

30 April 2020

**UP Global Sourcing Holdings plc**

**"Ultimate Products" or the "Group"**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2020**

***A resilient six months, but short-term outlook remains uncertain***

Ultimate Products, the owner, manager, designer and developer of an extensive range of value-focused consumer goods brands, announces its interim results for the six months ended 31 January 2020.

**Financial and Operational Highlights**

- Revenue up 2.8 % (or £1.9 m) to £67.7 m (H1 FY 19: £65.8 m), driven by UK and European supermarket customers (revenue up 45.4 %) and online platforms (revenue up 25.5 %)
- International revenue up 9.8 % on an underlying basis (i.e. excluding the cessation of business with our largest German customer, following the sale of that operation by its parent company)
- Underlying EBITDA<sup>1</sup> up 3.5 % to £7.2 m (H1 FY 19<sup>2</sup>: £7.0 m)
- Underlying profit before taxation<sup>1</sup> up 4.8 % to £6.2 m (H1 FY 19<sup>2</sup>: £5.9 m)
- Profit before taxation up 3.5 % to £6.0 m (H1 FY 19: £5.8 m)
- Net bank debt/underlying EBITDA<sup>1</sup> ratio at 31 January 2020 was 1.0x (31 July 2019<sup>2</sup>: 1.3x; 31 January 2019<sup>2</sup>: 1.5x)
- Successfully extended the Group's banking facilities to 2024, with funding headroom at 31 January 2020 of £13.2 m (31 July 2019: £10.1 m; 31 January 2019: £10.5 m)
- 90 % of the Group's factories in China now back up to full production, following the initial disruption caused by COVID-19
- Agreed terms on a 10-year lease extension at Manor Mill, the Group's head office and second distribution centre in Oldham, Greater Manchester, in anticipation of planned investment in the site
- Interim dividend being suspended: one of a range of steps being taken to conserve cash and maintain the financial strength of the business in light of the impact of COVID-19

Note:

1. Calculated after adding back exceptional items and share based payment charges as referred to in Notes 10 and 12
2. As restated for the adoption of IFRS 16

**Commenting on the results, Simon Showman, Chief Executive of Ultimate Products, said:**

"These are extremely challenging times for any business in the general merchandise sector, but I am hugely proud of the way in which the Ultimate Products team has responded to ensure that the business continues to trade as effectively as possible. We are doing everything that we can to keep our people safe, provide our

customers with the outstanding service that they have come to expect from Ultimate Products, and also lend our support and assistance to the local community in which we operate.

We take confidence from the fact that Ultimate Products has proved itself time and time again to be a hugely adaptive, resilient and flexible business that is capable of trading its way through the most challenging of environments. The business is well capitalised with a strong balance sheet and good access to funding, and we believe that there may be attractive growth opportunities for Ultimate Products as we emerge from this crisis. As a result, despite the short-term uncertainty we remain confident in the long-term prospects of the business.”

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) 596/2014.

**Notes to Editors**

Ultimate Products is an owner, manager, designer and developer of a series of well-known brands focused on the home, selling to over 300 retailers across 38 countries. It has six product categories: Audio; Heating and Cooling; Housewares; Laundry; Luggage; and Small Domestic Appliances. Its brands include Beldray (laundry, floor care, heating and cooling), Intempo (audio), Salter (kitchenware), Constellation (luggage), and Progress (cookware and bakeware).

The Group's products are sold to a broad cross-section of both large national and international multi-channel retailers as well as smaller national retail chains, incorporating discount retailers, supermarkets, general

retailers and online retailers. Its best-selling products include frying pans, mugs and speakers, selling approximately one million of each every year.

Founded in 1997, Ultimate Products is headquartered in Oldham, Greater Manchester, where it has design, sales, marketing, buying, quality assurance, support functions and warehouse facilities across two sites. Manor Mill, the Group's head office, includes a spectacular 20,000 sq ft showroom that showcases each of its brands. In addition, the Group has an office and showroom in Guangzhou, China and in Cologne, Germany.

Ultimate Products' graduate development scheme was launched in 2012 and in 2018 it welcomed its one-hundredth graduate. In total, Ultimate Products now employs over 300 staff.

Please note that Ultimate Products is not the owner of Russell Hobbs or Salter. The company currently has licence agreements in place granting it an exclusive licence to use the "Russell Hobbs" trademark for cookware (NB this does not include Russell Hobbs electrical appliances) and the "Salter" trademark for electrical and cookware (NB this does not include Salter scales).

For further information, please visit [www.upgs.com](http://www.upgs.com)

## **INTERIM STATEMENT**

### **COVID-19**

#### **Impact and mitigating actions**

On the supply side of the business, the Group's manufacturing operations in China have now normalised, with over 90 % of its factories back up to full production. The Board estimates that the delays experienced in China earlier in the year will result in a reduction of approximately £0.8 m to FY 20 revenue.

However, on the demand side of the business, while business is ongoing, the Group has seen customers defer and cancel existing orders and delay placing new orders since the lockdown started. In response, the Group is carrying out the following financial and operational measures to preserve the Group's capital base:

- All non-essential capital expenditure projects have temporarily ceased and the Group is making use of the UK government's VAT deferral and Time to Pay initiatives.
- Further to the renewal of bank facilities on 1 October 2019 with HSBC (see below), the Group has received credit approval for a £4.0 m increase in its RCF facility, amortising over the period to 31 January 2021. In addition, the Group has already effected an increase in the percentage of receivables advanced via the invoice discounting facility and an extension of the funding period of its import loan facility with HSBC from 120 days to 180 days.
- Purchase orders placed with the Group's manufacturers are under constant review and are being deferred or otherwise slowed down in the supply chain where necessary.
- The interim dividend has been suspended (see below).

