

COMPANY REGISTRATION NUMBER 05218660

LABELON GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2020

LABELON GROUP LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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LABELON GROUP LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
YEAR ENDED 31 DECEMBER 2020

The board of directors	Miranda Shui Yau Kong Amy Chuk Kwan Wan Sharon Wai Yee Lam
Company secretary	Pinsent Masons Secretarial Limited
Registered office	1 Park Row, Leeds LS1 5AB. United Kingdom
Independent auditors	PricewaterhouseCoopers LLP The Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge CB4 0DS

LABELON GROUP LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2020

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

BUSINESS REVIEW

The results for the group show a profit on ordinary activities before taxation of £9,454,022 (2019: £11,618,370) for the year and revenue of £73,554,771 (2019: £85,155,314). The group had net assets of £25,659,597 as at 31 December 2020 (2019: £20,181,638).

The profit on ordinary activities before taxation was mainly due to exchange gain on retranslation of intercompany loan balances of £1,853,179 (2019: £1,797,978) which were credited to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020 and reduction of staff costs due to the combination of salary cut and government subsidies on salaries in certain locations.

The exceptional items mainly presented provisions for accounts receivable and inventories during such a poor economic environment in 2020, whereas exceptional items in 2019 mainly represented compensation fee to employees due to relocation of factory.

In March 2020, the World Health Organisation declared the outbreak of coronavirus epidemic ("COVID-19") which has continued spreading throughout the United Kingdom and the world, resulting in governmental authorities implementing numerous containment measures, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns.

Overall, COVID-19 had a negative impact on our consolidated financial results for 2020. While we experienced sequential improvements in the second half of the year, 2020 net sales was down over 14% from prior year. Nevertheless, there is a trend of strong demand as a result of COVID-19, given increased consumption of packaged goods and use of e-commerce.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the group's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the group are considered to relate to competition from other label manufacturers, and employee and customer retention.

The Group will continue to maintain a cautious approach to all aspects of business activities and has already taken measures to minimise costs and overheads. The Group will monitor closely the economic conditions and make appropriate adjustment to keep abreast of changes in the competitive market.

The management will continue to study the potential of any new product ranges and the benefits of their launch in order to provide versatile selections to its customers. The Group will also continue to raise its customer service standards so that customers can enjoy a valuable experience in order making and to retain the existing customers.

FUTURE OUTLOOK

The commercial environment in which the Group operates is expected to remain competitive. However, over the last 12 months the Group has continued to successfully implement strategies to win and maintain key customers and to improve operating efficiencies further. We therefore remain confident that we will maintain our current level of performance in the coming year.

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A-Tex is a global provider of brand identity products, including labels, hang-tags, packaging solutions and in-store decorations, for leading European and US fashion brands. The company is focused on converting trends and inspiration into brand identity and thereby adding value to fashion brands. The Group acquired A-Tex because the two companies are each uniquely positioned in the global market of brand identity products. Labelon holds very strong production and supply chain capabilities combined with an impressive customer portfolio; meanwhile A-Tex is a market leader in design-intensive solutions for fashion brand owners. The two companies together create one of the largest players in the industry with a unique value proposition for global brand owners.

As the COVID-19 pandemic rapidly spreads globally, the concurrent economic fallout of this health crisis is expected to be grave. The group has developed the following steps:

- Immediately addressing the need for the maximum protection of employees, through personal actions (hygiene, remote working, travel freeze, avoiding group gatherings, providing masks and hand sanitizers etc.). People are a company's most important asset and their protection is our priority number one;
- Regularly reviewing, amending and updating current business continuity or contingency plans, as this an unprecedented and highly fluid situation, which is drastically transforming existing assumptions, and will continue to do so in the coming months;
- Ensure a systematic, transparent and positive communication with employees, clients, suppliers and all those that – directly or indirectly – depend on or are affected by the company. This is an essential step towards building the highest possible level of confidence and trust between the company and its partners; and
- Ensuring that the organization as a whole, both at a local and a global level, is aware and understands the crisis response procedures that are in place. Equally important is readjusting business plans, but also updating the company's strategy for managing major crises accordingly.

We are unable to predict the full impact that COVID-19 will have on our 2021 results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the COVID-19 and containment measures and the related macroeconomic impacts. We continue to actively manage this dynamic environment and update our scenario planning to reflect the continuously evolving aspects of the COVID-19. Moreover, the group also started to implement many cost-savings measures, request longer credit terms from the suppliers and monitor closely the receivables balance with the customers in order to strengthen financial position in response to the crisis.

KEY PERFORMANCE INDICATORS ("KPIs")

The directors consider revenue, revenue growth and gross margin to be the KPIs relevant to an understanding of the development and performance of the business.

In 2020, revenue decreased on an organic basis primarily due to the impact of COVID-19 on our markets and customers. In 2019, revenue increased on an organic basis primarily due to higher volume/mix.

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STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2020

Gross margin in 2020 maintained at a similar level as that in 2019. Gross margin in 2019 decreased compared to 2018 reflecting lower volume and unfavourable product mix.

	2020	2019	2018
Revenue (£)	73,554,771	85,155,314	79,747,593
Revenue growth	- 13.6%	6.8%	- 5.7%
Gross margin	45.5%	45.8%	48.5%

DIRECTORS' DUTIES

In line with our section 172 duty under the Companies Act 2006, we, the directors, run the company for the benefit of its shareholders as a whole and in doing so take into account the long-term impact of any decision, maintaining stakeholder relationships, the external impact of its activities and maintaining a reputation for high standards of business conduct, whilst carefully and duly considering our duties, and acting in a way we consider, in good faith, is most likely to promote the success of the company. Throughout decision making processes, we have concern for all stakeholders potentially affected, directly or indirectly, by the decision at hand, as well as the long-term impact of the decision on the success of the company. The company, and the group as a whole, are committed to the successful delivery of long-term sustainable growth and shareholder value, underpinned by the highest standard of corporate governance. We, the directors, uphold the utmost standard of conduct and integrity in our decision-making, an expectation held at every level of group.

CUSTOMERS

Customers are at the heart of everything we do, and we aim to always deliver a superior and continuously improving customer service. Our strategy prioritises organic growth, driven by cross-selling products and services to existing clients and bringing new clients into the group. To do this, we need to develop and maintain strong client relationships by providing value-added service such as developing a mobile apps linked to customized website to display supply chain and garment information, or providing supply chain dashboard to allow the customers to check order status for data mining.

EMPLOYEES

The company is committed to being a responsible business. For our business to succeed we need to manage our people's performance and develop and bring through talent while ensuring we operate as efficiently as possible. We must also ensure we share common values that inform and guide our behaviour so we achieve our goals in the right way.

The group employed 978 people on average in 2020 (2019: 1,021). The company's policy is to consult employees and discuss with them matters which are likely to affect their interests. Information on matters of concern to employees is given through regular briefings that seek to achieve a common awareness of the financial and economic factors affecting the company's performance.

The company is sensitive to the employment and career development needs of disabled persons, taking into account their particular abilities. In the event that an employee becomes disabled, every effort is made to offer suitable employment within the group.

LABELON GROUP LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2020

SUPPLIERS

We recognise the importance of our supply chains and invest in our relationships with them. We value all of our suppliers and have agreements with our key suppliers.

The company does not follow a single standard on payment practice but has a variety of payment terms with its suppliers. The company aims to develop relationships that are based upon mutual trust. The company is aware of the importance of prompt payment, especially to small businesses, and it undertakes to pay suppliers on time and according to terms of trade. The company has a wide range of suppliers and no individual supplier is of crucial importance. At 31 December 2020, the period of credit taken from the Company's suppliers amounted to 93 days (2019: 68 days). There were no financial risks in relation to this and all invoices have now been processed.

