated - £41,678,752) in respect of short leasehold land and buildings.

Pledged as security

Freehold land and buildings with a carrying amount of £101,634 (2019 - £101,634) have been pledged as security for the group's other bank borrowings.

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	2020 £	As restated 2019 £
Land and buildings	29,539,690	37,610,988
Furniture, fittings and equipment	3,099,847	4,840,469
Motor vehicles	145,728	3,076,521
	<u>32,785,265</u>	<u>45,527,978</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****12 Intangible assets****Group**

	Goodwill	Other intangible assets	Total
	£	£	£
Cost of valuation			
At 1 January 2019	2,819,565	4,312,760	7,132,325
Acquired through business combinations	4,010,350	2,761,696	6,772,046
Disposals	(4,904)	-	(4,904)
At 31 December 2019	6,825,011	7,074,456	13,899,467
At 1 January 2020	6,825,011	7,074,456	13,899,467
Disposals	(1,373,576)	-	(1,373,576)
At 31 December 2020	5,451,435	7,074,456	12,525,891
Amortisation			
At 1 January 2019	-	4,103,264	4,103,264
Amortisation charge	-	435,499	435,499
Amortisation on assets acquired	-	67,110	67,110
Impairment	4,188,237	-	4,188,237
At 31 December 2019	4,188,237	4,605,873	8,794,110
At 1 January 2020	4,188,237	4,605,873	8,794,110
Amortisation charge	-	673,250	673,250
Disposals	(1,373,576)	-	(1,373,576)
At 31 December 2020	2,814,661	5,279,123	8,093,784
Carrying amount			
At 31 December 2020	2,636,774	1,795,333	4,432,107
At 31 December 2019	2,636,774	2,468,583	5,105,357
At 1 January 2019	2,819,565	209,496	3,029,061

Other intangible assets include contractual customer relationships and development expenditure.

In accordance with IAS 36 we have carried out an impairment review of the goodwill, other intangible assets and right of use assets of each of our group companies which are considered to be separate cash generating units. This has been done by comparing the carrying value to the value in use. The assessment has been based on the 2021 budget prepared at the beginning of the year which includes a 5 year forecast. Key assumptions affecting the valuation include:

- Forecast EBITDA for each year, as a proxy for operating cash flow;
- Assessment of a terminal value after 5 years;
- Company specific growth rates of between 0% and 5%; and
- Cash flows discounted at the Weighted Average Cost of Capital of the group after applying a single company premium dependent on the characteristics of each company of between 5% and 20%.

No impairment is indicated where the value in use is higher than the carrying value.

The group's investment in Rhys Davies was disposed of during the year and the corresponding assets and impairment have been removed. No impairment of the assets is indicated beyond that already provided in the prior year.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

13 Investments

Details of the company subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2020	2019
Perkins Group Services Limited*	Import and distribution of toys, stationery and seasonal products, warehousing and logistics	England and Wales	100%	100%
Humatt Limited*	Dormant	England and Wales	100%	100%
Buttons Bear and Friends Limited	Dormant	England and Wales	100%	100%
Williams of Swansea Limited*	Import and distribution of toys, stationery and seasonal products	England and Wales	100%	100%
Amethyst Group Limited*	Provision of warehousing and logistics services	England and Wales	100%	100%
Cathay Investments 2 Properties Limited*	Non-trading	England and Wales	100%	100%
The Original Poster Company Limited*	Producer and distributor of greeting cards	England and Wales	100%	100%
PNC Global Logistics Limited*	Holding company	England and Wales	100%	100%
Amethyst Global Freight Limited	Freight forwarding	England and Wales	100%	100%
Warehouse One Distribution Limited*	Warehousing, logistics and transportation services	England and Wales	100%	100%
Brillmond Limited*	Holding company	England and Wales	0%**	100%
Pennboro Limited	Dormant parent company	England and Wales	0%**	100%
Rhys Davies Holdings Limited	Dormant parent company	England and Wales	0%**	100%
Rhys Davies Limited	Dormant parent company	England and Wales	0%**	100%
Rhys Davies & Sons Limited	Haulage Services	England and Wales	0%**	100%
Rhys Davies Forwarding Limited	Dormant	England and Wales	0%**	100%
Rhys Davies & Sons (Haulage) Limited	Dormant	England and Wales	0%**	100%
Rhys Davies Freight Logistics (Scotland) Limited	Dormant	Scotland	0%**	100%
Hills Transport (Cardiff) Limited	Dormant	England and Wales	0%**	100%
Rhys Davies Freight Logistics Limited	Dormant	England and Wales	0%**	100%