Product development has continued in anticipation of the end of this crisis, and the commercial teams continue to keep in close contact with all of our customers. The Board also believes that there may be attractive opportunities during and after this crisis to acquire new brands.

### **Protecting colleagues and supporting the community**

Since the pandemic first began to affect the supply side of our business in China, and now the demand side of our business in the UK and Europe, our immediate priority has been the health and well-being of our colleagues. We are doing everything that we can to ensure that they are being given all the support and assistance that they require, and the Board would like to publicly thank all of the Group's employees for their outstanding professionalism, dedication and loyalty during this exceptionally challenging period.

The Group's online business remains open as per UK government guidance, with a strictly monitored and comprehensive range of safety measures in order to protect all staff who are involved in the processing and distributing of orders. Elsewhere, the Group's UK and European office teams are working remotely with no resulting disruption to the day-to-day running of the business. While no permanent headcount reductions have been made, the Group has placed a number of its employees into the COVID-19 Job Retention Scheme ('furlough') and is doing everything it can to support them.

The Group takes its role as a responsible and socially engaged corporate citizen very seriously and has taken steps to help its local community as it deals with the fall-out of the pandemic. The business has been very active in supporting local charities, hospitals and other community organisations through a mix of providing volunteers, supplying product free of charge and some cash donations. In order to help fund these initiatives, the Group's Chief Executive Officer and Managing Director have decided to waive their salaries and other directors have voluntarily taken a 20 % salary reduction until normal levels of trading have resumed. This will be reviewed on a monthly basis.

Oldham has a significant proportion of its wards within the 20 % most deprived in England and the Board is determined to do what it can to help the community through this challenging period.

### **STRATEGY**

Ultimate Products' strategy is to develop its portfolio of brands for mass-market, value-led, consumer goods for the home focusing on the following channels:

1. Discounters;
2. Supermarkets;
3. Online platforms; and
4. International retailers.

This long-standing approach continues to deliver growth despite a challenging market for general merchandise in the UK, which is the Group's main market, and the Board remains confident that this strategy will continue to deliver long-term future growth.

## **TRADING FOR THE PERIOD**

Revenue for the six months ended 31 January 2020 ('H1 FY 20') increased by 2.8 % (£1.9 m) to £67.7 m (H1 FY 19: £65.8 m).

### **Discounters**

Sales to discounters declined by £5.6 m or 16.5 %. The largest contributor was the cessation of business with our largest German customer as its parent company undertook a strategic review of that operation. We also saw a relative decline in intake from another large European customer as a result of additional intake last year on new lines.

### **Supermarkets**

Our brands continued to resonate well with supermarkets in both the UK and increasingly in Europe which led to further robust growth in H1 FY 20 revenue of £5.0 m or 45.4 %.

### **Online Platforms**

The online segment showed ongoing and significant growth, with revenue up £1.6 m or 25.5 % in H1 FY 20. Online accounted for 11.3 % of overall revenue (H1 FY 19: 9.3 %) against a long-term target of over 20 %. The growth rate for online has accelerated during the COVID-19 lockdown, with particularly strong sales in cleaning and laundry products.

### **International**

After sustained and substantial growth in prior periods, our international revenue declined by £2.7 m or 10.2 % compared to H1 FY 19 for the reason noted above. Allowing for these factors, the underlying growth in our international business was 9.8 % and in Germany, where we have our Cologne showroom, it was 102.2 %. The Board continues to see the Group's international business as a key priority, both as a new and substantial growth opportunity in its own right, and also to provide strategically planned diversification away from the UK market.

Gross margin increased to 23.6 % (H1 FY 19: 22.4 %) as a result of a changed customer mix and continued product innovation.

Administrative expenses before share-based payment charges ('Overheads') were £1.0 m higher than last year, an increase of 12.0 %. This reflected investment in the international business and changed customer mix, with a more varied customer base and higher online sales coming with increased costs to serve, including higher online marketing spend. In the UK, we also experienced increased salary inflation as a result of high employment, increased demand for graduates, lower availability of EU staff and above inflation increases in the National Living Wage.

This effect of changed customer mix leading to increased overheads but offset by an improved gross margin meant that the underlying EBITDA<sup>1</sup> margin remained steady at 10.7 % (H1 FY 19<sup>2</sup>: 10.6 %). As a result, underlying EBITDA<sup>1</sup> for the period increased by 3.5 % to £7.2 m (H1 FY 19<sup>2</sup>: £7.0 m) and underlying profit before taxation<sup>1</sup> increased by 4.8 % to £6.2 m (H1 FY 19<sup>2</sup>: £5.9 m).

## BALANCE SHEET

Net working capital at 31 January 2020 was £22.7 m, down from £23.3 m at 31 January 2019 – a decrease of £0.6 m or 3.2 %.

Net cash from operations for the period was £6.8 m (H1 FY 19<sup>2</sup>: £2.2 m), an increase of £4.6 m or 213 % as working capital levelled out and there was therefore a better conversion of EBITDA into operating cashflow.

Net bank debt at 31 January 2020 was £11.2 m, down from £14.0 m at 31 January 2019, a reduction of £2.8 m or 19.9 % as a result of the increase in retained earnings and stable working capital in the intervening period.

The net bank debt/underlying EBITDA ratio at 31 January 2020 was 1.0x (31 July 2019<sup>2</sup>: 1.3x; 31 January 2019<sup>2</sup>: 1.5x) based on underlying EBITDA for the 12 months to 31 January 2020. The Group maintained comfortable headroom within its bank facilities, with headroom of £13.2 m at 31 January 2020 (31 July 2019: £10.1 m; 31 January 2019: £10.5 m) and operated well within its banking covenants.