SHAREHOLDERS

The board is committed to openly engaging with our shareholders by convening regular meetings, as we recognise the importance of a continuing effective dialogue, whether with major investors, private or employee shareholders. It is important to us that shareholders understand our strategy and objectives, so these must be explained clearly, feedback heard and any issues or questions raised properly considered.

COMMUNITY AND ENVIRONMENT

The Company's approach is to use our position of strength to create positive change for the people and communities with which we interact. We want to leverage our expertise and enable colleagues to support the communities around us.

The Company is committed to complying with relevant environmental legislation and preventing any adverse impact on the environment as a result of its operations. We tend to use environmental-friendly materials as a component of our products such as recycled polyester and FSC paper. Where an adverse environmental impact is identified, a practicable, timely and environmentally sympathetic solution will be implemented. If a serious risk to the environment is identified, that activity will be halted and appropriate remedial action taken to eliminate the risk.

Signed on behalf of the board of directors



Miranda Shui Yau Kong
Director

Approved by the directors on 28 May 2021

LABELON GROUP LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2020

The directors have pleasure in presenting their report and the audited consolidated financial statements of the group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the company is a holding company while the group continues to be that of the worldwide supply and manufacture of labels for clothing and other garments. The company is incorporated in England and Wales and domiciled in the UK and is a wholly owned subsidiary of Trimco International Holdings Limited, incorporated in the British Virgin Islands.

Details of the subsidiaries are stated in note 10 to the financial statements.

DIVIDENDS

The directors are not recommending the payment of a final dividend (2019: nil).

FINANCIAL RISK MANAGEMENT

Details of the group's financial risk management objectives and policies are included in note 18 to the financial statements.

DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Miranda Shui Yau Kong
Chuk Kwan Wan
Wai Yee Lam

EMPLOYEES

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The group gives full and fair consideration to applications for employment of disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being.

The group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining the success of the group. The group encourages the involvement of employees by means of an incentive bonus scheme.

LABELON GROUP LIMITED

DIRECTORS' REPORT (*continued*)

YEAR ENDED 31 DECEMBER 2020

GOING CONCERN

As at 31 December 2020, the group's current liabilities exceeded its current assets by £12,359,675 (2019: £20,157,732) and the company had net liabilities of £10,750,000 (2019: £11,751,479). The net current liabilities of the group and net liabilities of the company were primarily attributable to the loans from intermediate parent, Brandco 3 Limited and fellow subsidiary, Clotex Labels Company Limited, of £48,790,901 (2019: £48,834,797) and £1,582,021 (2019: £2,622,316) respectively. They have confirmed not to demand loan repayment until the group has sufficient financial resources. In addition, they have also confirmed their intention to provide continuing financial support to the group to meet its liabilities as and when they fall due and to continue its operations for the foreseeable future. Besides, the directors also started to implement many cost-savings measures, request longer credit terms from the suppliers and monitor closely the receivables balance with the customers in order to strengthen financial position in response to the crisis.

On the basis of support from group, the directors believe that the group will continue as a going concern. Consequently, the directors have prepared the consolidated financial statements on a going concern basis.

FUTURE OUTLOOK

As disclosed in the Strategic Report, the group will continue to maintain competitive and response promptly to the dynamic environment.

RISK MANAGEMENT

As we grow, our business and our risk environment also become more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks we face, and that we continue to evolve our approach to risk management.

LABELON GROUP LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with international accounting standards ("IAS") in conformity with the requirements of the Companies Act 2006.

The group and company have also prepared financial statements in accordance with and international financial reporting standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IAS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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DIRECTORS' REPORT (*continued*)

YEAR ENDED 31 DECEMBER 2020

DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the directors' report is approved:

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

STATEMENT ON DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' Report is approved:

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

DONATIONS

During the year the group made the following contributions:

	2020	2019
	£	£
Charitable donations	-	110

The above donations are made up of several small amounts of which most were given to UK based health related charities.

LABELON GROUP LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

STREAMLINED ENERGY AND CARBON REPORTING (SECR) DISCLOSURE

Our SECR disclosure presents our carbon footprint across Scopes 1 and 2, together with an appropriate intensity metric and our total energy use of electricity and gas. As the carbon emissions mainly comes from energy, we will focus on energy reduction by way of using energy saving equipment, avoidance of energy waste and use of environmental friendly products.

UK Greenhouse gas emissions and energy use data for the period 1 January 2020 to 31 December 2020:

Energy Source	Consumption	Scope	Emissions calculation
Gas – total kWh (kilowatt-hours) used for the year taken from gas bills for each building	45,239 kWh (gross CV (calorific value))	Scope 1	45,239 kWh * 0.18387 (2020 fuels, natural gas conversion factor gross CV to kg Co2e) = 8,318 kgCO2e = 8.32 tCO2e
Electricity – total kWh used for the year, taken from the electricity bills for each building	128,739 kWh	Scope 2	128,739 kWh * 0.23314 (2020 electricity conversion factor to kgCO2e) = 30,014 kgCO2e = 30.01 tCO2e
Total	173,978 kWh		38.33 tCO2e
Intensity ratio	Emissions data (tCO2e) compared with an appropriate business activity (59 full time employees (“FTE”) in UK)		38.33 tCO2e/59 FTE = 0.65 tCO2e per FTE

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP were deemed to be reappointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the board of directors



Miranda Shui Yau Kong
Approved by the directors on 28 May 2021

LABELON GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LABELON GROUP LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Labelon Group Limited's group financial statements and company financial statements (the "financial statements"):

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 December 2020; the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

LABELON GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LABELON GROUP LIMITED (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of director's responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

LABELON GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LABELON GROUP LIMITED (continued)

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and overseas tax legislation and environmental legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate the financial statements and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations;
- Reviewing meeting minutes of the Board of Directors;
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing; and
- Challenging assumptions and judgements made by management in their significant accounting estimates and provisions, in particular in relation to the provision for doubtful debts and inventory obsolescence. In relation to the consolidated position, challenge of managements goodwill impairment assessment.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LABELON GROUP LIMITED (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Lauren Dilrew (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
28 May 2021

LABELON GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	2019 £
GROUP REVENUE	2	73,554,771	85,155,314
Cost of sales	3	(40,107,775)	(46,157,892)
GROSS PROFIT		33,446,996	38,997,422
Administrative expenses	3	(21,499,346)	(24,410,109)
Exceptional items	1	(831,410)	(559,782)
OPERATING PROFIT		11,116,240	14,027,531
Finance income		287,948	389,111
Finance costs	6	(1,950,166)	(2,798,272)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,454,022	11,618,370
Income tax expense	7	(3,104,818)	(3,950,692)
PROFIT FOR THE FINANCIAL YEAR		6,349,204	7,667,678
PROFIT ATTRIBUTABLE TO:			
Owner of the Company		6,243,725	7,388,532
Non-controlling interests		105,479	279,146
		6,349,204	7,667,678

All of the activities of the group are classed as continuing.

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Profit for the financial year	6,349,204	7,667,678	1,001,479	405,977
Other comprehensive expense for the year:				
<i>Item that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	(871,245)	(2,493,239)	-	-
Total comprehensive income for the year	5,477,959	5,174,439	1,001,479	405,977
Total comprehensive income attributable to:				
Owner of the Parent Company	5,441,388	5,010,175	1,001,479	405,977
Non-controlling interests	36,571	164,264	-	-
Total comprehensive income for the year	5,477,959	5,174,439	1,001,479	405,977

The notes on pages 22 to 57 form part of these financial statements.

