

Registered number: 07475530

Cathay Investments 2 Limited

Directors' Report, Strategic Report and Audited Consolidated Financial Statements

for the Year Ended 31 December 2019

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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	Springfield House Springfield Road Horsham West Sussex RH12 2RG
Statutory auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG

Cathay Investments 2 Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business

The group has grown during 2019 with the acquisition of two new companies, Warehouse One Distribution Limited (WH1) and Rhys Davies & Sons Limited (RD). These acquisitions were made in late 2019 with the aim to extend the logistics part of the business, bring in additional warehousing capacity and add transport services. In addition to warehousing both companies have a fleet of trucks. RD is acquired in a distressed state and we note that, following the year end, the impact of coronavirus on RD has been significant and the business entered into administration. The goodwill on acquisition of RD has been fully impaired and this is included as an exceptional item in the accounts.

The group made a loss before tax for the year of £1,450,280 (2018: profit before tax - £1,311,556). The statement of financial position shows total assets of £82,164,472 (As at 31 December 2018: £28,047,441), total liabilities of £77,281,090 (As at 31 December 2018: £20,657,896) and net assets of £4,883,382 (As at 31 December 2018: £7,389,545).

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

	Unit	2019	2018
EBITDA [1]	£	9,916,046	3,899,023
Cash generated from operations	£	11,231,844	3,249,931

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 negative goodwill on acquisition and exceptional items

The improvement in EBITDA is influenced by the adoption of IFRS 16, the impact of which is disclosed in note 2.

Principal risks and uncertainties

The performance of the group, as a provider of third party logistics services, is to some extent determined by the performance of its underlying customers. 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 loss of key customer relationships is a key risk identified by the directors.

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.

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.

Cathay Investments 2 Limited

Strategic Report for the Year Ended 31 December 2019

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.

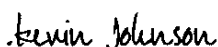
Business relationships

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 23 December 2020 and signed on its behalf by:



K Johnson
Director

23/12/2020

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the consolidated financial statements for the year ended 31 December 2019.

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; and
- design, manufacture and distribution of greeting cards.

Dividends

The directors recommend that no dividend be paid (2018: £nil). Post year end a dividend of £2m was declared and paid.

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 19. 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.

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2019

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.

Environmental matters

The group's policy with regard to the environment is to understand and manage the actual and potential impact of activities. All legal requirements that are relevant to the group's business are complied with. The group has not incurred any fines or penalties or been investigated for any breach of environmental regulations during the period under review.

Going concern

The directors have considered carefully the appropriateness of adopting the going concern basis of preparation for these accounts, particularly in the light of the impact of Covid-19 since the 31 December 2019 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 of preparation, the directors have prepared a forecast model including monthly profit and loss accounts, balance sheets and cash flows for 2021, with an annual forecast for 2022 to 2024 thereafter. The forecast is built on a bottom up basis, company by company, and adopts 2020 as its base year. The results for 2020 are based on nine months of actual results (Q1 to Q3) and a forecast for Q4. As a result the base year reflects six months of actual Covid impacted results and 3 months of forecast results under similar conditions. Notwithstanding recent announcements about the prospects for possible vaccines, the forecast for 2021 assumes no significant improvement in conditions with regard to the continuing impact of Covid-19. Indeed, no significant growth is assumed generally. Our going concern assessment covers the period to 31 December 2021 being at least one year from the date of approval of our financial statements.

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 businesses.

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 somewhat since the tightest restrictions were lifted but remains well below historical levels and this is forecast to continue. This has been mitigated somewhat by an improvement in sales mix that has generated increased gross margins.

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2019

Our logistics businesses, which operate predominantly in the UK, have benefited from increased consumer demand online. As a result, this part of the group has enjoyed healthy trading conditions, indeed many of the companies in this part of the group have exceeded their initial budgets for 2020, budgets that were prepared before Covid was known.

All of our companies were 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.

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. These consistently show availability in excess of £5m and often significantly more than that.

The bank facilities contain certain covenants. The principal covenants relate to leverage and debt services 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. 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, continuing availability against invoice finance facilities and covenant compliance. 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.

Future developments

COVID-19 Pandemic

On 23 March 2020, the UK entered a period of lockdown in response to the COVID-19 pandemic. The business and a number of its clients provide essential products and have been able to continue trading, and the group has remained open as a key business throughout the crisis. Operations have been on a reduced scale and this has impacted further on revenue and profitability. The group is committed to ensuring a safe environment for its staff and customers and has made appropriate changes to manage coronavirus risks.

Post balance sheet events

On 8 December 2020 Rhys Davies & Sons Limited, a subsidiary undertaking, entered into administration.

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 Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group 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 Financial Reporting Standards (IFRSs) as adopted by the European Union 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.

Cathay Investments 2 Limited

Directors' Report for the Year Ended 31 December 2019

Statement of directors' responsibilities (continued)

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.

To the best of our knowledge:


- the financial statements, prepared in accordance with International Financial Reporting Standards, 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 23 December 2020 and signed on its behalf by:



K Johnson
Director

23/12/2020

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

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 2019, 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- 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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

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

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

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

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or parent company will continue in operation.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the 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

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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6 - 7, 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.

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.