Shareholders' equity increased to £12.5 m at 31 January 2020, up from £10.3 m at 31 January 2019<sup>2</sup>, an increase of £2.2 m. The main movements in shareholders' equity were:

1. An increase in retained earnings of £3.3 m; offset by
2. A reduction in the hedging reserve of £0.6 m; and
3. Total debits to the Employee Benefit Trust reserve of £0.8 m relating to the purchase of the Group's shares by the UP Global Sourcing Employee Benefit Trust ('UPGS EBT').

## OPERATIONAL REVIEW

### Renewal of Bank Facilities

On 1 October 2019, the Group successfully renewed its bank facilities. Prior to the renewal, the facilities consisted of a revolving credit facility ('RCF') of £6.2 m, an invoice discounting facility ('ID facility') of £17 m and an import loan facility of £8.7 m.

As a result of the renewal, the RCF and ID facility have been extended to 2024 and increased to £8.2 m (up £2.0 m) and £23.5 m (up £6.5 m) respectively. The import loan facility remains at £8.7 m and, as before, is repayable on demand and subject to annual renewal. No material changes were made to the facilities' terms or financial covenants.

Further to this renewal, during March 2020 and April 2020, the Group has received credit approval from HSBC for a £4.0 m increase in its RCF facility, amortising over the period to 31 January 2021. In addition, the Group has already effected an increase in the percentage of receivables advanced via the invoice discounting facility and an extension of the funding period of its import loan facility with HSBC from 120 days to 180 days.

### **Head Office Investment**

On 21 January 2020, the Group extended the lease over its head office at Manor Mill, Oldham, Greater Manchester in anticipation of planned improvements to the site. The lease extension is for a period of 10 years with the annual rent maintained at the current rate of £180,000.

Manor Mill is a 200,000 sq.ft. facility that contains offices for the Group's sales, accounting, buying, design, marketing and support functions, as well as a customer showroom. Manor Mill also acts as an overflow facility to Heron Mill, the Group's 240,000 sq.ft. warehousing facility also in Oldham.

The Group plans to invest £1.8 m in Manor Mill in order to provide additional capacity for future growth and a better quality workspace for our colleagues. However, these plans have now been deferred to 2021 in light of the decision to temporarily cease all capital expenditure projects as part of the measures that the Group is putting in place to mitigate the impact of COVID-19 on the business.

### **Russell Hobbs Licence Renewal**

On 18 September 2019, the Group renewed its trademark licence agreement with Spectrum Brands which grants the Group an exclusive licence to use the Russell Hobbs brand to distribute cookware and laundry products in the UK and EU until March 2023. This does not include electrical appliances.

In FY 19, the Group generated revenues of £9.4 m under the Russell Hobbs brand, representing 7.6 % of the total revenue for that period.

### **DIVIDEND**

The Group's dividend policy is to distribute 50 % of adjusted profit after tax with a third paid as an interim dividend and the balance as a final dividend. However, in light of the unprecedented level of uncertainty that the COVID-19 pandemic has created, the Board has decided to suspend the interim dividend to conserve cash and maintain the financial strength of the business during this challenging period.

### **CURRENT TRADING AND OUTLOOK**

Until early March, the Group was trading well and in line with expectations, despite the supply chain challenges in China. However, the prevailing issues on the demand side mean that the Board is anticipating a significant drop in revenue in H2 FY 20 compared to previous expectations which will impact the overall profitability for FY 20. The overall picture remains volatile and unpredictable making it difficult to forecast.

We are continuing to make sales via online and to retailers that remain open, albeit at a reduced level. Total invoiced revenue for FY 20 as at Friday 24<sup>th</sup> April 2020 was £85.9 m (FY 19: £90.6 m) and there was an order book for the remainder of FY 20 of £18.1 m (FY 19: £27.0 m), although further deferrals and cancellations remain a risk.

The Board is confident that the business has sufficient financial strength to trade its way through the current disruption. The Group is well capitalised with a strong balance sheet and good access to funding, its bank facilities having recently been extended. As a result, we remain confident in the long-term prospects of the business.

**James McCarthy**

Chairman

**Simon Showman**

Chief Executive Officer

Note:

1. Calculated after adding back exceptional items and share-based payment charges as referred to in Notes 10 and 12
2. As restated for the adoption of IFRS 16



## Consolidated Condensed Income Statement

		6 months ended 31 Jan 2020	6 months ended 31 Jan 2019 (restated*)	Year ended 31 Jul 2019 (restated*)
	Note	£'000	£'000	£'000
Revenue	7	67,690	65,823	123,257
Cost of sales		(51,712)	(51,064)	(96,013)
<b>Gross profit</b>		<b>15,978</b>	14,759	27,244
Administration expenses before share-based payment charges		(9,441)	(8,437)	(18,047)
Profit from operations before share-based payment charges		6,537	6,322	9,197
Share-based payment charges	9	(174)	(96)	(257)
Administration expenses		(9,615)	(8,533)	(18,304)
<b>Profit from operations</b>	10	<b>6,363</b>	6,226	8,940
Finance income		-	-	6
Finance costs	11	(342)	(408)	(816)
<b>Profit before taxation</b>	12	<b>6,021</b>	5,818	8,130
Income tax	13	(1,323)	(1,194)	(1,720)
<b>Profit for the period</b>		<b>4,698</b>	4,624	6,410
		<b>Pence</b>	Pence	Pence
<b>Earnings per share - basic</b>	14	<b>6.0</b>	5.8	8.0
<b>Earnings per share - diluted</b>	14	<b>5.9</b>	5.8	8.0