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

13 Investments (continued)

C5 Digitals Limited*	Information technology consultancy services	England and Wales	100%	100%
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* indicates direct investment of the company

** indicates companies included in the Brillmond Limited sub-group. Control was deemed to be lost on the date Rhys Davies & Sons Limited entered into administration on 8 December 2020. The cost of the investment in the Brillmond Limited sub-group was fully impaired at 31 December 2019. Note 14 provides further details on this disposal.

In line with the exemption allowed under section 479A of the Companies Act 2006 certain of the subsidiary companies of Cathay Investments 2 Limited have been made exempt from requirements to have an audit under section 475 of the Companies Act 2006. In order to meet this exemption Cathay Investments 2 Limited has pledged to guarantee all outstanding liabilities to which the relevant subsidiaries are subject to at the end of the financial year to which the guarantee relates until they are satisfied in full and that this guarantee is enforceable against the parent undertaking by any person to which the subsidiaries are liable in respect of those liabilities.

For the year ended 31 December 2020 the following subsidiaries were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies:

Cathay Investments 2 Properties Limited (Registration number: 09622202)

Williams of Swansea Limited (Registration number: 03579111)

The Original Poster Company (Registration number: 02580821)

PNC Global Logistics Limited (Registration number: 07677779)

Amethyst Global Freight Limited (Registration number: 04688688)

C5 Digitals Limited (Registration number: 12391026)

Summary of the company's investments

	2020 £	2019 £
Investments in subsidiaries	<u>12,766,699</u>	<u>12,766,698</u>
Subsidiaries		
Cost or valuation		
At 1 January 2019		9,701,530
Additions		6,855,730
Impairment		(3,790,562)
At 31 December 2019		<u>12,766,698</u>
At 1 January 2020		12,766,698
Additions		250,001
Impairment		(250,000)
At 31 December 2020		<u>12,766,699</u>
Carrying amount		
At 31 December 2020		<u>12,766,699</u>
At 31 December 2019		<u>12,766,698</u>
At 1 January 2019		<u>9,701,530</u>

Additions of £1 relate to the purchase of 100% of the shares in C5 Digitals Limited, being a newly incorporated company in the year.

Additions of £250,000 relate to further investment in Brillmond Limited, by way of preference shares.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

14 Analysis of discontinued operations

On 8 December 2020, Rhys Davies & Sons Limited entered into administration. Rhys Davies & Sons Limited was the only trading company within the sub-group of companies headed by Brillmond Limited and, therefore, this sub-group of companies is seen as one cash-generating unit. Control of the Brillmond sub-group of companies was, therefore, deemed to be lost on the date Rhys Davies & Sons Limited entered into administration. In preparing these financial statements, the Brillmond sub-group of companies have been classified as a discontinued operation as they represent a separate major line of business within the group's operations.

The combined results of the discontinued operations included in the income statement and other comprehensive income are set out below. Revenue and expenses, gains and losses relating to the discontinuation of the Brillmond Limited and sub group have been eliminated from profit or loss from the group's continuing operations and are shown as a single line item in the consolidated statement of profit or loss.

	2020 £	2019 £
Revenue	20,517,445	8,269,986
Cost of sales	<u>(19,733,339)</u>	<u>(6,826,365)</u>
Gross profit	784,106	1,443,621
Other income	943,538	-
Administrative expenses	<u>(7,381,797)</u>	<u>(3,000,299)</u>
Operating loss	<u>(5,654,153)</u>	<u>(1,556,678)</u>
Finance costs	<u>(244,241)</u>	<u>(106,938)</u>
Net finance costs	<u>(244,241)</u>	<u>(106,938)</u>
Loss before tax	<u>(5,898,394)</u>	<u>(1,663,616)</u>
Tax credit/(expense)	<u>229,200</u>	<u>(97,331)</u>
Loss for the year	<u><u>(5,669,194)</u></u>	<u><u>(1,760,947)</u></u>
Gain before tax on disposal of subsidiaries	5,022,427	-
Attributable income tax expenses	<u>-</u>	<u>-</u>
	<u>5,022,427</u>	<u>-</u>
Loss for the year from discontinued operations	<u><u>(646,767)</u></u>	<u><u>(1,760,947)</u></u>