.....
Marc Summers BSc (Hons) FCA (Senior Statutory Auditor)

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

Date: 23 December 2020

Cathay Investments 2 Limited**Consolidated Income Statement for the Year Ended 31 December 2019**

	Note	2019 £	2018 £
Revenue	5	55,089,143	45,098,360
Cost of sales		(27,999,560)	(21,437,228)
Gross profit		27,089,583	23,661,132
Distribution costs		(5,388,684)	(5,791,068)
Administrative expenses		(22,066,428)	(16,307,739)
Operating (loss)/profit	6	(365,529)	1,562,325
Finance income		22,445	26,986
Finance costs		(1,107,196)	(277,755)
Net finance costs	7	(1,084,751)	(250,769)
(Loss)/profit before tax		(1,450,280)	1,311,556
Tax expense	10	(1,055,883)	(424,806)
(Loss)/profit for the year		(2,506,163)	886,750
(Loss)/profit attributable to:			
Owners of the company		(2,506,163)	839,373
Non-controlling interests		-	47,377
		(2,506,163)	886,750

The above results were derived from continuing operations.

Cathay Investments 2 Limited**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019**

	2019 £	2018 £
(Loss)/profit for the year	(2,506,163)	886,750
Total comprehensive income for the year	<u>(2,506,163)</u>	<u>886,750</u>
Total comprehensive income attributable to:		
Owners of the company	(2,506,163)	839,373
Non-controlling interests	-	47,377
	<u>(2,506,163)</u>	<u>886,750</u>

Cathay Investments 2 Limited**(Registration number: 07475530)****Consolidated Statement of Financial Position as at 31 December 2019**

	Note	2019 £	2018 £
Non-current assets			
Property, plant and equipment	11	52,206,083	5,951,983
Intangible assets	12	5,105,357	3,029,061
Deferred tax assets	10	30,750	276,043
		<u>57,342,190</u>	<u>9,257,087</u>
Current assets			
Inventories	16	1,542,549	1,513,702
Trade and other receivables	17	19,949,890	12,536,490
Cash and cash equivalents	18	3,329,843	4,740,162
		<u>24,822,282</u>	<u>18,790,354</u>
Total assets		<u>82,164,472</u>	<u>28,047,441</u>
Equity			
Share capital	19	14,802	14,802
Retained earnings		4,868,580	7,357,894
Equity attributable to owners of the company		<u>4,883,382</u>	<u>7,372,696</u>
Non-controlling interests		-	16,849
Total equity		<u>4,883,382</u>	<u>7,389,545</u>
Non-current liabilities			
Loans and borrowings	21	6,133,986	6,330,209
Provisions	23	2,227,000	1,438,664
Lease liability	15	38,981,371	-
Deferred tax liabilities	10	468,759	-
		<u>47,811,116</u>	<u>7,768,873</u>
Current liabilities			
Trade and other payables	24	20,865,323	11,123,330
Loans and borrowings	21	1,275,788	1,691,163
Lease liability	15	6,319,541	-
Corporation tax liability		1,009,322	74,530
		<u>29,469,974</u>	<u>12,889,023</u>
Total liabilities		<u>77,281,090</u>	<u>20,657,896</u>
Total equity and liabilities		<u>82,164,472</u>	<u>28,047,441</u>

Approved by the Board on 23 December 2020 and signed on its behalf by:

*Kevin Johnson*K Johnson
Director
23/12/2020

The notes on pages 19 to 45 form an integral part of these financial statements.

Cathay Investments 2 Limited**(Registration number: 07475530)****Company Statement of Financial Position as at 31 December 2019**

	Note	2019 £	2018 £
Non-current assets			
Investments	13	12,766,698	9,701,530
Deferred tax assets	10	-	8,060
		<u>12,766,698</u>	<u>9,709,590</u>
Current assets			
Trade and other receivables	17	240,526	1,285,677
Cash and cash equivalents	18	178,891	208,410
		<u>419,417</u>	<u>1,494,087</u>
Total assets		<u>13,186,115</u>	<u>11,203,677</u>
Equity			
Share capital	19	14,802	14,802
Retained earnings		3,953,519	4,112,641
Total equity		<u>3,968,321</u>	<u>4,127,443</u>
Non-current liabilities			
Loans and borrowings	21	5,287,418	5,412,957
Current liabilities			
Trade and other payables	24	2,730,376	47,902
Loans and borrowings	21	1,200,000	1,615,375
		<u>3,930,376</u>	<u>1,663,277</u>
Total liabilities		<u>9,217,794</u>	<u>7,076,234</u>
Total equity and liabilities		<u>13,186,115</u>	<u>11,203,677</u>

Approved by the Board on 23 December 2020 and signed on its behalf by:

Kevin Johnson
 K Johnson
 Director
 23/12/2020

Cathay Investments 2 Limited**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital	Retained earnings	Total	Non-controlling interests	Total
	£	£	£	£	£
At 1 January 2018	14,802	6,518,521	6,533,323	(30,528)	6,502,795
Profit for the year	-	839,373	839,373	47,377	886,750
Total comprehensive income	-	839,373	839,373	47,377	886,750
At 31 December 2018	14,802	7,357,894	7,372,696	16,849	7,389,545

	Share capital	Retained earnings	Total	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	-	(2,506,163)	(2,506,163)	-	(2,506,163)
Total comprehensive income	-	(2,506,163)	(2,506,163)	-	(2,506,163)
Acquisition of minority shareholding	-	16,849	16,849	(16,849)	-
At 31 December 2019	14,802	4,868,580	4,883,382	-	4,883,382

Cathay Investments 2 Limited**Company Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2018	14,802	4,380,979	4,395,781
Loss for the year	-	(268,338)	(268,338)
Total comprehensive income	-	(268,338)	(268,338)
At 31 December 2018	<u>14,802</u>	<u>4,112,641</u>	<u>4,127,443</u>

	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	<u>14,802</u>	<u>3,953,519</u>	<u>3,968,321</u>

Cathay Investments 2 Limited**Consolidated Statement of Cash Flows for the Year Ended 31 December 2019**