\*Restated for the adoption of IFRS 16 as explained in note 24

**Consolidated Condensed Statement of Comprehensive Income**

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated*)	Year ended 31 Jul 2019 (restated*)
	<b>£'000</b>	£'000	£'000
<b>Profit for the period</b>	<b>4,698</b>	4,624	6,410
Other comprehensive (expense)/income			
<i>Items that may be subsequently reclassified to income statement:</i>			
Fair value movements on cash flow hedging instruments	<b>(841)</b>	(25)	1,238
Hedging instruments recycled through the income statement at the end of hedging relationships	<b>(740)</b>	(563)	(846)
Foreign currency retranslation	<b>(15)</b>	-	12
<b>Other comprehensive (expense)/ income for the period</b>	<b>(1,596)</b>	(588)	404
<b>Total comprehensive income for period attributable to the equity holders of the company</b>	<b>3,102</b>	4,036	6,814

\*Restated for the adoption of IFRS 16 as explained in note 24

## Consolidated Condensed Statement of Financial Position

		As at 31 Jan 2020	As at 31 Jan 2019 (restated*)	As at 31 Jul 2019 (restated*)
	Note	£'000	£'000	£'000
<b>Assets</b>				
Intangible assets		92	103	98
Property, plant and equipment	16	5,503	5,294	4,993
Deferred tax		128	152	130
<b>Total non-current assets</b>		<b>5,723</b>	5,549	5,221
Inventories		18,129	18,410	20,399
Trade and other receivables	17	20,275	19,616	18,644
Derivative financial instruments	21	216	361	1,335
Cash and cash equivalents		124	157	122
<b>Total current assets</b>		<b>38,744</b>	38,544	40,500
<b>Total assets</b>		<b>44,467</b>	44,093	45,721
<b>Liabilities</b>				
Trade and other payables	18	(15,931)	(14,788)	(15,284)
Derivative financial instruments	21	(383)	(6)	(54)
Current tax		(641)	(1,164)	(812)
Borrowings	19	(9,500)	(12,269)	(14,567)
Lease liabilities	20	(669)	(745)	(793)
<b>Total current liabilities</b>		<b>(27,124)</b>	(28,972)	(31,510)
<b>Net current assets</b>		<b>11,620</b>	9,572	8,990
Borrowings	19	(1,657)	(1,847)	-
Lease liabilities	20	(3,165)	(2,989)	(2,659)
<b>Total non-current liabilities</b>		<b>(4,822)</b>	(4,836)	(2,659)
<b>Total liabilities</b>		<b>(31,946)</b>	(33,808)	(34,169)
<b>Net assets</b>		<b>12,521</b>	10,285	11,552
<b>Equity</b>				
Share capital		205	205	205
Share premium		2	2	2
Employee Benefit Trust reserve		(1,649)	(897)	(1,649)
Share-based payment reserve		703	368	529
Hedging reserve		(343)	258	1,238
Retained earnings		13,603	10,349	11,227
<b>Equity attributable to owners of the company</b>		<b>12,521</b>	10,285	11,552

\*Restated for the adoption of IFRS 16 as explained in note 24

## Consolidated Condensed Statement of Changes in Equity

	Share capital	Share premium	Employee Benefit Trust reserve	Share-based payment reserve	Hedging reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 1 August 2019 (as previously reported)</b>	<b>205</b>	<b>2</b>	<b>(1,649)</b>	<b>529</b>	<b>1,278</b>	<b>11,469</b>	<b>11,834</b>
Cumulative adjustment to opening balances from the adoption of IFRS 16	-	-	-	-	(40)	(242)	(282)
<b>As at 1 August 2019 (restated*)</b>	<b>205</b>	<b>2</b>	<b>(1,649)</b>	<b>529</b>	<b>1,238</b>	<b>11,227</b>	<b>11,552</b>
Profit for the period	-	-	-	-	-	4,698	4,698
Foreign currency translation	-	-	-	-	-	(15)	(15)
Cash flow hedging movement	-	-	-	-	(1,581)	-	(1,581)
Total comprehensive income for the period	-	-	-	-	(1,581)	4,683	3,102
<i>Transactions with shareholders:</i>							
Dividends payable	-	-	-	-	-	(2,307)	(2,307)
Share-based payments	-	-	-	174	-	-	174
<b>As at 31 January 2020</b>	<b>205</b>	<b>2</b>	<b>(1,649)</b>	<b>703</b>	<b>(343)</b>	<b>13,603</b>	<b>12,521</b>
	Share capital	Share premium	Employee Benefit Trust reserve	Share-based payment reserve	Hedging reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 1 August 2018 (as previously reported)</b>	<b>205</b>	<b>2</b>	<b>-</b>	<b>272</b>	<b>846</b>	<b>7,423</b>	<b>8,748</b>
Cumulative adjustment to opening balances from the adoption of IFRS 16	-	-	-	-	-	(190)	(190)
<b>As at 1 August 2018 (restated*)</b>	<b>205</b>	<b>2</b>	<b>-</b>	<b>272</b>	<b>846</b>	<b>7,233</b>	<b>8,558</b>
Profit for the period	-	-	-	-	-	4,624	4,624
Cash flow hedging movement	-	-	-	-	(588)	-	(588)
Total comprehensive income for the period	-	-	-	-	(588)	4,624	4,036
<i>Transactions with shareholders:</i>							
Dividends payable	-	-	-	-	-	(1,508)	(1,508)
Share-based payments	-	-	-	96	-	-	96
Purchase of own shares	-	-	(897)	-	-	-	(897)
<b>As at 31 January 2019 (restated*)</b>	<b>205</b>	<b>2</b>	<b>(897)</b>	<b>368</b>	<b>258</b>	<b>10,349</b>	<b>10,285</b>