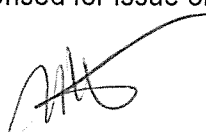
LABELON GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
NON-CURRENT ASSETS			
Intangible assets	9	34,264,894	35,577,861
Property, plant and equipment	11	8,586,751	9,198,006
Right-of-use assets	11(a)	1,127,751	2,309,074
Deferred tax assets	14	110,092	108,179
		44,089,488	47,193,120
CURRENT ASSETS			
Inventories	12	8,341,056	9,408,452
Trade and other receivables	13	25,519,223	26,787,688
Cash and cash equivalents		28,553,727	19,746,902
		62,414,006	55,943,042
TOTAL ASSETS		106,503,494	103,136,162
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	5,811,750	5,699,425
Other payables	16	258,466	1,154,325
		6,070,216	6,853,750
CURRENT LIABILITIES			
Trade and other payables	15	24,169,423	23,495,377
Borrowings	17	50,604,258	52,605,397
		74,773,681	76,100,774
TOTAL LIABILITIES		80,843,897	82,954,524
NET ASSETS		25,659,597	20,181,638
EQUITY ATTRIBUTABLE TO OWNER OF THE COMPANY			
Share capital	21	6,000	6,000
Capital reserve		2,638,872	2,518,186
Other reserve		57,562	57,562
Foreign exchange reserve		(1,794,203)	(991,866)
Retained earnings		22,557,105	16,434,066
		23,465,336	18,023,948
NON-CONTROLLING INTERESTS		2,194,261	2,157,690
TOTAL EQUITY		25,659,597	20,181,638

These financial statements on pages 15 to 57 were approved by the board of directors and authorised for issue on 28 May 2021, and are signed on their behalf by:



 Miranda Shui Yau Kong

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
NON-CURRENT ASSETS			
Investments	10	48,398,140	48,398,140
CURRENT ASSETS			
Trade and other receivables	13	1,100	1,280
Cash and cash equivalents		2,444	414,738
		3,544	416,018
TOTAL ASSETS		48,401,684	48,814,158
CURRENT LIABILITIES			
Trade and other payables	15	8,778,762	9,108,524
Borrowings	17	50,372,922	51,457,113
TOTAL LIABILITIES		59,151,684	60,565,637
NET LIABILITIES		10,750,000	11,751,479
EQUITY			
Share capital	21	6,000	6,000
Accumulated losses brought forward		(11,757,479)	(12,163,456)
Profit for the financial year		1,001,479	405,977
TOTAL EQUITY		(10,750,000)	(11,751,479)

These financial statements on pages 15 to 57 were approved by the board of directors and authorised for issue on 28 May 2021, and are signed on their behalf by:



.....
Miranda Shui Yau Kong

COMPANY REGISTRATION NO: 05218660

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Attributable to owner of the company							
	Share capital	Capital reserve	Other reserve	Foreign exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	£	£	£	£	£	£	£	£
Balance as at 1 January 2019	6,000	2,361,090	-	1,386,491	9,202,630	12,956,211	2,295,826	15,252,037
Comprehensive income								
Profit for the year	-	-	-	-	7,388,532	7,388,532	279,146	7,667,678
Other comprehensive income/ (expense)								
Apportion of capital reserve	-	157,096	-	-	(157,096)	-	-	-
Currency translation differences	-	-	(2,378,357)	-	(2,378,357)	(114,882)	(2,493,239)	
Total comprehensive income	-	157,096	(2,378,357)	7,231,436	5,010,175	164,264	5,174,439	
Transactions with non-controlling interests								
Dividends paid	-	-	-	-	-	(302,400)	(302,400)	
Excess of carrying amount acquired	-	-	57,562	-	-	57,562	-	57,562
Total transactions with non-controlling interests	-	-	57,562	-	-	57,562	(302,400)	(244,838)
Balance as at 31 December 2019	6,000	2,518,186	57,562	(991,866)	16,434,066	18,023,948	2,157,690	20,181,638

	Attributable to owner of the company							
	Share capital	Capital reserve	Other reserve	Foreign exchange reserve	Retained earnings	Total	Non-controlling interests	Total Equity
	£	£	£	£	£	£	£	£
Balance as at 1 January 2020	6,000	2,518,186	57,562	(991,866)	16,434,066	18,023,948	2,157,690	20,181,638
Comprehensive income								
Profit for the year	-	-	-	-	6,243,725	6,243,725	105,479	6,349,204
Other comprehensive income/ (expense)								
Apportion of capital reserve	-	120,686	-	-	(120,686)	-	-	-
Currency translation differences	-	-	(802,337)	-	(802,337)	(68,908)	(871,245)	
Total comprehensive income	-	120,686	(802,337)	6,123,039	5,441,388	36,571	5,477,959	
Balance as at 31 December 2020	6,000	2,638,872	57,562	(1,794,203)	22,557,105	23,465,336	2,194,261	25,659,597

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Share capital £	Accumulated losses £	Total Equity £
Balance as at 1 January 2019	6,000	(12,163,456)	(12,157,456)
Comprehensive income			
Profit for the year	-	405,977	405,977
Total comprehensive income	-	405,977	405,977
Balance as at 31 December 2019 and 1 January 2020	6,000	(11,757,479)	(11,751,479)
Comprehensive income			
Profit for the year	-	1,001,479	1,001,479
Total comprehensive income	-	1,001,479	1,001,479
Balance as at 31 December 2020	6,000	(10,756,000)	(10,750,000)

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Cash flows generated from operating activities	22	16,959,684	15,044,415	1,494,738	2,298,966
Interest paid	6	(1,950,166)	(2,798,272)	(1,795,466)	(2,550,338)
Income tax paid		(3,250,573)	(4,180,486)	(171,640)	(211,545)
Net cash generated from/ (used in) operations		11,758,945	8,065,657	(472,368)	(462,917)
Cash flows generated from/ (used in) investing activities					
Interest received		287,948	389,111	-	-
Purchase of intangible assets		(41,684)	(102,913)	-	-
Purchase of plant and equipment		(345,793)	(1,555,176)	-	-
Acquisitions of shares		-	-	-	-
Proceeds from the sale of property, plant and equipment		21,139	111,591	-	-
Dividends received from subsidiary undertakings		-	-	1,144,265	1,410,300
Net cash used in investing activities		(78,390)	(1,157,387)	1,144,265	1,410,300
Cash flows used in financing activities					
Repayment of loan from intermediate parent		(43,896)	(555,594)	(43,896)	(555,594)
(Repayment of)/ proceeds from loan from fellow subsidiary		(1,040,295)	21,467	(1,040,295)	21,467
Principal element of lease liabilities		(1,414,272)	(1,652,866)	-	-
Interest element of lease liabilities		(118,328)	(155,489)	-	-
(Repayment of)/proceeds from short term bank borrowings		(916,948)	213,693	-	-
Net cash used in financing activities		(3,533,739)	(2,128,789)	(1,084,191)	(534,127)
Increase/ (decrease) in cash and cash equivalents		8,146,816	4,779,481	(412,294)	413,256
Cash and cash equivalents at start of the year		19,746,902	15,275,021	414,738	1,482
Exchange difference on cash and cash equivalents		660,009	(307,600)	-	-
Cash and cash equivalents at end of the year		28,553,727	19,746,902	2,444	414,738

The notes on pages 22 to 57 form part of these financial statements.

LABELON GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES

The principal accounting policies adopted 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

These financial statements have been prepared on a going concern basis in accordance with IAS in conformity with the requirements of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention.

As at 31 December 2020, the group's current liabilities exceeded its current assets by £12,359,675 (2019: £20,157,732) and the company had net liabilities of £10,750,000 (2019: £11,751,479). The net current liabilities of the group and net liabilities of the company were primarily attributable to the loans from intermediate parent, Brandco 3 Limited and fellow subsidiary, Clotex Labels Company Limited, of £48,790,901 (2019: £48,834,797) and £1,582,021 (2019: £2,622,316) respectively. They have confirmed not to demand loan repayment until the group has sufficient financial resources. In addition, they have also confirmed their intention to provide continuing financial support to the group to meet its liabilities as and when they fall due and to continue its operations for the foreseeable future. Besides, the directors also started to implement many cost-savings measures, request longer credit terms from the suppliers and monitor closely the receivables balance with the customers in order to strengthen financial position in response to the crisis.