	Note	2019 £	2018 £
Cash flows from operating activities			
(Loss)/profit for the year		(2,506,163)	886,750
Adjustments to cash flows from non-cash items:			
Depreciation, amortisation and impairment	6	9,396,149	1,799,077
Loss/(profit) on disposal of property, plant and equipment	6	130,558	(354)
Loss on disposal of goodwill	6	4,904	-
Finance income	7	(22,445)	(26,986)
Finance costs	7	1,107,196	277,755
Tax expense	10	1,055,883	424,806
		<u>9,166,082</u>	<u>3,361,048</u>
Working capital adjustments:			
Decrease in inventories	16	175,238	418,053
Decrease/(increase) in trade and other receivables	17	3,290,625	(2,024,786)
(Decrease)/increase in trade and other payables	24	(2,336,834)	784,535
Increase in provisions	23	788,336	357,705
Increase in deferred tax	10	148,397	353,376
Cash generated from operations		<u>11,231,844</u>	<u>3,249,931</u>
Income taxes paid		<u>(56,862)</u>	<u>(572,824)</u>
Net cash flow from operating activities		<u>11,174,982</u>	<u>2,677,107</u>
Cash flows from investing activities			
Interest received	7	22,445	26,986
Acquisitions of property, plant and equipment	11	(162,522)	(557,898)
Proceeds from sale of property, plant and equipment		792,842	3,305
Acquisition of subsidiaries	14	(6,335,085)	-
Acquisition of minority shareholding	14	(10)	-
Net cash flows from investing activities		<u>(5,682,330)</u>	<u>(527,607)</u>
Cash flow from financing activities			
Interest paid	7	(1,107,196)	(277,755)
Value of new loans obtained during the year		-	49,715
Repayment of loans and borrowings		(1,046,223)	(92,616)
Repayment of lease liabilities		(4,221,851)	-
Repayment of other financing activities		-	(12,314)
Proceeds/(repayment) of other borrowing	21	511,040	(521,289)
Repayment of shares classified as liabilities	21	(926,415)	-
(Decrease)/increase in invoice discounting facility	24	(112,326)	1,405,655
Net cash flows from financing activities		<u>(6,902,971)</u>	<u>551,396</u>
Net (decrease)/increase in cash and cash equivalents		<u>(1,410,319)</u>	<u>2,700,896</u>
Cash and cash equivalents at 1 January	18	<u>4,740,162</u>	<u>2,039,266</u>
Cash and cash equivalents at 31 December	18	<u><u>3,329,843</u></u>	<u><u>4,740,162</u></u>

The notes on pages 19 to 45 form an integral part of these financial statements.

Cathay Investments 2 Limited**Company Statement of Cash Flows for the Year Ended 31 December 2019**

	Note	2019 £	2018 £
Cash flows from operating activities			
Loss for the year		(159,122)	(268,338)
Adjustments to cash flows from non-cash items:			
Impairment of investments	13	3,790,562	-
Finance income		(4,666,870)	(20,476)
Finance costs		170,674	144,273
Tax expense/(credit)		8,060	(8,060)
		<u>(856,696)</u>	<u>(152,601)</u>
Working capital adjustments:			
Decrease in trade and other receivables	17	1,045,151	120,970
Increase/(decrease) in trade and other payables	24	2,682,474	(483,961)
Net cash flow from operating activities		<u>2,870,929</u>	<u>(515,592)</u>
Cash flows from investing activities			
Interest received		1,670	20,476
Dividends received		4,665,200	-
Acquisition of subsidiaries	13	(6,855,730)	(2,965)
Net cash flows from investing activities		<u>(2,188,860)</u>	<u>17,511</u>
Cash flow from financing activities			
Interest paid		(170,674)	(144,273)
Proceeds from bank borrowing drawdowns		-	49,716
Repayment of bank borrowing	21	(125,539)	-
Repayment of shares classified as liabilities	21	(926,415)	-
Proceeds/(repayment) of other borrowings		511,040	(521,289)
Net cash flows from financing activities		<u>(711,588)</u>	<u>(615,846)</u>
Net decrease in cash and cash equivalents		<u>(29,519)</u>	<u>(1,113,927)</u>
Cash and cash equivalents at 1 January	18	208,410	1,322,337
Cash and cash equivalents at 31 December	18	<u>178,891</u>	<u>208,410</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

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 is:

Springfield House
Springfield Road
Horsham
West Sussex
RH12 2RG

The principal place of business is:

Office 37
Airport House
Purley Way
Croydon
CR0 0XZ

2 Adoption of new and revised standards

New standards, interpretations and amendments effective

The following pronouncement has been adopted by the group and company in the year and its impact on the financial statements is set out below:

IFRS 16 'Leases'; effective 1 January 2019

IFRS 16 'Leases' replaces the previous standard for leases, IAS 17 'Leases'.

The adoption of this new standard has resulted in the recognition of a right-of-use asset and a related lease liability for future lease commitments in the statement of financial position in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach. Prior periods have not been restated.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was between 2.95% and 15.9% depending on the asset class.