	Share capital	Share premium	Employee Benefit Trust reserve	Share-based payment reserve	Hedging reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 1 August 2018 (as previously reported)</b>	<b>205</b>	<b>2</b>	<b>-</b>	<b>272</b>	<b>846</b>	<b>7,233</b>	<b>8,558</b>
Cumulative adjustment to opening balances from the adoption of IFRS 16	-	-	-	-	-	(190)	(190)
<b>As at 1 August 2018 (restated*)</b>	<b>205</b>	<b>2</b>	<b>-</b>	<b>272</b>	<b>846</b>	<b>7,233</b>	<b>8,558</b>
Profit for the period	-	-	-	-	-	6,410	6,410
Foreign currency translation	-	-	-	-	-	12	12
Cash flow hedging movement	-	-	-	-	392	-	392
Total comprehensive income for the period	-	-	-	-	392	6,422	6,814
<i>Transactions with shareholders:</i>							
Dividends payable	-	-	-	-	-	(2,428)	(2,428)
Purchase of own shares	-	-	(1,649)	-	-	-	(1,649)
Share-based payments	-	-	-	257	-	-	257
<b>As at 31 July 2019 (restated*)</b>	<b>205</b>	<b>2</b>	<b>(1,649)</b>	<b>529</b>	<b>1,238</b>	<b>11,227</b>	<b>11,552</b>

\*Restated for the adoption of IFRS 16 as explained in note 24

## Consolidated Condensed Cash Flow Statement

	6 months ended 31 Jan 2020	6 months ended 31 Jan 2019 (restated*)	Year ended 31 Jul 2019 (restated*)
	£'000	£'000	£'000
<b>Net cash flow from operating activities</b>			
Profit for the period	4,698	4,624	6,410
<b>Adjustments for:</b>			
Finance income	-	-	(6)
Finance costs	342	408	816
Income tax expense	1,323	1,195	1,720
Depreciation and impairment	706	678	1,512
Amortisation	6	6	11
Derivative financial instruments	(262)	27	132
Share-based payments	174	96	257
Income taxes paid	(1,491)	(458)	(1,314)
<b>Working capital adjustments</b>			
Decrease/ (increase) in inventories	2,270	(1,944)	(3,932)
Increase in trade and other receivables	(1,631)	(4,906)	(3,933)
Increase in trade and other payables	619	2,432	2,947
<b>Net cash from operations</b>	<b>6,754</b>	<b>2,158</b>	<b>4,620</b>
<b>Cash flows used in investing activities</b>			
Purchase of intangible assets	-	(9)	(9)
Purchase of property, plant and equipment	(309)	(202)	(711)
Proceeds from sale of property, plant and equipment	11	-	18
Finance income	-	-	6
<b>Net cash used in investing activities</b>	<b>(298)</b>	<b>(211)</b>	<b>(696)</b>
<b>Cash flows used in financing activities</b>			
Purchase of own shares	-	(897)	(1,649)
Proceeds from borrowings	-	1,226	2,091
Repayment of borrowings	(3,234)	-	(450)
Principal paid on lease obligations	(425)	(373)	(763)
Debt issue costs paid	(215)	-	-
Dividends paid	(2,307)	(1,508)	(2,428)
Interest paid	(268)	(333)	(702)
<b>Net cash used in finance activities</b>	<b>(6,449)</b>	<b>(1,885)</b>	<b>(3,901)</b>
<b>Net increase in cash and cash equivalents</b>	<b>7</b>	<b>62</b>	<b>23</b>
<b>Cash and cash equivalents brought forward</b>	<b>122</b>	<b>95</b>	<b>95</b>
Exchange (losses)/ gains on cash and cash equivalents	(5)	-	4
<b>Cash and cash equivalents carried forward</b>	<b>124</b>	<b>157</b>	<b>122</b>

\*Restated for the adoption of IFRS 16 as explained in note 24

## **Notes to the Interim Results**

### **1. General Information**

UP Global Sourcing Holdings plc ('the Company') and its subsidiaries (together 'the Group') is a supplier of branded, value for money household products to global markets.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is UP Global Sourcing Holdings plc, Manor Mill, Victoria Street, Chadderton, Oldham OL9 0DD.

This consolidated condensed interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 July 2019 were approved by the Board of Directors on 4 November 2019 and delivered to the Registrar of Companies. The comparative figures for the financial year ended 31 July 2019 are an extract of the Company's statutory accounts for that year, as restated for the adoption of IFRS 16. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 (2) or (3) of the Companies Act 2006.

This consolidated condensed interim financial information is unaudited but has been reviewed by the Company's Auditor.

### **2. Basis of Preparation**

This consolidated condensed interim financial information for the six months ended 31 January 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The consolidated condensed interim financial information should be read in conjunction with the audited financial statements for the year ended 31 July 2019, which have been prepared in accordance with IFRSs as adopted by the European Union.

### **Going Concern Basis**

The Group meets its day-to-day working capital requirements through its bank facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's forecasts and projections, taking account of reasonable sensitivities, including specific consideration of the potential risks associated with the COVID-19 outbreak, show that the Group should be able to operate within available facilities. The Group therefore continues to adopt the going concern basis in preparing its consolidated condensed interim financial statements. See the Chairman and Chief Executive's statement for further comments in relation to COVID-19.

### 3. Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 July 2019, except for the following:

#### Adoption of IFRS 16

The Group has adopted IFRS 16 'Leases' effective for the accounting period commencing 1 August 2019. IFRS 16 has been applied fully retrospectively and comparatives for the prior periods have been restated. Further details of the impact of adoption of IFRS 16 is described in Note 24.