Reconciliation of prior year income statement

	2019 £	Prior year adjustment (note 15) £	Discontinued operations £	As restated 2019 £
Revenue	55,089,143	-	(8,269,986)	46,819,157
Cost of sales	<u>(27,999,560)</u>	-	6,826,365	<u>(21,173,195)</u>
Gross profit	27,089,583	-	(1,443,621)	25,645,962
Distribution costs	(5,388,684)	-	-	(5,388,684)
Administrative expenses	<u>(22,066,428)</u>	<u>(802,858)</u>	3,000,299	<u>(19,868,987)</u>
Operating (loss)/profit	<u>(365,529)</u>	<u>(802,858)</u>	1,556,678	388,291
Finance income	22,445	-	-	22,445
Finance costs	<u>(1,107,196)</u>	<u>(413,303)</u>	106,938	<u>(1,413,561)</u>
Net finance costs	<u>(1,084,751)</u>	<u>(413,303)</u>	106,938	<u>(1,391,116)</u>
Loss before tax	(1,450,280)	(1,216,161)	1,663,616	(1,002,825)
Tax expense	<u>(1,055,883)</u>	-	97,331	<u>(958,552)</u>
Loss for the year	<u><u>(2,506,163)</u></u>	<u><u>(1,216,161)</u></u>	1,760,947	<u><u>(1,961,377)</u></u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****14 Analysis of discontinued operations (continued)**

Cash flows generated by the Brillmond Limited group of companies for the reporting periods under review are as follows:

	2020	2019
	£	£
Net cash flows from discontinued operations		
Net cash flows from operating activities	2,555,644	166,931
Net cash flows (used in)/from investing activities	(18,822)	293
Net cash flows used in financing activities	(2,612,343)	(89,303)
Net cash flows	<u>(75,521)</u>	<u>77,921</u>

Revenue

The analysis of the group's revenue for the year from discontinued operations is as follows:

	2020	2019
	£	£
Revenue from contracts with customers	<u>20,517,445</u>	<u>8,269,986</u>

Revenue from contracts with customers arose solely from third party logistics within the UK, and was recognised when services were transferred over time.

Other income

	2020	2019
	£	£
Other income	76,113	-
Government grants received	867,425	-
	<u>943,538</u>	<u>-</u>

Operating loss

Arrived at after charging/(crediting):	2020	2019
	£	£
Depreciation expense	2,303,648	817,160
Loss/(gain) on disposal of property, plant and equipment	41,896	(8,044)
Exceptional item - acquisition costs	-	50,526
Exceptional item - warehouse and premises reorganisation	<u>910,293</u>	<u>-</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****14 Analysis of discontinued operations (continued)****Finance costs**

	2020	2019
	£	£
Interest on bank overdrafts and borrowings	11,258	52,390
Interest expense on leasing arrangements and other finance costs	232,983	54,548
	<u>244,241</u>	<u>106,938</u>

Staff costs

The aggregate payroll costs were as follows:

	2020	2019
	£	£
Wages and salaries	6,730,648	2,351,824
Social security costs	542,258	220,849
Pension and other post-employment benefit costs	28,557	58,128
Redundancy and payment in lieu	451,395	-
	<u>7,752,858</u>	<u>2,630,801</u>

During the year, the discontinued operation received government grant support by way of the Coronavirus Job Retention Scheme (CJRS). The total grant income received for the discontinued operations was £867,425 which is included within other income. The staff costs are shown gross of the CJRS grants received.