The following is a reconciliation of the financial statement line items for the group from IAS 17 to IFRS 16 at 1 January 2019:

	Cost at 31 December 2018	Remeasurement	IFRS 16 cost at 1 January 2019
	£	£	£
Property, plant and equipment	17,329,038	32,811,096	50,140,134
Lease liabilities	-	(32,811,096)	(32,811,096)
Total	<u>17,329,038</u>	<u>-</u>	<u>17,329,038</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Adoption of new and revised standards (continued)

The following is a reconciliation of total operating lease commitments for the group at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£	£
Total operating lease commitments disclosed at 31 December 2018		40,310,912
Recognition exemptions:		
* Leases of low value assets	-	
* Leases with remaining lease term of less than 12 months	-	
Variable lease payments not recognised	-	
Other minor adjustments relating to commitment disclosures	-	
		-
Operating lease liabilities before discounting		40,310,912
Discounted using incremental borrowing rate		(7,499,816)
Operating lease liabilities		32,811,096
Reasonably certain extension options		-
Finance lease obligations		-
Total lease liabilities recognised under IFRS 16 at 1 January 2019		32,811,096

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:

- IFRIC 23 'Uncertainty over Income Tax Treatments'; effective 1 January 2019
- Annual Improvements (2015 - 2017); effective 1 January 2019

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. In some cases these standards and guidance had not been endorsed by the European Union:

- 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
- Conceptual Framework for Financial Reporting; effective 1 January 2020

None of the other standards, interpretations and amendments which are effective for periods beginning after 31 December 2019 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 Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRSs"). They are consistent with the IFRSs as issued by the International Accounting Standards Board and IFRIC interpretations issued and effective at the time of preparing these financial statements and are in accordance with 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.

Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRSs 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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

Going concern

The directors have considered carefully the appropriateness of adopting the going concern basis of preparation for these accounts, particularly in the light of the impact of Covid-19 since the 31 December 2019 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 of preparation, the directors have prepared a forecast model including monthly profit and loss accounts, balance sheets and cash flows for 2021, with an annual forecast for 2022 to 2024 thereafter. The forecast is built on a bottom up basis, company by company, and adopts 2020 as its base year. The results for 2020 are based on nine months of actual results (Q1 to Q3) and a forecast for Q4. As a result the base year reflects six months of actual Covid impacted results and 3 months of forecast results under similar conditions. Notwithstanding recent announcements about the prospects for possible vaccines, the forecast for 2021 assumes no significant improvement in conditions with regard to the continuing impact of Covid-19. Indeed, no significant growth is assumed generally. Our going concern assessment covers the period to 31 December 2021 being at least one year from the date of approval of our financial statements.

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 businesses.

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 somewhat since the tightest restrictions were lifted but remains well below historical levels and this is forecast to continue. This has been mitigated somewhat by an improvement in sales mix that has generated increased gross margins.

Our logistics businesses, which operate predominantly in the UK, have benefited from increased consumer demand online. As a result, this part of the group has enjoyed healthy trading conditions, indeed many of the companies in this part of the group have exceeded their initial budgets for 2020, budgets that were prepared before Covid was known.

All of our companies were 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.

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. These consistently show availability in excess of £5m and often significantly more than that.

The bank facilities contain certain covenants. The principal covenants relate to leverage and debt services 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. 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, continuing availability against invoice finance facilities and covenant compliance. 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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2019.

Three of the subsidiary undertakings has a reporting date of 30 December 2019. 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 £159,122 (2018 - £268,338).

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.

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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

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.

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 of 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 2019

3 Accounting policies (continued)

Business combinations

The purchase 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.

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

Contractual customer relationships
Development expenditure

Amortisation method and rate

25% - 50% per annum straight line
Between 3 and 6 years per annum straight line

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

Leasing

IFRS 16 has been applied using the modified retrospective approach and therefore comparative information has not been restated. Comparative information has still been reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 January 2019, the company considers whether a contract is, or contains a lease.

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 interest rate implicit in the lease if that rate is readily available or the group's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes to in-substance fixed payments.

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.

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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

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.

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.

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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Accounting policies (continued)

Financial assets and liabilities (continued)

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. 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 2019

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.

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 2019****5 Revenue**

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

	2019	2018
	£	£
Revenue from contracts with customers	54,961,698	44,940,581
Other revenue	127,445	157,779
	<u>55,089,143</u>	<u>45,098,360</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:

	2019	2018
	£	£
Primary geographical markets		
UK	54,319,942	43,776,959
Europe	499,245	179,467
Rest of world	142,511	984,155
	<u>54,961,698</u>	<u>44,940,581</u>
Major products and service lines		
Third party logistics	45,374,529	34,511,675
Toys, stationery and greetings cards	9,587,169	10,428,906
	<u>54,961,698</u>	<u>44,940,581</u>
Timing of revenue recognition		
Products transferred at a point in time	9,626,081	10,449,617
Services transferred over time	45,335,617	34,490,964
	<u>54,961,698</u>	<u>44,940,581</u>

6 Operating (loss)/profit

Arrived at after charging/(crediting):

	2019	2018
	£	£
Depreciation expense	4,772,413	478,967
Amortisation expense	435,499	1,150,780
Impairment of freehold land and buildings	-	169,330
Foreign exchange gains	(278,866)	(18,927)
Loss/(profit) on disposal of property, plant and equipment	130,558	(354)
Loss on disposal of goodwill	4,904	-
Operating lease rentals	-	2,642,444
Exceptional item - redundancy costs	171,819	108,143
Exceptional item - warehouse and premises reorganisation	27,690	179,784
Exceptional item - other costs	-	182,447
Exceptional item - impairment of goodwill	4,188,237	-
Exceptional item - acquisition costs	249,816	-
Exceptional item - provision for disputed exit charges	156,847	-
Exceptional item - bad debts	192,558	-
Exceptional item - aborted transaction and other legal costs	<u>86,696</u>	<u>67,247</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****7 Net finance costs**