#### Leases

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

The Group as a lessee:

A right-of-use asset and corresponding lease liability are recognised at commencement of the lease. The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term, country, currency and start date of each lease. Lease payments include: fixed payments; variable lease payments dependent on an index or rate, initially measured using the index or rate at commencement; the exercise price under a purchase option if the Group is reasonably certain to exercise; penalties for early termination if the lease term reflects the Group exercising a break option; and payments in an optional renewal period if the Group is reasonably certain to exercise an extension option or not exercise a break option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right-of-use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate such as inflation, or change in the Group's assessment of whether it is reasonably certain to exercise a purchase or extension option or not exercise a break option.

The right-of-use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs; and any dilapidation or restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. At each reporting date, the Group reviews the carrying amounts of its right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification. If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy. In all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with



the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Leases of low value assets and short-term leases of 12 months or less are expensed to the income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

### **Critical Accounting Judgements**

#### **Leases**

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term. Break and extension options are included to provide operational flexibility should the economic outlook for an asset be different to expectations, and hence at commencement of the lease, break or extension options are not typically considered reasonably certain to be exercised, unless there is a valid business reason otherwise.

The discount rate used to calculate the lease liability is the incremental borrowing rate which is determined at the lease commencement date with consideration to the term, country and currency of the lease. The incremental borrowing rate is determined based on the entities' existing borrowing rates. Management have performed a sensitivity analysis on the rate used and note that decreasing or increasing the rate by 1 %, will not have a material impact on the financial statements.

#### **COVID-19**

Management have considered the Coronavirus pandemic to be a non-adjusting post balance sheet event, since as at the period end and based upon the information known at that time, management were of the opinion that it was not expected to have a significant impact on the trading results.

### **4. Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of operating segments.

The Directors consider that there are no identifiable business segments that are subject to risks and returns different to the core business. The information reported to the Directors, for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment under IFRS 8.

The results and assets for this segment can be determined by reference to the statement of comprehensive income and statement of financial position.

### **5. Principal Risks and Uncertainties**

With the exception of the new risk and uncertainties posed by the COVID-19 outbreak discussed below, the Directors consider that the principal risks and uncertainties, which could have a material impact on the Group's performance in the remaining 6 months of the financial year, remain substantially the same as those stated on pages 22–27 of the Group's Annual Report for the year ended 31 July 2019, which is available on the Group's website, [www.upgs.com](http://www.upgs.com).

## COVID-19

The Coronavirus pandemic represents an unprecedented worldwide crisis. In the short-term, the pandemic is expected to have an impact on demand and decline in turnover as retailers respond to the shutdown of their stores. It is not yet clear how long the pandemic will last and what the medium-to-long-term effect will be on consumer behaviour. The Group is carrying out a range of financial and operational measures to protect the business and its employees, as discussed in more detail in the Chairman and Chief Executive's statement.

## 6. Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements should be read in conjunction with the Group's Annual Report for the year ended 31 July 2019, as they do not include all financial risk management information and disclosures contained within the Annual Report. There have been no changes in the risk management policies since the year-end.

## 7. Revenue

The Group has disaggregated revenue into various categories in the following tables which are intended to depict the nature of the Group's revenue.

### Geographical split by location:

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 £'000	Year ended 31 Jul 2019 £'000
United Kingdom	<b>44,164</b>	39,621	74,751
Germany	<b>5,888</b>	6,634	11,846
Rest of Europe	<b>16,886</b>	18,141	34,659
USA	<b>373</b>	576	1,053
Rest of the world	<b>379</b>	851	948
<b>Total</b>	<b>67,690</b>	65,823	123,257
<b>International sales</b>	<b>23,525</b>	26,202	48,506
<b>Percentage of total</b>	<b>34.8 %</b>	39.8 %	39.4 %

**Analysis of Revenue by Brand:**

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 £'000	Year ended 31 Jul 2019 £'000
Beldray	<b>18,657</b>	15,193	32,292
Salter	<b>15,533</b>	12,934	20,884
Intempo	<b>5,613</b>	5,356	8,248
Russell Hobbs	<b>3,114</b>	5,141	9,368
Progress	<b>2,450</b>	2,852	4,095
Kleeneze	<b>433</b>	48	165
Premier brands	<b>45,800</b>	41,524	75,052
Other key brands	<b>11,044</b>	12,495	26,020
Key brands total	<b>56,844</b>	54,019	101,072
Other brands and own label	<b>10,846</b>	11,804	22,185
<b>Total</b>	<b>67,690</b>	65,823	123,257

**Analysis of Revenue by Major Products:**

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 £'000	Year ended 31 Jan 2019 £'000
Small domestic appliances	<b>22,359</b>	18,921	34,061
Housewares	<b>15,382</b>	15,218	26,768
Audio	<b>11,046</b>	14,701	27,286
Laundry	<b>7,196</b>	5,080	11,204
Heating and cooling	<b>2,883</b>	3,894	8,779
Luggage	<b>3,312</b>	2,616	5,113
Others	<b>5,512</b>	5,393	10,046
<b>Total</b>	<b>67,690</b>	65,823	123,257

**Analysis of Revenue by Strategic Pillar:**

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 (restated^) £'000	Year ended 31 Jul 2019 £'000
Discount retailers	<b>28,182</b>	33,767	64,605
Supermarkets	<b>16,018</b>	11,014	20,108
Online channels	<b>7,680</b>	6,118	11,357
	<b>51,880</b>	50,899	96,070
Multiple-store retailers	<b>10,410</b>	10,540	18,942
Other	<b>5,400</b>	4,384	8,245
<b>Total</b>	<b>67,690</b>	65,823	123,257

^ During the year ended 31 July 2019, management altered the strategic pillars that are presented to the Board of Directors to better reflect the attributes of the Group. The comparatives for the six months ended 31 January 2019 have been restated.