The average number of persons employed by the discontinued operation (including directors) during the year, analysed by category was as follows:

	2020	2019
	No.	No.
Administration and support	48	23
Sales	1	-
Distribution	222	60
Management	20	3
	<u>291</u>	<u>86</u>

Auditor's remuneration

	2020	2019
	£	£
Audit of the financial statements of discontinued operations	32,500	41,200
Other fees to auditors - taxation compliance services of discontinued operations	13,750	7,500
	<u>46,250</u>	<u>48,700</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

14 Analysis of discontinued operations (continued)

Tax

Tax charge for discontinued operations:

	2020 £	2019 £
Current taxation		
Group relief receivable	(248,880)	-
UK corporation tax adjustment to prior periods	(11,479)	72,834
Total current income tax	(260,359)	72,834
Deferred taxation		
Arising from origination and reversal of temporary differences	32,415	27,479
Adjustments in respect of previous periods	(1,256)	(2,982)
Total deferred taxation	31,159	24,497
Tax expense	(229,200)	97,331

The tax on profit before tax for the discontinued operations for the year is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £	2019 £
Loss before tax from discontinued operations	(5,898,394)	(1,663,616)
Corporation tax at standard rate	(1,120,695)	(316,087)
(Decrease)/increase in current tax from adjustment for prior periods	(11,479)	72,834
Increase from effect of capital allowances depreciation	707	2,008
Increase from effect of revenues exempt from taxation	126,668	18,050
Increase from effect of expenses not deductible in determining taxable profit	179,557	30,829
Increase arising from group relief	363,513	33,887
Deferred tax expense from unrecognised tax loss or credit	273,013	225,130
Deferred tax (credit)/expense relating to changes in tax rates of laws	(39,228)	25,024
(Decrease)/increase in deferred tax from adjustment for prior periods	(1,256)	5,656
Total tax charge	(229,200)	97,331

Gain on disposal of discontinued operation

	2020 £
Financial assets	10,881,742
Inventory	196,130
Property, plant and equipment	6,448,393
Financial liabilities	(16,924,138)
Lease liability	(5,593,396)
Deferred tax	(31,158)
Net liabilities	(5,022,427)
Consideration paid	-
Gain on disposal of discontinued operation	(5,022,427)

All of the assets and liabilities have been disposed of in this transaction.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

15 Prior year adjustments

The following accounts have been restated to incorporate the impact of a prior period error in a subsidiary. The errors discovered are in respect of the transition to accounting for leases under IFRS 16 Leases from IAS 17 Leases on 1 January 2019. On transition to accounting for leases under IFRS 16 Leases in the year ended 31 December 2019 it has been discovered that some operating leases were not identified as lease liabilities and other adjustments in respect of transitioning to IFRS 16 required further adjustments. As a consequence, the total lease liabilities in the comparative had been understated.

The change has resulted in losses after tax increasing and retained earnings at 31 December 2020 decreasing by £1,216,161.

The error has been corrected by restating each of the affected financial statement lines impacted for the prior period details of those line items affected can be seen below. The results for 2019 have been further adjusted for discontinued operations, the details of which are disclosed in note 14.

	2019 £	Increase/ (decrease) from prior year adjustment £	Discontinued operations (note 14) £	As restated 2019 £
Consolidated income statement:				
Administrative expenses	22,066,428	802,858	(3,000,299)	19,868,987
Operating (loss)/profit	(365,529)	(802,858)	1,556,678	388,291
Finance costs	1,107,196	413,303	(106,938)	1,413,561
Loss before taxation	(1,450,280)	(1,216,161)	1,663,616	(1,002,825)
Loss profit for the year	(2,506,163)	(1,216,161)	1,760,947	(1,961,377)
Consolidated statement of comprehensive income:				
Total comprehensive income for the year	(2,506,163)	(1,216,161)	-	(3,722,324)
Consolidated statement of financial position:				
Property, plant and equipment	52,206,083	(1,020,261)	-	51,185,822
Trade and other receivables - prepayments	19,949,890	(650,906)	-	19,298,984
Total assets	82,164,472	(1,671,167)	-	80,493,305
Trade and other payables - other payables	20,865,323	(2,638,015)	-	18,227,308
Current - lease liability	6,319,541	176,466	-	6,496,007
Non- Current - lease liability	38,981,371	2,006,543	-	40,987,914
Total liabilities	77,281,090	(455,006)	-	76,826,084
Retained earnings	4,868,580	(1,216,161)	-	3,652,419
Total equity and liabilities	82,164,472	(1,671,167)	-	80,493,305

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

16 Leases

Lease liabilities are presented in the statement of financial position as follows:

	Group	
	2020	As restated
	£	2019
		£
Current	4,371,095	6,496,007
Non-current	31,804,839	40,987,914
	<u>36,175,934</u>	<u>47,483,921</u>

Lease liabilities of £36,175,934 (2019 as restated - £47,483,921) are secured over the leased