	2019	2018
	£	£
Finance income		
Interest income on bank deposits	22,445	8,672
Other finance income	-	18,314
	<u>22,445</u>	<u>26,986</u>
Finance costs		
Interest on bank overdrafts and borrowings	(364,441)	(211,240)
Interest expense on leasing arrangements	(742,755)	(66,515)
	<u>(1,107,196)</u>	<u>(277,755)</u>
Net finance costs	<u>(1,084,751)</u>	<u>(250,769)</u>

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019	2018
	£	£
Wages and salaries	8,901,673	6,847,722
Social security costs	784,244	633,831
Pension and other post-employment benefit costs	231,142	195,346
Redundancy and payment in lieu	171,819	30,421
	<u>10,088,878</u>	<u>7,707,320</u>

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

	2019	2018
	No.	No.
Administration and support	79	63
Sales	14	14
Marketing	1	1
Distribution	274	175
Management	15	14
	<u>383</u>	<u>267</u>

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

9 Auditor's remuneration

	2019	2018
	£	£
Audit of the financial statements	18,500	18,500
Audit of the financial statements of subsidiaries of the company pursuant to legislation	152,700	84,500
	<u>171,200</u>	<u>103,000</u>
Other fees to auditors		
Taxation compliance services	<u>30,500</u>	<u>16,000</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****10 Tax**

Tax charge/(receipt) in the income statement:

	2019	2018
	£	£
Current taxation		
UK corporation tax	686,345	68,587
UK corporation tax adjustment to prior periods	221,141	2,843
Total current income tax	<u>907,486</u>	<u>71,430</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	62,558	365,159
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	85,839	(11,783)
Total deferred taxation	<u>148,397</u>	<u>353,376</u>
Tax expense in the income statement	<u><u>1,055,883</u></u>	<u><u>424,806</u></u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019	2018
	£	£
(Loss)/profit before tax	<u>(1,450,280)</u>	<u>1,311,556</u>
Corporation tax at standard rate	(275,553)	249,196
Increase in current tax from adjustment for prior periods	221,141	2,843
Increase from effect of capital allowances depreciation	34,508	74,973
Decrease from effect of revenues exempt from taxation	(238,246)	-
Increase from effect of expenses not deductible in determining taxable profit	940,964	36,651
Decrease arising from group relief	-	(138,398)
Deferred tax expense from unrecognised tax loss or credit	236,126	222,686
Deferred tax expense/(credit) relating to changes in tax rates of laws	19,769	(11,362)
Increase/(decrease) in deferred tax from adjustment for prior periods	117,174	(11,783)
Total tax charge	<u><u>1,055,883</u></u>	<u><u>424,806</u></u>

Deferred tax**Group**

Deferred tax assets and liabilities

	Asset	Liability	Net deferred tax
	£	£	£
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>
2018			
Accelerated tax depreciation	189,756	-	189,756
Tax losses carry-forwards	15,479	-	15,479
Other items	70,808	-	70,808
	<u>276,043</u>	<u>-</u>	<u>276,043</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****10 Tax (continued)**

Deferred tax movement during the 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>

Deferred tax movement during the prior year:

	At 1 January 2018	Recognised in income	At 31 December 2018
	£	£	£
Accelerated tax depreciation	283,861	(94,105)	189,756
Tax losses carry-forwards	512,235	(496,756)	15,479
Other items	(166,677)	237,485	70,808
Net tax assets/(liabilities)	<u>629,419</u>	<u>(353,376)</u>	<u>276,043</u>

Company

Deferred tax assets and liabilities

	Asset	Liability	Net deferred tax
	£	£	£
2019			
Tax losses carry-forwards	<u>-</u>	<u>-</u>	<u>-</u>
	Asset	Liability	Net deferred tax
	£	£	£
2018			
Tax losses carry-forwards	<u>8,060</u>	<u>-</u>	<u>8,060</u>

Deferred tax movement during the year:

	At 1 January 2019	Recognised in income	At 31 December 2019
	£	£	£
Tax losses carry-forwards	<u>8,060</u>	<u>(8,060)</u>	<u>-</u>

Deferred tax movement during the year:

	At 1 January 2018	Recognised in income	At 31 December 2018
	£	£	£
Tax losses carry-forwards	<u>-</u>	<u>8,060</u>	<u>8,060</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****11 Property, plant and equipment
Group**

	Land and buildings £	Furniture, fittings and equipment £	Motor vehicles £	Total £
Cost of valuation				
At 1 January 2018	7,297,169	9,447,971	36,336	16,781,476
Additions	306,706	251,192	-	557,898
Disposals	-	-	(10,336)	(10,336)
At 31 December 2018	7,603,875	9,699,163	26,000	17,329,038
At 1 January 2019	7,603,875	9,699,163	26,000	17,329,038
Adjustment on transition to IFRS 16	31,402,313	1,370,552	38,231	32,811,096
Additions	107,006	124,913	74,038	305,957
Acquired through business combinations	12,069,916	9,625,046	13,325,555	35,020,517
Disposals	(1,111,606)	(378,782)	(142,135)	(1,632,523)
At 31 December 2019	50,071,504	20,440,892	13,321,689	83,834,085
Depreciation and Impairment losses				
At 1 January 2018	1,959,831	8,750,588	25,724	10,736,143
Charge for the year	226,723	249,296	2,948	478,967
Impairment	169,330	-	-	169,330
Eliminated on disposals	-	-	(7,385)	(7,385)
At 31 December 2018	2,355,884	8,999,884	21,287	11,377,055
At 1 January 2019	2,355,884	8,999,884	21,287	11,377,055
Charge for the year	3,586,388	811,532	374,493	4,772,413
Depreciation on assets acquired	325,539	6,254,747	9,607,371	16,187,657
Eliminated on disposals	(211,941)	(362,067)	(135,115)	(709,123)
At 31 December 2019	6,055,870	15,704,096	9,868,036	31,628,002
Carrying amount				
At 31 December 2019	44,015,634	4,736,796	3,453,653	52,206,083
At 31 December 2018	5,247,991	699,279	4,713	5,951,983
At 1 January 2018	5,337,338	697,383	10,612	6,045,333

Included within the net book value of land and buildings above is £101,634 (2018 - £1,006,857) in respect of freehold land and buildings and £43,914,000 (2018 - £4,241,134) in respect of short leasehold land and buildings.