Included within revenue are sales to customers who individually account for over 10 % of the Group's total sales and in total this amounted to approximately £18,413,000 being 2 customers (six months ended 31 January 2019: £22,084,000 being 2 customers; year ended 31 July 2019: £42,882,000 being 2 customers).

## 8. Seasonality of Operations

Overall the Group's product range is not significantly seasonal, however, retail demand is higher in the Christmas trading period. As a result of this and the anticipated impact of the COVID-19 outbreak discussed in note 5 above, it is anticipated that the operating profits for the second half of the year ending 31 July 2020 will be lower than those for the six months ended 31 January 2020.

## 9. Share-based Payment Charges

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 £'000	Year ended 31 Jul 2019 £'000
Share-based payment expense	<b>174</b>	96	257
<b>Total</b>	<b>174</b>	96	257

The share-based payment expense relates to the non-cash charge arising on the Management Incentive Plan ('MIP'), the Save as You Earn ('SAYE') and the Performance Share Plan ('PSP').

The above items have been shown separately in the Income Statement to better reflect the performance of the underlying business.

## 10. Operating Profit

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 (restated) £'000	Year ended 31 Jul 2019 (restated) £'000
The profit is stated after charging expenses as follows:			
Share-based payment charges - note 9	<b>174</b>	96	257
Depreciation of property, plant and equipment	<b>706</b>	678	1,512
Amortisation	<b>6</b>	6	11

EBITDA represents profit from operations before depreciation and amortisation. Underlying EBITDA represents EBITDA, as defined above, adjusted for the share-based payment charges set out in note 9 above. The Directors use EBITDA and underlying EBITDA as key performance indicators of the Group's business.

The following table sets forth a reconciliation of EBITDA and Underlying EBITDA to profits from operations for the periods indicated.

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Profit from operations	<b>6,363</b>	6,226	8,940
Depreciation	<b>706</b>	678	1,512
Amortisation	<b>6</b>	6	11
EBITDA	<b>7,075</b>	6,910	10,463
Share-based payment charges - note 9	<b>174</b>	96	257
<b>Underlying EBITDA</b>	<b>7,249</b>	7,006	10,720
<b>Underlying EBITDA margin</b>	<b>10.7 %</b>	10.6 %	8.7 %

## 11. Finance Costs

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Interest on bank loans and overdrafts	<b>241</b>	309	617
Interest on lease liabilities	<b>39</b>	43	87
Foreign exchange in respect of lease liabilities (net of hedging actions)	<b>(16)</b>	22	37
Other interest payable and similar charges	<b>78</b>	34	75
<b>Total</b>	<b>342</b>	408	816

## 12. Profit Before Taxation

The Directors also monitor the Group's performance with respect to profit before taxation and underlying profit before taxation. Underlying profit before taxation represents profit before taxation adjusted for the share-based payment charges set out in note 9 above.

The following table sets forth a reconciliation of profit before taxation and underlying profit before taxation for the periods indicated.

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Profit before taxation	<b>6,021</b>	5,818	8,130
Share-based payment charges - note 9	<b>174</b>	96	257
<b>Underlying profit before taxation</b>	<b>6,195</b>	5,914	8,387

### 13. Taxation

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Total tax expense	1,323	1,194	1,720
Tax on share-based payment charges	-	-	-
<b>Tax expense on underlying profit before taxation</b>	<b>1,323</b>	1,194	1,720

The interim period tax charge is accrued based on the estimated average annual effective income tax rate of 22.0 % (six months ended 31 January 2019: 20.5 %; year ended 31 July 2019: 21.2 %).

The effective income tax rates on the underlying profit before taxation was 21.4 % (six months ended 31 January 2019: 20.2 %; year ended 31 July 2019: 20.5 %).

Following the Budget on 11 March 2020, legislation will be introduced in the Finance Bill 2020 to amend the main rate for Corporation Tax to 19 % from 1 April 2020. Prior to this, the rate was set to reduce from 19 % to 17 % on 1 April 2020.

### 14. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

The calculations of earnings per share are based on the following:

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Profit for the period	4,698	4,624	6,410
	<b>Number</b>	Number	Number
Weighted average number of shares in issue	82,169,600	82,169,600	82,169,600
Less shares held by the Employee Benefit Trust	(3,308,307)	(1,996,576)	(2,315,204)
Weighted average number of shares – basic	78,861,293	80,173,024	79,854,396
Share options	1,373,783	-	552,536
Weighted average number of shares – diluted	80,235,076	80,173,024	80,406,932
	<b>Pence</b>	Pence	Pence
Earnings per share – basic	6.0	5.8	8.0
Earnings per share – diluted	5.9	5.8	8.0

No dilution arose in the 6 months ended 31 January 2019 as the hurdle for the MIP Option Scheme was not achieved based upon the interim measurement of the criteria as at 31 January 2019.

The underlying earnings per share referred to below is based on the underlying profit for the period, which reflects the profit for the period after adding back the share-based payment charges set out in note 9 and the tax effects as set out in note 13, divided by the weighted average number of shares in issue for the period.