On the basis of support from group, the directors believe that the group will continue as a going concern. Consequently, the directors have prepared the consolidated financial statements on a going concern basis.

The preparation of financial statements in conformity with IAS in conformity with the requirements of the Companies Act 2006 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 19.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

The Group has applied the following Amendments for the first time for its annual reporting period commencing 1 January 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of the Amendments listed above did not have any material impact on the current period or any prior periods

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings in Note 10. These are adjusted, where appropriate, to conform to group accounting policies. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Income statement

The company has elected to take exemption under Section 408 of the Companies Act 2006 not to present the Company's income statement. The profit of the company for the year was £1,001,479 (2019: £405,977).

Revenue

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The group gives the sales rebate to brand owners as a nomination or referral fee based on the amount of rebate for each item. Since the sales rebate is given to the end customers, it is considered as a kind of reduction of revenue in accordance with IFRS 15.

Property, plant and equipment

All property, plant and equipment are stated at cost.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property	-	Straight-line over 10 and 50 years on building
Leasehold Property	-	Straight-line over the term of the remaining lease
Improvements		
Plant, Fixtures & Equipment	-	Between 3 to 10 years
Motor Vehicles	-	Straight-line over 5 years

Investments

Shares in group undertakings are stated at cost.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from this investment if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill, had the consolidated financial statements been prepared.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Inventory held by third parties on behalf of the group is recorded as an asset of the group where the balance of risks and rewards of ownership of the inventory lies with the group.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Pension costs

The group operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the income statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is allocated to cash generating units for the purpose of annual impairment testing and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Customer relationships and order backlog

Customer relationships and order backlog acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships and order backlog have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from 20 years and 0.5 years respectively over the expected life of the customer relationship and order backlog.

Other intangible assets – Computer software

Provision is made for amortisation of other intangible assets – computer software in equal annual instalments over the period expected to benefit from it as follows:

Other intangible assets	3 years
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Amortisation is charged to the income statement through Administrative expenses.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 13 for further information about the group's accounting for trade receivables and note 18 for a description of the group's impairment policies.

Financial assets

(a) Classification

The group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income ("OCI") or through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The group reclassifies debt investments when and only when its business model for managing those assets changes.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Financial assets (*continued*)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

(c) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income and loss, net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and loss, net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and loss, net. Interest income from these financial assets is included in other income and loss, net using the effective interest rate method. Foreign exchange gains and losses are presented in other income and loss, net and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented in other income and loss, net in the period in which it arises.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

(d) Impairment

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables in note 18.

For other financial assets at amortised cost, the group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus no provision for impairment was recognised at 31st December 2020.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

The profit and loss accounts of overseas subsidiary undertakings are translated at the average rate of exchange ruling during the year. The balance sheets of the overseas subsidiary undertakings are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences between the income statement translated at average rates and at balance sheet rates and differences arising on the retranslation of opening net assets of overseas subsidiaries are shown as a movement in reserves and in the statement of comprehensive income. All other translation differences are taken to the income statement.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the statement of financial position. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Borrowings

Borrowings, including intercompany borrowings, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Dividends distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group represents equity attributable to owner of the Company, comprising issued share capital, capital reserve, foreign exchange reserve, other reserve and retained earnings.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt. In particular, the Group will consider the cost of capital and the capital risks in relation to acquisitions and adjust the capital structure through drawdown or repayment of borrowings.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Capital risk management (*continued*)

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio.

During 2020, the group's strategy which was unchanged from 2019, was to maintain a gearing ratio below 10%. The gearing ratios at 31 December 2020 and 31 December 2019 were as follows:

	2020	2019
	£	£
Short term bank borrowings (note 17)	231,336	1,148,284
Net debt	231,336	1,148,284
 Total equity	 25,659,597	 20,181,638
Net debt to equity ratio	0.9%	5.7%

Share capital

Ordinary shares are classified as equity.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Exceptional items

Exceptional items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the company and therefore are not expected to recur frequently or regularly.

The exceptional items in 2020 mainly presented impairment of receivables due to COVID-19. Consultant fee represented those one-off items related to group restructuring. Others represented staff allowance in doing COVID-19 test.

Whereas exceptional items in 2019 mainly represented compensation to employees and related costs due to relocation of factory. Consultant fee represented those one-off items related to professional advice on strategic initiatives. Others represented advisory on tax return and non-recurring audit fee.

	2020	2019
	£	£
Impairment of receivables due to COVID-19	683,315	-
Compensation to employees and related costs of relocation of factory	51,360	379,700
Consultant fee	67,673	162,313
Others	29,062	17,769
	831,410	559,782

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Leases (as the lessee)

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES - continued

Leases (as the lessee) (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of office premises and warehouses are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2. GROUP REVENUE

The revenue and profit before tax are attributable to the one principal activity of the group. A geographical analysis of revenue is given below:

	2020	2019
	£	£
United Kingdom	2,683,837	3,528,544
Other EU countries	7,502,975	7,982,989
Other non EU countries	63,367,959	73,643,781
	73,554,771	85,155,314

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

3. EXPENSES BY NATURE

	2020 £	2019 £
Amortisation of intangible assets	1,359,142	1,414,888
Depreciation of property, plant and equipment	946,186	894,896
Depreciation of right-of-use assets	1,547,787	1,627,188
Loss/ (gain) on disposal of property, plant and equipment and other intangible assets	1,704	(3,361)
Cost of inventories sold	36,497,878	42,369,490
Consumables used	288,129	314,883
Provision for impairment of inventories	489,428	243,689
Provision for/ (reversal of) impairment of receivables	683,315	(17,191)
Bad debts written off	-	48,398
Employee benefit expense (note 4)	15,510,327	18,954,029
Operating lease rentals for premises, including offices, factories and warehouses	201,648	169,433
Others	5,624,413	6,830,694
Audit services		
- Fees payable to the company's auditors for the audit of:		
- group financial statements	100,560	91,440
- subsidiary financial statements	182,552	219,509
- Fees payable to the company's auditors for tax services	10,620	12,603
Foreign exchange gain	(1,005,158)	(2,042,805)
Total cost of sales and administrative expenses (including exceptional items)	62,438,531	71,127,783

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

4. PARTICULARS OF EMPLOYEES

The monthly average number of staff employed by the group during the financial year amounted to:

	2020	2019
	No	No
Production	316	301
Administration	630	690
Sales	32	30
Number of employees	978	1,021

There were no staff employed by the company (2019: none) other than the directors.

The aggregate payroll costs of the above were:

	2020	2019
	£	£
Wages and salaries	14,077,599	17,240,242
Social security costs	541,616	596,326
Other pension costs	891,112	1,117,461
	15,510,327	18,954,029

5. DIRECTORS' EMOLUMENTS

The directors are remuneration by another group company. No directors' remuneration (2019: none) has been recharged and the services to the group are incidental to their overall responsibilities.

6. FINANCE COSTS

	2020	2019
	£	£
Interest payable on bank borrowing	36,372	92,445
Interest paid for lease liabilities	118,328	155,489
Interest payable on intercompany loan	1,795,466	2,550,338
	1,950,166	2,798,272

7. INCOME TAX EXPENSE

The corporation tax rate reduced to 19.00% with effect from 1 April 2017 and was due to reduce to 17.00% with effect from 1 April 2020 following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016 respectively.

However, the corporation tax rate will remain at 19% (rather than reducing to 17%, as previously enacted) from 1 April 2020 following the Spring Budget 2020 announcement substantively enacted on 17 March 2020.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

7. INCOME TAX EXPENSE (continued)

(a) Analysis of charge in the year

	2020 £	2019 £
Current tax:		
In respect of the year:		
UK Corporation tax	-	-
Overseas income tax	2,800,866	3,258,748
Adjustments in respect of prior years	6,929	100,694
Withholding tax on dividends declared	281,487	681,789
Total current tax	3,089,282	4,041,231
Deferred tax:		
Origination and reversal of timing differences (note 14)	15,536	(90,539)
Tax on profit on ordinary activities	3,104,818	3,950,692

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019 – 19%).