Leasing activities by type of right-of-use asset recognised on balance sheet:

Group

Right-of-use asset	No. of right-of-use assets leased	Range of remaining lease term	Average remaining lease term	No. of leases with extension options	No. of leases with variable payments linked to an index	No. of leases with termination options
Land and buildings	8	1 - 13 years	4 years	8	1	8
Furniture, fittings and equipment	50	1 - 6 years	2 years	50	-	50
Motor vehicles	11	1 - 3 years	2 years	10	-	10

Future minimum lease payments at 31 December 2020 were as follows:

Group

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	£	£	£	£	£	£	£
31 December 2020							
Lease payments	5,478,441	5,057,181	4,201,022	3,734,208	3,512,264	20,411,159	42,394,275
Finance charges	(1,107,346)	(961,124)	(825,370)	(714,557)	(619,508)	(1,990,436)	(6,218,341)
Net present values	<u>4,371,095</u>	<u>4,096,057</u>	<u>3,375,652</u>	<u>3,019,651</u>	<u>2,892,756</u>	<u>18,420,723</u>	<u>36,175,934</u>

Future minimum lease payments at 31 December 2019 (as restated) were as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	£	£	£	£	£	£	£
31 December 2019							
Lease payments	7,940,392	7,442,412	6,567,841	5,167,532	4,669,955	23,593,142	55,381,274
Finance charges	(1,444,385)	(1,241,639)	(1,048,905)	(878,669)	(743,277)	(2,540,478)	(7,897,353)
Net present values	<u>6,496,007</u>	<u>6,200,773</u>	<u>5,518,936</u>	<u>4,288,863</u>	<u>3,926,678</u>	<u>21,052,664</u>	<u>47,483,921</u>

The group and company recognised £nil (2019 - £nil) expense relating to payments for short-term leases, leases of low value assets and variable lease payments.

At the year end the group was not committed to any short-term leases.

Right-of-use assets

Group

	Land and buildings	Furniture, fittings and equipment	Motor vehicles	Total
	£	£	£	£
Gross carrying amount				
Balance at 1 January 2020 (as restated)	40,772,647	5,534,191	4,104,659	50,411,497
Additions	862,178	375,177	37,150	1,274,505
Disposals	(194,864)	(77,047)	(42,042)	(313,953)
Disposals (discontinued operations)	(5,636,361)	(972,350)	(3,834,670)	(10,443,381)
Balance at 31 December 2020	<u>35,803,600</u>	<u>4,859,971</u>	<u>265,097</u>	<u>40,928,668</u>
Depreciation and impairment				
Balance at 1 January 2020 (as restated)	3,161,659	693,722	1,028,138	4,883,519
Disposals	(194,864)	(76,047)	(34,152)	(305,063)
Disposals (discontinued operations)	(1,112,740)	(293,772)	(1,919,659)	(3,326,171)
Depreciation	3,669,793	1,200,041	70,405	4,940,239
Depreciation (discontinued operations)	740,062	236,180	974,637	1,950,879
Balance at 31 December 2020	<u>6,263,910</u>	<u>1,760,124</u>	<u>119,369</u>	<u>8,143,403</u>
Carrying amount 31 December 2020	<u>29,539,690</u>	<u>3,099,847</u>	<u>145,728</u>	<u>32,785,265</u>
Carrying amount 31 December 2019 (as restated)	<u>37,610,988</u>	<u>4,840,469</u>	<u>3,076,521</u>	<u>45,527,978</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

17 Inventories

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Finished goods and goods for resale	<u>1,035,716</u>	<u>1,542,549</u>	<u>-</u>	<u>-</u>

The cost of group inventories recognised as an expense in the year from continuing operations amounted to £5,743,431 (2019 as restated - £5,762,178). This is included within cost of sales.

18 Trade and other receivables

		Group		Company	
	Note	2020	As restated 2019	2020	2019
		£	£	£	£
Trade receivables		8,105,506	15,697,681	-	-
Receivables from related parties	29	1,055,942	-	1,645,154	-
Other prepayments		2,903,138	2,813,263	-	-
Other receivables		<u>572,483</u>	<u>788,040</u>	<u>91,414</u>	<u>240,526</u>
		<u>12,637,069</u>	<u>19,298,984</u>	<u>1,736,568</u>	<u>240,526</u>

Details of non-current trade and other receivables

Group

£4,000 (2019 - £4,555) of trade receivables is classified as non-current. This balance relates to trade receivables under agreed long term payment plans.