Pledged as security

Freehold land and buildings with a carrying amount of £101,634 (2018 - £1,006,857) 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:

	2019 £
Land and buildings	39,849,490
Furniture, fittings and equipment	3,582,882
Motor vehicles	4,061,680
	<u>47,494,052</u>

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****12 Intangible assets
Group**

	Note	Goodwill £	Other intangible assets £	Total £
Cost of valuation				
At 1 January 2018		2,819,565	4,312,760	7,132,325
At 31 December 2018		2,819,565	4,312,760	7,132,325
At 1 January 2019		2,819,565	4,312,760	7,132,325
Acquired through business combinations	14	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
Amortisation				
At 1 January 2018		-	2,952,484	2,952,484
Amortisation charge		-	1,150,780	1,150,780
At 31 December 2018		-	4,103,264	4,103,264
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
Carrying amount				
At 31 December 2019		2,636,774	2,468,583	5,105,357
At 31 December 2018		2,819,565	209,496	3,029,061
At 1 January 2018		2,819,565	1,360,276	4,179,841

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 2020 budget prepared prior to Covid-19 which includes a 5 year forecast. Key assumptions affecting the valuation include:

- Forecast EBITDA for years, as a proxy for operating cash flow;
- Assessment of a terminal value after 5 years;
- Company specific growth rates of between 0% and 10%; 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 value in use is lower than carrying value for Rhys Davies & Sons and Amethyst Global Freight and therefore we have recognised some impairment of the corresponding assets.

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****13 Investments**

Details of the company subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2019	2018
Perkins Group Services Limited*	Import and distribution of toys, stationery and seasonal products	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*	Letting its own property to group companies	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%	90%
Amethyst Global Freight Limited (Formerly PNC Global Logistics UK Limited)	Freight forwarding	England and Wales	100%	90%
Warehouse One Distribution Limited*	Haulage and storage services	England and Wales	100%	-
Brillmond Limited*	Holding company	England and Wales	100%	-
Pennboro Limited	Dormant parent company	England and Wales	100%	-
Rhys Davies Holdings Limited	Dormant parent company	England and Wales	100%	-
Rhys Davies Limited	Dormant parent company	England and Wales	100%	-
Rhys Davies & Sons Limited	Haulage Services	England and Wales	100%	-
Rhys Davies Forwarding Limited	Dormant	England and Wales	100%	-
Rhys Davies & Sons (Haulage) Limited	Dormant	England and Wales	100%	-
Rhys Davies Freight Logistics (Scotland) Limited	Dormant	Scotland	100%	-
Hills Transport (Cardiff) Limited	Dormant	England and Wales	100%	-
Rhys Davies Freight Logistics Limited	Dormant	England and Wales	100%	-

* indicates direct investment of the company

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Investments (continued)

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 2019 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)

Summary of the company's investments

	2019	2018
	£	£
Investments in subsidiaries	<u>12,766,698</u>	<u>9,701,530</u>
Subsidiaries		
Cost or valuation		
At 1 January 2018		9,698,565
Additions		<u>2,965</u>
At 31 December 2018		<u>9,701,530</u>
At 1 January 2019		9,701,530
Additions		6,855,730
Impairment		<u>(3,790,562)</u>
At 31 December 2019		<u>12,766,698</u>
Carrying amount		
At 31 December 2019		<u>12,766,698</u>
At 31 December 2018		<u>9,701,530</u>
At 1 January 2018		<u>9,698,565</u>

Additions of £10 relate to a further purchase of shares in PNC Global Logistics Limited resulting in an increase of shareholding to 100%.

Additions of £6,068,220 relate to the purchase of 100% of the shares in Warehouse One Distribution Limited.

Additions of £287,500 relate to the purchase of 100% of the shares in Brillmond Limited and its nine subsidiaries.

Additions of £500,000 relate to further investment in Brillmond Limited, post acquisition, by way of preference shares.

On 31 December 2019 the directors assessed the company's investments for evidence of indicators of impairment. The directors have assessed the value in use of the investments in Williams of Swansea Limited, PNC Global Logistics Limited and Brillmond Limited as being lower than cost and have therefore impaired the asset at 31 December 2019 to the estimated value in use.

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****14 Acquisition of subsidiaries**

On 17 September 2019, the group acquired 100% of the issued share capital of Warehouse One Distribution Limited, obtaining control. The principal activity of Warehouse One Distribution Limited is the provision of haulage and storage services.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	2019
	£
Assets and liabilities acquired	
Financial assets	2,375,615
Property, plant and equipment	8,199,771
Identifiable intangible assets	2,694,586
Financial liabilities	(1,334,916)
Lease liability	(7,913,458)
Deferred tax	(78,482)
Deferred tax recognised on identifiable intangible assets	(511,670)
Total identifiable net assets	<u>3,431,446</u>
Non-controlling interest	-
Goodwill	<u>2,636,774</u>
Total consideration	<u><u>6,068,220</u></u>
Satisfied by:	
Cash	<u>6,068,220</u>
Total consideration transferred	<u><u>6,068,220</u></u>
Cash flow analysis:	
Cash consideration	6,068,220
Less: cash and cash equivalent balances acquired	(18,555)
Net cash outflow arising on acquisition	<u><u>6,049,665</u></u>

Acquisition-related costs (included in administrative expenses) amount to £66,115 in 2019.