	2020 £	2019 £
Profit on ordinary activities before taxation	9,454,022	11,618,370
Profit on ordinary activities at the standard rate of tax	1,796,264	2,207,490
Expenses not deductible for tax purposes	367,673	358,819
Adjustment in respect of overseas taxation rates	240,122	302,848
Other timing differences	141,427	20,180
Adjustment in respect of prior years	6,929	100,694
Income not taxable	(34,208)	(4,263)
Withholding tax provision on undistributed retained earnings	304,764	189,636
Tax losses not recognised	360	93,499
Withholding tax paid	281,487	681,789
Total tax charge (note 7(a))	3,104,818	3,950,692

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance date and hence have not been reflected in the measurement of deferred tax balances at the period end.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

8. DIVIDENDS

	2020 £	2019 £
Equity – ordinary		
Interim paid: £ nil (2019: £ nil) per share	-	-

In addition, the directors are not recommending a final dividend in respect of the financial years ending 31 December 2020 and 2019.

9. INTANGIBLE ASSETS Group

	Goodwill £	Customer relationship and backlog £	Other Intangible Assets £	Total £
COST				
At 1 January 2019	16,837,636	24,708,330	2,166,733	43,712,699
Retranslation	-	-	(131,844)	(131,844)
Additions	-	-	102,913	102,913
Disposals	-	-	(27,657)	(27,657)
As at 31 December 2019 and 1 January 2020	16,837,636	24,708,330	2,110,145	43,656,111
Retranslation	-	-	79,392	79,392
Additions	-	-	41,684	41,684
As at 31 December 2020	16,837,636	24,708,330	2,231,221	43,777,187
ACCUMULATED AMORTISATION				
At 1 January 2019	412,806	4,437,937	1,960,226	6,810,969
Retranslation	-	-	(124,663)	(124,663)
Charge for the year	-	1,266,899	147,989	1,414,888
On disposals	-	-	(22,944)	(22,944)
As at 31 December 2019 and 1 January 2020	412,806	5,704,836	1,960,608	8,078,250
Retranslation	-	-	74,901	74,901
Charge for the year	-	1,266,899	92,243	1,359,142
As at 31 December 2020	412,806	6,971,735	2,127,752	9,512,293
NET BOOK VALUE				
At 31 December 2020	16,424,830	17,736,595	103,469	34,264,894
At 31 December 2019	16,424,830	19,003,494	149,537	35,577,861

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

9. INTANGIBLE ASSETS (continued)

(a) Goodwill

Goodwill is allocated to the group's cash-generating units ("CGUs") identified according to operating segments based on geography. The group's CGU's operations are contributed by the United Kingdom, Bangladesh and Denmark businesses which engage in the trading and manufacturing of labels and hangtags for clothes:

2020	Opening £	Addition £	Closing £
UK	444,494	-	444,494
Bangladesh	1,238,014	-	1,238,014
Denmark	14,742,322	-	14,742,322
Total	16,424,830	-	16,424,830

2019

UK	444,494	-	444,494
Bangladesh	1,238,014	-	1,238,014
Denmark	14,742,322	-	14,742,322
Total	16,424,830	-	16,424,830

The recoverable amounts of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGUs operate.

For each of the CGUs with significant amount of goodwill, the key assumptions, growth rates and discount rate used in the value-in-use calculations in 2020 are as follows:

	UK business	Europe Business
Post-tax net profit margin	16.3%	13.5%
Average growth rate	11.9%	8.4%
Long-term growth rate	3.0%	1.0%
Discount rate	12.9%	10.6%

These assumptions have been used for the analysis of the CGUs within the operating segments.

Post-tax net profit margin is mainly determined based on the expected average growth rate of the revenue and the expenditure to be generated or incurred for the related business over the five-year forecast period.

Management determined average growth rates based on past performance and its expectations of market development. The long-term growth rate is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The discount rates used are pre-tax and reflect specific risks relating to the operating segments.

In the opinion of directors, no impairment charge is needed at the balance sheet date as the CGUs are at growth phase and would continue to be profitable in the foreseeable future.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

9. INTANGIBLE ASSETS (continued)

(b) Customer relationships and order backlog

Customer relationships, representing long-standing relationships with brand owners, and order backlog, representing residual value of orders not yet completed, were recognised by the group as a result of the acquisitions.

Amortisation of £1,266,899 (2019: £1,266,899) is included in administrative expenses.

The directors determined that there is no impairment to the carrying amount of customer relationships as at 31 December 2020 and 2019.

(c) Other intangible assets

Other intangible assets represented computer software. Included within other intangible assets are amounts capitalised in respect of expenditure on an on-line ordering system. The asset is amortised over 36 months. The net book value at 31 December 2020 was £nil (2019: £nil).

The directors determined that there is no impairment to the carrying amount of other intangible assets as at 31 December 2020 and 2019.

The company had no intangible assets as at 31 December 2020 and 2019.

10. INVESTMENTS

Company

Subsidiary Undertakings	Group companies
	£
COST	
At 31 December 2020 and 2019	48,398,140
NET BOOK VALUE	
At 31 December 2020 and 2019	48,398,140

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

10. INVESTMENTS (continued)

The following is a list of the Company's subsidiaries at 31 December 2020 and 2019 and contains the particulars of all the subsidiaries of the limited private company, all of which operate in the business of the manufacture and supply of labels:

Name of limited private company	Proportion of ownership interest held by		Particulars of issued shares/ registered capital	Registered office	Registered number	Principal activities
	Company	Subsidiary				
Labelon UK Limited	100%	-	8,000 ordinary shares of GBP1 each	1 Park Row, Leeds, LS1 5AB, United Kingdom	01878801	Trading and manufacturing of labels and hangtags for clothes
Labelon (Far East) Limited	100%	-	10,000 ordinary shares of HKD1 each	Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong	244998	Dormant
Labelon Etiket ve Aksesuar Sanayi ve Ticaret Limited Sirketi	99%	1%	2,000 ordinary shares of TRY25 each	Baglar Mah, Mimarisan No:7 Yildizlar Plaza Kat:4 D: 11-12 Gunesli / Bagcilar, Istanbul, Turkey	503337	Trading and manufacturing of labels and hangtags for clothes
Labelon Romania SRL	0.1%	99.9%	801 ordinary shares of RON910 each	9-9A Dimitrie Pompei Blvd Bucharest, Romania, 020335	13039754	Trading and manufacturing of labels and hangtags for clothes
Clotex-Labelon (Bangladesh) Limited	-	58%	1,000,000 ordinary shares of BDT100 each	Pearl Trade Center 9F, CHA 90/3 Pragati Sarani Dhaka – 1212 Bangladesh	C- 36947	Trading and manufacturing of labels and hangtags for clothes
A-Tex Holding A/S	100%	-	15,000,000 ordinary shares of DKK1 each	Rosenholmvej 1-5, 7400 Heming, Denmark	34607923	Investment holding
ApS AF 04.07.2012	-	100%	80,000 ordinary shares of DKK1 each	Rosenholmvej 1-5, 7400 Heming, Denmark	34611408	Investment holding
A-Tex A/S	-	100%	1,100 ordinary shares of DKK1,000 each	Rosenholmvej 1-5, 7400 Heming, Denmark	18435543	Trading of brand, identification accessories