The amortised cost of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

19 Cash and cash equivalents

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Cash at bank	<u>5,060,048</u>	<u>3,329,843</u>	<u>102,259</u>	<u>178,891</u>

20 Share capital

	2020		2019	
	No.	£	No.	£
Ordinary shares of £1 each	12,000	12,000	12,000	12,000
Ordinary shares of £3 each	<u>934</u>	<u>2,802</u>	<u>934</u>	<u>2,802</u>
	<u>12,934</u>	<u>14,802</u>	<u>12,934</u>	<u>14,802</u>

Rights, preferences and restrictions

Each ordinary share of £1 is entitled to one vote. Each ordinary share of £3 is entitled to three votes.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

21 Reserves

Group

Share capital

Represents the nominal value of shares that have been issued.

Retained earnings

Includes all current and prior period retained profits and losses.

Company

Share capital

Represents the nominal value of shares that have been issued.

Retained earnings

Includes all current and prior period retained profits and losses.

22 Loans and borrowings

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Non-current loans and borrowings				
Bank borrowings	6,445,126	5,197,101	6,445,126	4,350,533
Redeemable preference shares	936,885	936,885	936,885	936,885
	<u>7,382,011</u>	<u>6,133,986</u>	<u>7,382,011</u>	<u>5,287,418</u>
	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Current loans and borrowings				
Bank borrowings	-	75,788	-	-
Other borrowings	944,041	1,200,000	944,041	1,200,000
	<u>944,041</u>	<u>1,275,788</u>	<u>944,041</u>	<u>1,200,000</u>

Group

Bank borrowings

On 18 December 2020 the group, together with its related company Cathay Investments Limited, refinanced their bank borrowings with HSBC Bank PLC. All the loans in Cathay Investments 2 Limited are provided by HSBC Bank PLC and are denominated in sterling with a nominal interest rate of 3.0 - 4.0% above the LIBOR Rate, and with the final instalment due by 28 February 2025.

Redeemable preference shares

The holder of the redeemable preference shares has the right to redeem such shares at par. The holders of the redeemable preference shares have confirmed their intentions to hold the shares for more than one year. Accordingly, these redeemable preference shares are presented as a liability within non-current loans and borrowings in the statement of financial position.

The redeemable preference shares carry a 0% coupon rate.

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risk, including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

23 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charged for the year from continuing operations represents contributions payable by the group to the scheme and amounted to £181,794 (2019 as restated - £173,014).

Contributions totalling £18,234 (2019 - £129,261) were payable to the scheme at the end of the year and are included in creditors.

24 Other provisions

Group

	Rates provision £	Dilapidations provision £	Total £
At 1 January 2020	1,422,000	805,000	2,227,000
Additional provisions	610,000	138,000	748,000
At 31 December 2020	<u>2,032,000</u>	<u>943,000</u>	<u>2,975,000</u>
Non-current liabilities	<u>-</u>	<u>833,000</u>	<u>833,000</u>

Provisions with amounts of £2,142,000 (2019 - £1,530,000) expected to fall due within one year and £833,000 (2019 - £697,000) expected to fall due after more than one year.

25 Trade and other payables

	Group		Company	
	2020	As restated 2019	2020	2019
	£	£	£	£
Trade payables	2,628,398	5,882,867	18,049	114,170
Accrued expenses	2,180,493	2,616,145	8,693	-
Amounts due to related parties	45,220	42,251	5,849,055	2,616,206
Social security and other taxes	1,108,730	1,562,110	-	-
Other payables	<u>5,723,613</u>	<u>8,123,935</u>	<u>-</u>	<u>-</u>
	<u>11,686,454</u>	<u>18,227,308</u>	<u>5,875,797</u>	<u>2,730,376</u>

Included within the other payables balance is an amount of £5,689,314 (2019 - £7,028,187) in respect of the group's invoice discounting facility. This amount is secured by fixed and floating charges over the group's assets.

The amortised cost of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

26 Contingent liabilities

Company

The company has given cross guarantees to the groups bankers in respect of borrowings by certain group companies. The amount guaranteed is £25,619,405 (2019 - £27,646,607).