Warehouse One Distribution Limited contributed £3,591,055 revenue and a profit of £372,857 to the group's loss for the period between the date of acquisition and the balance sheet date of the previous year.

On 7 October 2019, the group acquired 100% of the issued share capital of the Brillmond Limited group of companies, obtaining control. The principal activity of the Brillmond group of companies is haulage services.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	2019
	£
Assets and liabilities acquired	
Financial assets	8,349,045
Inventory	204,085
Property, plant and equipment	10,633,089
Financial liabilities	(11,642,008)
Lease liability	(8,654,784)
Deferred tax	24,497
Total identifiable net liabilities	<u>(1,086,076)</u>
Non-controlling interest	-
Goodwill	<u>1,373,576</u>
Total consideration	<u><u>287,500</u></u>
Satisfied by:	
Cash	<u>287,500</u>
Total consideration transferred	<u><u>287,500</u></u>
Cash flow analysis:	
Cash consideration	287,500
Add: overdraft acquired	(2,080)
Net cash outflow arising on acquisition	<u><u>285,420</u></u>

Acquisition-related costs (included in administrative expenses) amount to £102,833 in 2019.

Brillmond Limited and its subsidiaries contributed £8,379,446 revenue and a loss of £1,665,944 to the group's loss for the period between the date of acquisition and the balance sheet date of the previous year.

Cathay Investments 2 Limited**Notes to the Financial Statements for the Year Ended 31 December 2019****15 Leases**

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

	Group	
	2019	2018
	£	£
Current	6,319,541	-
Non-current	38,981,371	-
	<u>45,300,912</u>	<u>-</u>

Lease liabilities of £45,300,912 (2018 - £nil) are secured over the leased assets.

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	17	1 - 14 years	5 years	17	1	17
Furniture, fittings and equipment	62	1 - 7 years	2 years	57	-	57
Motor vehicles	155	1 - 4 years	2 years	20	-	20

Future minimum lease payments at 31 December 2019 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 2019							
Lease payments	7,371,379	6,873,401	5,998,828	4,598,519	4,115,981	24,460,364	53,418,472
Finance charges	(1,051,838)	(913,753)	(788,110)	(687,478)	(624,467)	(4,051,914)	(8,117,560)
Net present values	<u>6,319,541</u>	<u>5,959,648</u>	<u>5,210,718</u>	<u>3,911,041</u>	<u>3,491,514</u>	<u>20,408,450</u>	<u>45,300,912</u>

The group recognised £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.

Group	Carrying amount (Note 11)	Depreciation expense
	£	£
Land and buildings	39,849,490	3,240,407
Furniture, fittings and equipment	3,582,882	576,538
Motor vehicles	4,061,680	351,391
Total right-of-use assets	<u>47,494,052</u>	<u>4,168,336</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Inventories

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Finished goods and goods for resale	<u>1,542,549</u>	<u>1,513,702</u>	<u>-</u>	<u>-</u>

The cost of group inventories recognised as an expense in the year amounted to £6,872,096 (2018 - £11,967,520). This is included within cost of sales.

17 Trade and other receivables

		Group		Company	
	Note	2019	2018	2019	2018
		£	£	£	£
Trade receivables		15,697,681	9,383,264	-	-
Receivables from related parties	28	-	1,365,068	-	1,285,335
Other prepayments		3,464,169	1,712,442	-	-
Other receivables		<u>788,040</u>	<u>75,716</u>	<u>240,526</u>	<u>342</u>
		<u>19,949,890</u>	<u>12,536,490</u>	<u>240,526</u>	<u>1,285,677</u>

Details of non-current trade and other receivables

Group

£4,555 (2018 - £40,536) 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.

18 Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash at bank	<u>3,329,843</u>	<u>4,740,162</u>	<u>178,891</u>	<u>208,410</u>

19 Share capital

	2019		2018	
	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 2019

20 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.

21 Loans and borrowings

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Non-current loans and borrowings				
Bank borrowings	5,197,101	5,393,324	4,350,533	4,476,072
Redeemable preference shares	936,885	936,885	936,885	936,885
	<u>6,133,986</u>	<u>6,330,209</u>	<u>5,287,418</u>	<u>5,412,957</u>
	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Current loans and borrowings				
Bank borrowings	75,788	75,788	-	-
Redeemable preference shares	-	926,415	-	926,415
Other borrowings	1,200,000	688,960	1,200,000	688,960
	<u>1,275,788</u>	<u>1,691,163</u>	<u>1,200,000</u>	<u>1,615,375</u>

Group

Bank borrowings

The first HSBC Bank PLC loan is denominated in sterling with a nominal interest rate of 2.2% above the Bank of England Base Rate, and with the final instalment due by 30 September 2030. The carrying amount at year end is £680,423 (2018 - £732,568).

The second HSBC Bank PLC loan is denominated in sterling with a nominal interest rate of 2.2% above the Bank of England Base Rate, and with the final instalment due by 31 October 2024. The carrying amount at year end is £241,936 (2018 - £260,475).

On 30 December 2016 the group, together with its related company Cathay Investments Limited, entered into facility agreements with HSBC Bank PLC comprising a multicurrency term loan facility of €6,000,000 and a multicurrency revolving credit facility of €22,500,000. The amount drawn under these facilities during the year was £113,335 (2018 - £nil). The carrying amount at the year end is £4,350,530 (2018 - £4,476,072).