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

10. INVESTMENTS (continued)

Name of limited private company	Proportion of ownership interest held by		Particulars of issued shares/ registered capital	Registered office	Registered number	Principal activities
	Company	Subsidiary				
A-Tex (India) Private Limited	-	100%	99,620 ordinary shares of INR10 each	e-186, Back Room of Ground Floor, Greater Kailash-1, New Delhi, Delhi, 110048, India	U17299DL2003PTC123288	Trading of brand, identification accessories
A-Tex International Limited	-	100%	150,751 ordinary shares of BDT100 each	Pearl Trade Center 9F, CHA 90/3 Pragati Sarani Dhaka – 1212 Bangladesh	C-65496	Trading of brand, identification accessories
A-Tex Tekstil Ticaret Limited Sirketi	-	100%	3,600 ordinary of TRY25 each	Ikitelli OSB. Mah. Eski Turgut Ozal Cad. No: 31/301 Basaksehir, TR-34490 Istanbul, Turkey	485754	Trading of brand, identification accessories
A-Tex Asia Limited	-	100%	2 ordinary shares	Flat C & D, 9/F, City Industrial Complex, 116-122 Kwok Shui Road, Kwai Chung Hong Kong	712387	Trading of brand, identification accessories
A-Tex International Trading (Dongguan) Co. Ltd	-	100%	RMB2,000,000 fully paid up	1-2/F., Block A1, No. 66 Baiyunqian South 2nd Street Caibiancun, Dalangzhen Dongguan 523783 Guangdong, P.R. China	441900400188136	Trading of brand, identification accessories
A-Tex Trading (Ningbo) Co. Ltd	-	100%	RMB2,000,000 fully paid up	No.236, Xin Lang Road, Yu Yao City, Zhejiang Yu Yao City 315480 P.R. China	91330200MA2GRCUX69	Trading of brand, identification accessories
A-Tex US Inc.	-	100%	USD50,000 fully paid up	1350 6th Avenue, 2'nd floor, New York, NY 10019, USA	20-4143530	Sales office
A-Tex Germany GmbH	-	100%	1 ordinary shares of EUR25,000	Wasserstraße 223 44799 Bochum Germany	HRB 19708	Sales office
A-Tex Netherlands B.V.	-	100%	18,000 ordinary shares of EUR1 each	Suikersilo-Oost 16 1165 MS Halfweg Netherlands	30255301	Sales office
A-Tex Sweden AB	-	100%	1,000 ordinary shares of SEK100 each	Armbågavägen 3 506 30 Borås, Sweden	556707-4967	Sales office

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

10. INVESTMENTS (continued)

Non-controlling interests

The non-controlling interests as at the year end is £2,194,261 (2019: £2,157,690) and is attributable to Labelon BD.

Significant restrictions

Cash and bank deposits held in Bangladesh are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

The carrying amount of the asset included within the consolidated financial statements to which these restrictions apply is £1,515,271 (2019: £1,279,562).

Summarised financial information on Labelon BD

Set out below is the summarised financial information for Labelon BD that contributes to the non-controlling interests to the Group. The amounts disclosed for the subsidiary are before inter-company eliminations.

Summarised balance sheet

	2020 £	2019 £
Current assets	3,933,953	5,089,502
Current liabilities	(2,792,373)	(4,436,714)
Net current assets	<u>1,141,580</u>	<u>652,788</u>
Non-current assets	4,082,851	4,484,568
Net assets	<u>5,224,431</u>	<u>5,137,356</u>
Accumulated non-controlling interest	<u>2,194,261</u>	<u>2,157,690</u>

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

10. INVESTMENTS (continued)

Summarised statement of comprehensive income

	2020 £	2019 £
Revenue	4,616,816	5,666,581
Cost of sales	(3,132,583)	(3,938,065)
Gross profit	1,484,233	1,728,516
Other income and gains, net	(149,060)	(139,350)
Distribution and selling expenses	(114,016)	(114,858)
Administrative expenses	(880,105)	(636,453)
Operating profit	341,052	837,855
Finance costs	(37,604)	(79,318)
Profit before income tax	303,448	758,537
Income tax expense	(52,306)	(93,903)
Profit for the year	251,142	664,634
Other comprehensive loss		
<u>Item that may be reclassified to profit or loss</u>		
- Currency translation differences	(164,066)	(273,532)
Total comprehensive income	87,076	391,102
Profit for the year allocated to non-controlling interests	105,480	279,146
Total comprehensive income allocated to non-controlling interests	36,572	164,263

Summarised cash flows

	2020 £	2019 £
Cash flows from operating activities		
Cash generated from operations	1,355,573	1,110,818
Interest paid	(37,604)	(79,318)
Overseas tax paid	(52,306)	(93,903)
Net cash inflow from operating activities	1,265,663	937,597
Net cash outflow from investing activities	(66,757)	(645,395)
Net cash (outflow)/inflow from financing activities	(962,486)	48,595
Net increase in cash and cash equivalents	236,420	340,797
Cash and cash equivalents at the beginning of the year	1,279,562	939,423
Exchange difference on cash and cash equivalents	(711)	(658)
Cash and cash equivalents at end of the year	1,515,271	1,279,562

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

11. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Property £	Leasehold Property Improvements £	Plant, Fixtures & Equipment £	Motor Vehicles £	Total £
COST OR VALUATION					
At 1 January 2019	6,371,090	906,837	8,653,308	263,410	16,194,645
Retranslation	(335,117)	(39,342)	(319,503)	(33,682)	(727,644)
Additions	355,959	13,604	1,085,106	100,507	1,555,176
Disposals	-	-	(395,511)	-	(395,511)
At 31 December 2019 and 1 January 2020	6,391,932	881,099	9,023,400	330,235	16,626,666
Retranslation	163,776	(19,339)	(148,963)	(40,474)	(45,000)
Additions	47,221	7,014	291,290	268	345,793
Disposals	-	(76,289)	(383,283)	(21,233)	(480,805)
At 31 December 2020	6,602,929	792,485	8,782,444	268,796	16,446,654
ACCUMULATED DEPRECIATION					
At 1 January 2019	995,791	655,905	5,451,345	79,030	7,182,071
Retranslation	(56,940)	(33,790)	(245,500)	(20,083)	(356,313)
Charge for the year	106,562	88,682	660,352	39,300	894,896
On disposals	-	-	(291,994)	-	(291,994)
At 31 December 2019 and 1 January 2020	1,045,413	710,797	5,574,203	98,247	7,428,660
Retranslation	39,272	(17,718)	(68,335)	(10,200)	(56,981)
Charge for the year	125,272	84,930	690,426	45,558	946,186
On disposals	-	(76,289)	(366,151)	(15,522)	(457,962)
At 31 December 2020	1,209,957	701,720	5,830,143	118,083	7,859,903
NET BOOK VALUE					
At 31 December 2020	5,392,972	90,765	2,952,301	150,713	8,586,751
At 31 December 2019	5,346,519	170,302	3,449,197	231,988	9,198,006

Depreciation expense of £338,272 (2019: £320,528) and £607,914 (2019: £574,368) has been charged in cost of sales and administrative expenses respectively.