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

27 Financial instruments

Categories of financial instruments

The group and the company held the following financial assets:

	Group		Company	
	2020	As restated 2019	2020	2019
	£	£	£	£
Trade and other receivables	9,733,931	16,485,721	1,736,568	240,526
Cash and cash equivalents	5,060,048	3,329,843	102,259	178,891
	<u>14,793,979</u>	<u>19,815,564</u>	<u>1,838,827</u>	<u>419,417</u>

The group and the company held the following financial liabilities:

	Group		Company	
	2020	As restated 2019	2020	2019
	£	£	£	£
Trade and other payables	11,686,454	18,227,308	5,875,797	2,730,376
Bank borrowings	6,445,126	5,272,889	6,445,126	4,350,533
Lease liabilities	36,175,934	47,483,921	-	-
Other borrowings	944,041	1,200,000	944,041	1,200,000
Redeemable preference shares	936,885	936,885	936,885	936,885
	<u>56,188,440</u>	<u>73,121,003</u>	<u>14,201,849</u>	<u>9,217,794</u>

28 Financial risk management and impairment of financial assets

The group's and the company's activities expose it to a variety of financial risks: market risks, credit risk, liquidity risk, cash flow interest rate risk and fair value interest rate risk. The group's and the company's overall risk management programme focuses on the unpredictability of the marketplace and seeks to minimise potential adverse effects on the group's and the company's financial performance.

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

Market risk

Interest rate risk

The group's and company's interest rate risk arises from long term borrowings. Borrowings at variable rate expose the group and company to cash flow interest rate risk which is partially offset by cash held at variable rates.

Sensitivity analysis

The sensitivity analysis below has been determined based on exposure to interest rates for the fixed term borrowings of the group and company subject to interest charges at the statement of financial position date. For floating rate liabilities the analysis is prepared assuming the amount of the liability outstanding at the statement of financial position date was outstanding for the whole year. The group's and company's assessment of the reasonably possible change in interest rates is 0.25% increase or decrease.

Based on bank borrowings at 31 December 2020 if interest rates were 0.25% higher (or lower) and all other variables were held constant, the group's net profit would decrease (or increase) by £16,113.

Credit risk and impairment

The group's and the company's exposure to credit risk is limited to the carrying value of financial assets recognised at the year end. The maximum exposure to credit risk in relation to trade receivables is equivalent to the year end balance. The group continuously monitors the creditworthiness of customers and other counterparties. The group's and the company's policy is to deal only with creditworthy counterparties. The group benefits from credit insurance on some of its trade receivables.

The group and the company is not exposed to any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Impairment losses on financial assets recognised in profit or loss were as follows:

	2020 £	2019 £
Impairment loss on trade receivables	<u>291,122</u>	<u>321,909</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

28 Financial risk management and impairment of financial assets (continued)

Past due and impaired financial assets

The directors consider that all the above financial assets that are not impaired for each of the reporting dates under review are of good quality credit, based on financial information and past trading history, including those that are past due.

Liquidity risk

Liquidity needs are monitored carefully on a day-to-day basis. Longer term liquidity needs are assessed through monthly, quarterly, and annual cash flow forecasts.

Maturity analysis

	Within 1 year £	After 1 year £	Total £
2020			
Non-interest bearing borrowings	944,041	-	944,041
Bank borrowings	-	6,445,126	6,445,126
Redeemable preference shares	-	936,885	936,885
Lease liabilities	4,371,095	31,804,839	36,175,934
	<u>5,315,136</u>	<u>39,186,850</u>	<u>44,501,986</u>
	As restated Within 1 year £	As restated After 1 year £	Total £
2019			
Non-interest bearing borrowings	1,200,000	-	1,200,000
Bank borrowings	75,788	5,197,101	5,272,889
Redeemable preference shares	-	936,885	936,885
Lease liabilities	6,496,007	40,987,914	47,483,921
	<u>7,771,795</u>	<u>47,121,900</u>	<u>54,893,695</u>

Capital risk management

Capital components

Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus debt.

Externally imposed capital requirements

The group has no externally imposed capital requirements.