Redeemable preference shares

The holder of the redeemable preference shares has the right to redeem such shares at par. On 1 April 2019 redeemable preference shares totalling £926,415 were redeemed by the holders. The holders of the remaining 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.

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

21 Loans and borrowings (continued)

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.

22 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charged for the year represents contributions payable by the group to the scheme and amounted to £231,142 (2018 - £195,346).

Contributions totalling £129,261 (2018 - £31,262) were payable to the scheme at the end of the year and are included in creditors.

23 Other provisions

Group

	Rates provision £	Dilapidations provision £	Total £
At 1 January 2019	812,000	626,664	1,438,664
Additional provisions	610,000	178,336	788,336
At 31 December 2019	1,422,000	805,000	2,227,000
Non-current liabilities	-	697,000	697,000

Provisions with amounts of £1,530,000 (2018 - £921,664) expected to fall due within one year and £697,000 (2018 - £517,000) expected to fall due after more than one year.

24 Trade and other payables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade payables	5,882,867	3,393,194	114,170	4,384
Accrued expenses	2,616,145	2,738,945	-	-
Amounts due to related parties	42,251	-	2,616,206	34,863
Social security and other taxes	1,562,110	796,407	-	-
Other payables	10,761,950	4,194,784	-	8,655
	20,865,323	11,123,330	2,730,376	47,902

Included within the other payables balance is an amount of £7,028,187 (2018 - £2,634,819) 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.

25 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 £27,646,607 (2018 - £25,813,942).

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

26 Financial instruments

Categories of financial instruments

The group and the company held the following financial assets:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade and other receivables	16,485,721	10,824,048	240,526	1,285,677
Cash and cash equivalents	3,329,843	4,740,162	178,891	208,410
	<u>19,815,564</u>	<u>15,564,210</u>	<u>419,417</u>	<u>1,494,087</u>

The group and the company held the following financial liabilities:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade and other payables	20,865,323	11,123,330	2,730,376	47,902
Bank borrowings	5,272,889	5,469,112	4,350,533	4,476,072
Lease liabilities	45,300,912	-	-	-
Other borrowings	1,200,000	688,960	1,200,000	688,960
Redeemable preference shares	936,885	1,863,300	936,885	1,863,300
	<u>73,576,009</u>	<u>19,144,702</u>	<u>9,217,794</u>	<u>7,076,234</u>

27 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 2019 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 £13,182.

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:

	2019	2018
	£	£
Impairment loss on trade receivables	<u>321,909</u>	<u>-</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

27 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 £
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	6,319,541	38,981,371	45,300,912
	<u>7,595,329</u>	<u>45,115,357</u>	<u>52,710,686</u>
	Within 1 year £	After 1 year £	Total £
2018			
Non-interest bearing borrowings	688,960	-	688,960
Bank borrowings	75,788	5,393,324	5,469,112
Redeemable preference shares	926,415	936,885	1,863,300
Lease liabilities	-	-	-
	<u>1,691,163</u>	<u>6,330,209</u>	<u>8,021,372</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	
	2019 £	2018 £	2019 £	2018 £
Share capital	14,802	14,802	14,802	14,802
Retained earnings	4,868,580	7,357,894	3,953,519	4,112,641
Non-controlling interests - Equity	-	16,849	-	-
Redeemable preference shares	936,885	1,863,300	936,885	1,863,300
Bank borrowings	<u>5,272,889</u>	<u>5,469,112</u>	<u>4,350,533</u>	<u>4,476,072</u>
	<u>11,093,156</u>	<u>14,721,957</u>	<u>9,255,739</u>	<u>10,466,815</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

28 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 provided a loan to the company of £1,200,000. At the year end the amount due to B Chaing was £1,200,000 (2018 - £nil). The loan from B Chaing is interest free and repayable on demand.

During the year the loan provided by M Chaing to the company was fully repaid. At the year end the amount due to M Chaing was £nil (2018 - £323,818).

During the year the loan provided by S Chaing to the company was fully repaid. At the year end the amount due to S Chaing was £nil (2018 - £365,142).

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 £89,333 (2018 - £91,721) to the group. During the year the group paid management expenses of £565,000 (2018 - £564,000) to Cathay Investments Limited and its subsidiary companies.

During the year, the group made sales of £564,160 (2018 - £829,891) 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 £610,224 to Cathay Investments Limited during the year. Cathay Investments Limited made loan repayments of £1,941,899 (2018 - £338) 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 £19,696,065 (2018 - £22,185,671).

At the year end the amount due to Cathay Investments Limited and its subsidiary companies is £42,251 (2018 - due from £1,365,068).

Income and receivables from related parties

	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>
	Entities with joint control or significant influence £
2018	
Receipt of services	829,891
Settlement of liabilities	338
Provision of loan	(529,971)
	<u>300,258</u>
Amounts receivable from related party	<u>1,365,068</u>

Cathay Investments 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

28 Related party transactions (continued)

Expenditure with and payables to related parties

	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>
	Entities with joint control or significant influence £
2018	
Rendering of services	564,000
Purchase of property or other assets	91,721
	<u>655,721</u>
Amounts payable to related party	<u>-</u>

Loans from related parties

	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>
	Key management £
2018	
At start of period	1,210,248
Repaid	(521,288)
At end of period	<u>688,960</u>

29 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 Springfield House, Springfield Road, Horsham, West Sussex, RH12 2RG.

30 Events after the financial period

On 8 December 2020 Rhys Davies & Sons Limited, a subsidiary undertaking, entered into administration.