The company had no property, plant and equipment as at 31 December 2020 and 2019.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

11. PROPERTY, PLANT AND EQUIPMENT (*continued*)

(A) Leases

(i) Right-of-use assets

Group	Leasehold Property Improvements £	Plant, Fixtures & Equipment £	Motor Vehicles £	Total £
COST OR VALUATION				
At 1 January 2019, upon adoption of IFRS 16	3,137,425	48,467	293,069	3,478,961
Retranslation	(138,640)	(2,680)	(15,643)	(156,963)
Additions	336,609	34,346	165,714	536,669
Disposals	-	-	(30,019)	(30,019)
At 31 December 2019 and 1 January 2020	3,335,394	80,133	413,121	3,828,648
Retranslation	(106,526)	(13,358)	17,247	(102,637)
Additions	294,775	-	145,405	440,180
Disposals	(468,365)	-	(53,250)	(521,615)
At 31 December 2020	3,055,278	66,775	522,523	3,644,576
ACCUMULATED DEPRECIATION				
At 1 January 2019	-	-	-	-
Retranslation	(41,877)	(748)	(34,970)	(77,595)
Charge for the year	1,391,032	26,961	209,195	1,627,188
On disposals	-	-	(30,019)	(30,019)
At 31 December 2019 and 1 January 2020	1,349,155	26,213	144,206	1,519,574
Retranslation	(107,721)	841	(9,247)	(116,127)
Charge for the year	1,337,979	18,185	191,623	1,547,787
On disposals	(381,159)	-	(53,250)	(434,409)
At 31 December 2020	2,198,254	45,239	273,332	2,516,825
NET BOOK VALUE				
At 31 December 2020	857,024	21,536	249,191	1,127,751
At 31 December 2019	1,986,239	53,920	268,915	2,309,074

Depreciation expense of £52,301 (2019: £63,775) and £1,495,486 (2019: £1,563,413) has been charged in cost of sales and administrative expenses respectively.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

11. PROPERTY, PLANT AND EQUIPMENT (*continued*)

(ii) Lease liabilities

	2020 £	2019 £
Non-current liabilities	184,196	1,066,014
Current liabilities	998,943	1,296,750
Total lease liabilities	1,183,139	2,362,764
Minimum lease payments		
- Within one year	1,060,107	1,407,975
- Later than one year and no later than five years	197,671	1,089,733
Total undiscounted lease liabilities	1,257,778	2,497,708
Less: total future interest expenses	74,639	134,944
Present value of lease liabilities	1,183,139	2,362,764

12. INVENTORIES

	Group 2020 £	2019 £	Company 2020 £	2019 £
Raw materials	969,929	1,363,813	-	-
Work in progress	67,498	73,110	-	-
Finished goods	7,303,629	7,971,529	-	-
	8,341,056	9,408,452	-	-

13. TRADE AND OTHER RECEIVABLES

		Group 2020 £	2019 £	Company 2020 £	2019 £
Trade receivables		13,345,739	14,431,786	-	-
Amounts owed by group undertakings	23	10,513,456	10,511,558	-	-
VAT recoverable		61,513	81,464	1,100	1,280
Other receivables		1,111,111	1,258,591	-	-
Current income tax asset		109,501	295,728	-	-
Prepayments and accrued income		377,903	208,561	-	-
		25,519,223	26,787,688	1,100	1,280

The fair value of trade and other receivables is as in the above table.

The amounts owed by group undertakings have no fixed due date for payment and bear no interest.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

13. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables that are less than three months overdue are not considered impaired. As at 31 December 2020, trade receivables of £2,767,990 (2019: £3,810,250) were overdue but have not been impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2020 £	2019 £
Up to three months	2,290,136	3,656,958
Over three months	477,854	153,292
	2,767,990	3,810,250

At 31 December 2020, trade receivables of £938,653 (2019: £255,338) were considered impaired. The ageing analysis of these trade receivables is as follows:

	2020 £	2019 £
Up to three months	460,853	86,617
Over three months	477,800	168,721
	938,653	255,338

The carrying amounts of the group's gross trade receivables are denominated in the following currencies:

	2020 £	2019 £
Sterling	465,890	437,892
US Dollars	3,239,928	4,761,087
Euros	1,124,658	885,868
Romania Lei	110,698	108,270
Turkish Lira	3,080,092	2,167,131
Hong Kong Dollars	392,621	524,986
Chinese Yuan Renminbi	1,460,972	1,269,873
Danish Krone	56,053	233,055
Indian Rupee	203,520	198,334
Bangladeshi Taka	4,149,960	4,100,628
	14,284,392	14,687,124

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Note 18 provides for details about the calculation of the allowance.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

14. DEFERRED TAX ASSETS/ (LIABILITIES)

Deferred income tax is calculated on temporary differences under the asset method using the rates of taxation prevailing in the respective jurisdictions in which the group operates.

The analysis of deferred income tax assets/ (liabilities) is as follows:

	2020 £	2019 £
Deferred income tax assets to be recovered within 12 months	110,092	108,179
Deferred income tax liabilities:		
- Settled within 12 months	(4,349,958)	(4,580,504)
- Settled after more than 12 months	(1,461,792)	(1,118,921)
Deferred income tax liabilities - net	(5,701,658)	(5,591,246)

The movements in deferred income tax assets/ (liabilities) during the year are as follows:

Deferred income tax assets

	Decelerated/ (accelerated) tax depreciation £	Provision £	Total £
At 1 January 2019	(12,221)	142,511	130,290
Currency translation differences (Charged)/ credited to consolidated statement of comprehensive income	4,096	(48,069)	(43,973)
Balance at 31 December 2019 and 1 January 2020	(17,417)	39,279	21,862
Currency translation differences (Charged)/ credited to consolidated statement of comprehensive income	(25,542)	133,721	108,179
	45,598	(80,112)	(34,514)
At 31 December 2020	(13,679)	50,106	36,427
	6,377	103,715	110,092

Deferred income tax liabilities

	Accelerated tax depreciation £	Customer relationships, withholding tax and provision £	Total £
At 1 January 2019	4,825,435	1,033,680	5,859,115
Currency translation differences (Credited)/ charged to consolidated statement of comprehensive income	(22,625)	(68,388)	(91,013)
Balance at 31 December 2019 and 1 January 2020	(222,306)	153,629	(68,677)
Currency translation differences (Credited)/ charged to consolidated statement of comprehensive income	4,580,504	1,118,921	5,699,425
	19,717	40,645	60,362
At 31 December 2020	(250,263)	302,226	51,963
	4,349,958	1,461,792	5,811,750

At 31 December 2020, the group has deferred tax asset of £2,951,803 (2019: £3,062,586) not recognised for in respect of tax losses carried forward of £15,535,808 (2019: £16,118,874) as there is no evidence that sufficient future taxable income will be available to utilise such tax losses. The tax losses have no expiry date.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

15. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2020 £	2019 £	2020 £	2019 £
Trade creditors		11,005,759	9,345,314	-	-
Amounts owed to group undertakings	23	5,596,841	6,170,369	8,606,202	8,937,404
Other creditors		418,390	362,535	-	-
Lease liabilities	11(A)(ii)	998,943	1,296,750	-	-
Accruals		4,187,395	4,065,250	172,560	171,120
Financial liabilities (note 18)		22,207,328	21,240,218	8,778,762	9,108,524
Current income tax liability		1,605,273	2,047,667	-	-
Other taxes and social security		356,822	207,492	-	-
		24,169,423	23,495,377	8,778,762	9,108,524

The amounts owed to group undertakings have no fixed due date for payment and bear no interest.

16. NON-CURRENT LIABILITIES - OTHER PAYABLES

	Note	Group		Company	
		2020 £	2019 £	2020 £	2019 £
Other creditors		74,270	88,311	-	-
Lease liabilities	11(A)(ii)	184,196	1,066,014	-	-
	18	258,466	1,154,325	-	-

17. BORROWINGS

		Group		Company	
		2020 £	2019 £	2020 £	2019 £
Intercompany loans		50,372,922	51,457,113	50,372,922	51,457,113
Short term bank borrowings		231,336	1,148,284	-	-
		50,604,258	52,605,397	50,372,922	51,457,113

The borrowings carry interest and are repayable on demand.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group is exposed to various financial risks that arise as a normal part of its trading activities. The main such risks are considered to be foreign exchange risk, credit risk, and liquidity risk.

Market risk - Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong Dollars, Euros, US Dollars, Danish Krone and Turkish Lira. Management monitor exchange rate movements closely and ensure adequate funds are maintained in appropriate currencies to meet known liabilities.