Capital management

The group's and company's policy is to maintain a strong capital base with a view to underpinning shareholder and creditor confidence and sustaining the future development of the business. Capital consists of ordinary shares, other capital reserves, retained earnings, preference shares and other debt. The group monitors performance at both a corporate and individual asset level and sets internal guidelines for interest cover and gearing. The group manages the capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The amounts managed as capital by the group and the company for the reporting periods under review are summarised as follows:

	Group		Company	
	2020 £	As restated 2019 £	2020 £	2019 £
Share capital	14,802	14,802	14,802	14,802
Retained earnings	(33,618)	3,652,419	388,875	3,953,519
Redeemable preference shares	936,885	936,885	936,885	936,885
Bank borrowings	6,445,126	5,272,889	6,445,126	4,350,533
	<u>7,363,195</u>	<u>9,876,995</u>	<u>7,785,688</u>	<u>9,255,739</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

29 Related party transactions

Key management personnel

B Chaing, director
K Johnson, director
D Nicholas, director
G Thwaites, director
M Chaing, director
S Chaing, director

Summary of transactions with key management

During the year, B Chaing continued to provide a loan to the company. At the year end the amount due to B Chaing was £944,041 (2019 - £1,200,000). The loan from B Chaing is interest free and repayable on demand.

Summary of transactions with parent company

During the year, Chaing Equities Limited provided a loan to the company. During the year, Chaing Equities Limited recharged insurance costs to Cathay Investments 2 Limited totalling £73,600 (2019: £nil). The amount due to Chaing Equities Limited at the year end is £42,828 (2019 - £nil).

Summary of transactions with entities with joint control or significant interest

Cathay Investments Limited and its subsidiary companies, related due to common control
During the year, Cathay Investments Limited and subsidiary companies recharged costs of £178,313 (2019 - £89,333) to the group. During the year the group paid management expenses of £720,000 (2019 - £565,000) to Cathay Investments Limited and its subsidiary companies.

During the year, the group made sales of £417,299 (2019 - £564,160) to Cathay Investments Limited and its subsidiary companies.

During the year, the group continued to provide a loan to Cathay Investments Limited. The group advanced an amount of £2,267,320 (2019 - £610,224) to Cathay Investments Limited during the year. Cathay Investments Limited made loan repayments of £1,200,403 (2019 - £1,941,899) during the year.

The group has given cross guarantees in respect of borrowings by Cathay Investments Limited and certain of its subsidiaries. The total amount of contingencies not included in the balance sheet is £19,930,091 (2019 - £19,696,065).

At the year end the net amount due from Cathay Investments Limited and its subsidiary companies is £1,053,550 (2019 - due to £42,251).

Income and receivables from related parties

	Entities with joint control or significant influence £
2020	
Receipt of services	417,299
Settlement of liabilities	(1,200,403)
Provision of loan	2,267,320
	<u>1,484,216</u>
Amounts receivable from related party	<u>1,055,942</u>
	Entities with joint control or significant influence £
2019	
Receipt of services	564,160
Settlement of liabilities	1,941,899
Provision of loan	(610,224)
	<u>1,895,835</u>
Amounts receivable from related party	<u>-</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2020****29 Related party transactions (continued)****Expenditure with and payables to related parties**

	Parent company	Entities with joint control or significant influence
	£	£
2020		
Rendering of services	-	720,000
Recharged expenses	73,600	178,313
	<u>73,600</u>	<u>898,313</u>
Amounts payable to related party	<u>42,828</u>	<u>2,392</u>

	Entities with joint control or significant influence
	£
2019	
Rendering of services	565,000
Purchase of property or other assets	89,333
	<u>654,333</u>
Amounts payable to related party	<u>42,251</u>

Loans from related parties

	Key management
	£
2020	
At start of period	1,200,000
Repaid	(255,959)
Provision of loan	-
At end of period	<u>944,041</u>

	Key management
	£
2019	
At start of period	688,960
Repaid	(688,960)
Provision of loan	1,200,000
At end of period	<u>1,200,000</u>

30 Controlling party

The company's immediate parent company is Chaing Equities Limited, incorporated in England and Wales.

The ultimate controlling party is B Chaing and members of his close family, who control, directly or indirectly, 100% of the share capital in Chaing Equities Limited.

The most senior entity producing publicly available consolidated financial statements is Chaing Equities Limited. These financial statements are available upon request from Cathay Investments Ltd, 43 Friends Road, Croydon, United Kingdom, CR0 1ED.