Credit risk

The group's financial assets are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as they are mainly deposited in reputable banks.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced over a period of one year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

On that basis, the loss allowance as at 31st December 2020 was determined as follows for trade receivables:

31st December 2020	Current	Past due 1 to 90 days	More than 90 days past due	Total
Expected loss rate	2.37%	8.20%	50.00%	
Gross carrying amount – trade receivables (£)	10,834,079	2,494,660	955,653	14,284,392
Provision for impairment (£)	256,329	204,524	477,800	938,653

31st December 2019	Current	Past due 1 to 90 days	More than 90 days past due	Total
Expected loss rate	0%	2.31%	52.40%	
Gross carrying amount – trade receivables (£)	10,621,536	3,743,575	322,013	14,687,124
Provision for impairment (£)	-	86,617	168,721	255,338

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on debtors are presented as administrative expenses in the consolidated income statement. Subsequent recoveries of amounts previously written off are credited against the same line item.

For amount due from related companies, the group applies the IFRS 9 general approach to measuring expected credit losses. No loss allowance provision was determined for this financial asset as at 31 December 2020 as the directors considered that the expected credit loss was immaterial (2019: Nil).

For other financial assets at amortised cost, no loss allowance provision was determined as at 31 December 2020 and 2019 as the directors considered that the expected credit loss was immaterial.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, availability of fundings from committed banking facilities and ensuring continual financial supports from the holding companies. In addition, the group's working capital is supported by funding generated through operations. In the opinion of directors, the group does not have significant liquidity risk.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2020 £	2019 £
Less than 1 year		
Borrowings (note 17)	50,604,258	52,605,397
Trade and other payables (note 15)	23,207,328	21,240,218
	72,811,586	73,845,615
Between 1 to 5 years		
Other payables (note 16)	258,466	1,154,325
	73,618,152	74,999,940

19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. However, other than the judgement made by the directors in respect of going concern, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 9(a).

The directors are of the opinion that there is no impairment of goodwill as at 31 December 2020 and 2019.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recognition of income taxes

The group operates worldwide and is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax assets and liabilities in the year in which such determination is made.

Moreover, the company has unused tax losses carried forward as at 31 December 2020 and significant judgement is required in determining the recognition of the related deferred tax assets. However, deferred income tax assets in relation to such unused tax losses of approximately £2,951,803 (2019: £3,062,586) have not been recognised as, in the opinion of the directors, there is uncertainty that sufficient future taxable income will be available for the company.

20. COMMITMENTS UNDER OPERATING LEASES

From 1st January 2020, the Group has recognised certain leases, except for short-term leases, as right-of-use assets and lease liabilities on adoption of IFRS 16, see note 11(B) for further information.

As at 31st December, the Group had future aggregate minimum lease payments under non-cancellable operating leases (not included in the measurement of lease liabilities) in respect of office premises, factories and warehouses as follows:

Group

	2020	2019
	£	£
Operating leases which expire:		
No more than one year	39,430	18,185
Later than one year and no later than five years	380	30,401
	39,810	48,586

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

21. SHARE CAPITAL (GROUP AND COMPANY)

Authorised, allotted, called up and fully paid:

	2020		2019	
	No	£	No	£
Ordinary shares of £1 each	6,000	6,000	6,000	6,000

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Operating profit	11,947,650	14,587,313	2,968,584	3,167,860
Exceptional items	(831,410)	(559,782)	-	-
Depreciation	946,186	894,896	-	-
Amortisation	1,359,142	1,414,888	-	-
Depreciation on right-of-use assets	1,547,787	1,627,188	-	-
Loss/ (gain) on disposal of fixed assets	1,704	(3,361)	-	-
Dividend income	-	-	(1,144,265)	(1,410,300)
Decrease/ (increase) in inventory	1,067,396	(1,279,300)	-	-
Decrease/ (increase) in debtors	1,082,239	(131,719)	180	(400)
Increase/ (decrease) in creditors	1,400,206	164,489	(329,761)	541,806
Effect of foreign exchange	(1,561,216)	(1,670,197)	-	-
Net cash inflow from operating activities	16,959,684	15,044,415	1,494,738	2,298,966

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

23. RELATED PARTIES

Group

The group is controlled by Trimco International Holdings Limited, a company incorporated in the British Virgin Islands, which owns 100% of the company's shares.

The following transactions were carried out with related parties:

a) Sales of goods and services

	2020	2019
	£	£
Sale of goods:		
- Fellow subsidiaries	634,325	94,682

b) Purchase of goods and services

	2020	2019
	£	£
Purchase of goods:		
- Fellow subsidiaries	2,617,701	3,844,735
Purchase of services:		
- Fellow subsidiaries (management charges)	627,003	1,110,907
	3,244,704	4,955,642

c) Year end balances

	2020	2019
	£	£
Receivables from related parties:		
- Intermediate parent	160,477	166,125
- Fellow subsidiaries	10,352,979	10,345,433
Payables to related parties:		
- Intermediate parent	2,955,824	3,059,892
- Immediate parent	1,484,223	1,536,465
- Fellow subsidiaries	1,156,794	1,574,012
Loans from related parties:		
- Intermediate parent	48,790,901	48,834,797
- Fellow subsidiary	1,582,021	2,622,316

The receivables from/ payables to related parties arise mainly from purchase transactions and due to the consideration paid in respect of the acquisition of A-TeX, have no fixed due date for payment and bear no interest.

The loans from related parties arise mainly due to the consideration paid in respect of the acquisition of A-TeX, have no fixed due date for payment, carry interest at LIBOR plus 3.65% margin and are repayable on demand.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

23. RELATED PARTIES (continued)

Company

a) The following transactions with subsidiary companies occurred in the year:

	2020	2019
	£	£
Dividends received	1,144,265	1,410,300

No purchase or sales transactions were entered into between the company and its subsidiaries.

b) Year end balances

	2020	2019
	£	£
Payables to related parties:		
- Intermediate parent	2,612,539	2,704,525
- Immediate parent	1,484,223	1,536,465
- Subsidiary	4,509,440	4,696,414
Loans from related parties:		
- Intermediate parent	48,790,901	48,834,797
- Fellow subsidiary	1,582,021	2,622,316

The payables to related parties arise mainly due to the consideration paid in respect of the acquisition of A-TeX, have no fixed due date for payment, bear no interest and are repayable on demand.

The loans from related parties arise mainly due to the consideration paid in respect of the acquisition of A-TeX, have no fixed due date for payment, carry interest at LIBOR plus 3.65% margin and are repayable on demand.

c) Key management compensation

Key management includes executive and non-executive directors. The compensation paid or payable to key management for employee services is borne by a fellow subsidiary.

LABELON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL INSTRUMENTS BY CATEGORY

The group's financial instruments include the followings:

	2020	2019
	£	£
Financial assets		
<u>Financial assets at amortised cost</u>		
Trade and other receivables (note 13)	25,348,209	26,410,496
Cash and cash equivalents	28,553,727	19,746,902
	53,901,936	46,157,398
Financial liabilities		
<u>Financial liabilities at amortised cost</u>		
Trade and other payables (note 15)	22,207,328	21,240,218
Borrowings (note 17)	50,604,258	52,605,397
Other payables (note 16)	258,466	1,154,325
	73,070,052	74,999,940

25. ULTIMATE PARENT COMPANY

Trimco International Holdings Limited, a company incorporated in the British Virgin Islands, whose principal activity is that of a holding company, is the immediate parent of the company and owns 100% of the shares and voting rights.

Brandco 3 Limited, a company incorporated in the Hong Kong, is the smallest group to consolidate the financial statements of the company.

CNC Investment Limited, incorporated in the Cayman Islands, is the largest group to consolidate these financial statements.

The directors regard CNC Consolidated Limited as being the ultimate holding company.

Copies of the Labelon Group Limited financial statements may be obtained from the registered office, 1 Park Row, Leeds, LS1 5AB, United Kingdom.

26. GENERAL INFORMATION

Labelon Group Limited was formed as a limited liability company by shares in 2004. The Company is domiciled in the United Kingdom.