	<b>6 months ended 31 Jan 2020</b>	6 months ended 31 Jan 2019 (restated)	Year ended 31 Jul 2019 (restated)
	<b>£'000</b>	£'000	£'000
Underlying profit before taxation – note 12	<b>6,195</b>	5,914	8,387
Taxation on underlying profit before taxation – note 13	<b>(1,323)</b>	(1,194)	(1,720)
Underlying profit for the period	<b>4,872</b>	4,720	6,667
	<b>Number</b>	Number	Number
Weighted average number of shares – underlying	<b>82,169,600</b>	82,169,600	82,169,600
	<b>Pence</b>	Pence	Pence
Underlying profit per share	<b>5.9</b>	5.7	8.1

## 15. Dividends

	<b>6 months ended 31 Jan 2019</b>	6 months ended 31 Jan 2019	Year ended 31 Jul 2019
	<b>£'000</b>	£'000	£'000
Final dividend paid	<b>2,307</b>	1,508	1,508
Interim declared and paid	-	-	920
	<b>2,307</b>	1,508	2,428
	<b>Pence</b>	Pence	Pence
Per share	<b>2.925</b>	1.890	1.890
Final dividend paid	<b>2.925</b>	1.890	1.890
Interim declared and paid	-	-	1.160
	<b>2.925</b>	1.890	3.050

The final dividend declared in respect of the year ended 31 July 2019 was paid in the 6 months ended 31 January 2020.

As a result of the COVID-19 pandemic, the Board has not declared an interim dividend in order to conserve cash and maintain the financial strength of the business during this challenging period.

## 16. Property, Plant and Equipment

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Opening net book value	4,993	5,089	5,089
Additions	309	883	1,434
Lease modifications	918	-	-
Disposals	(11)	-	(18)
Depreciation	(706)	(678)	(1,512)
<b>Closing net book value</b>	<b>5,503</b>	<b>5,294</b>	<b>4,993</b>

Further information on right of use assets included in the above, as a result of adopting IFRS 16, are set out in note 24.

## 17. Trade and Other Receivables

	As at 31 Jan 2019	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Trade receivables	19,445	18,339	17,807
Other receivables and prepayments	830	1,277	837
	<b>20,275</b>	<b>19,616</b>	<b>18,644</b>

The Directors believe that the carrying value of trade and other receivables represent their fair value. Trade and other receivables are denominated in Sterling, US Dollars, Euros and Canadian Dollars. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date.

## 18. Trade and Other Payables

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Trade payables	9,189	9,140	9,202
Accruals	5,843	4,774	5,836
Other taxes and social security	899	874	246
	<b>15,931</b>	<b>14,788</b>	<b>15,284</b>

Trade payables principally consist of amounts outstanding for trade payables and ongoing costs. They are non-interest bearing and are normally settled on 30 to 60 days terms.

The Directors consider that the carrying value of trade and other payables approximates their fair value. Trade and other payables are denominated in both Sterling, US Dollars and Euros. UP Global Sourcing Holdings plc has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.



## 19. Borrowings

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 £'000	As at 31 Jul 2019 £'000
<b>Current</b>			
Bank overdraft and invoice discounting	5,145	4,365	8,228
Import loans	4,433	7,924	6,339
	<b>9,578</b>	12,289	14,567
Less: Unamortised debt issue cost	(78)	(20)	-
	<b>9,500</b>	12,269	14,567
<b>Non-current</b>			
Revolving credit facility	1,755	1,864	-
	<b>1,755</b>	1,864	-
Less: Unamortised debt issue cost	(98)	(17)	-
	<b>1,657</b>	1,847	-
<b>Total borrowings</b>	<b>11,157</b>	14,116	14,567

The earliest that lenders of the above borrowings require repayment is as follows:

In less than one year	9,578	12,289	14,567
Between one and two years	-	1,864	-
Between two and five years	1,755	-	-
Less: Unamortised debt issue cost	(176)	(37)	-
	<b>11,157</b>	14,116	14,567

The Group is funded by external bank facilities provided by HSBC comprising a revolving credit facility of £8.2 m and an invoice discounting facility of £23.5 m both running to 2024, along with an import loan facility of £8.7 m which is subject to annual review.

## 20. Lease Liabilities

The following tables show the discounted lease liabilities included in the Group balance sheet and a maturity analysis of the contractual undiscounted lease payments:

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 (restated) £'000	As at 31 Jul 2019 (restated) £'000
Lease liabilities less than one year	669	745	793
Lease liabilities greater than one year	3,165	2,989	2,659
	<b>3,834</b>	3,734	3,452

## Maturity analysis – contractual undiscounted lease payments

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Within one year	767	899	858
Greater than one year but less than two years	842	767	792
Greater than two years but less than five years	1,588	2,025	1,606
Greater than five years but less than ten years	900	-	-
	<b>4,097</b>	<b>3,691</b>	<b>3,256</b>

## Right-of-use assets

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Opening net book value	<b>3,043</b>	3,071	3,071
Additions	-	681	723
Modifications	<b>918</b>	-	-
Disposals	-	-	(18)
Depreciation	<b>(363)</b>	(367)	(733)
<b>Closing net book value</b>	<b>3,598</b>	<b>3,385</b>	<b>3,043</b>

The right-of-use assets above are disclosed as a non-current asset and are included within property, plant and equipment as shown in note 16.

## 21. Financial Instruments

### a) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Trade receivables	<b>19,445</b>	18,339	17,807
Derivative financial instruments - assets	<b>216</b>	361	1,335
Trade and other payables	<b>15,032</b>	13,914	15,038
Derivative financial instruments - liabilities	<b>383</b>	6	54
Borrowings	<b>11,157</b>	14,116	14,567
Lease liabilities	<b>3,834</b>	3,734	3,452
Cash and cash equivalents	<b>124</b>	157	122

**b) Financial assets**

The Group held the following financial assets at amortised cost:

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 £'000	As at 31 Jul 2019 £'000
Cash and cash equivalents	124	157	122
Trade receivables	19,445	18,339	17,807
	<b>19,569</b>	18,496	17,929

**c) Financial liabilities**

The Group held the following financial liabilities, classified as other financial liabilities at amortised cost:

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 (restated) £'000	As at 31 Jul 2019 (restated) £'000
Trade payables	9,189	9,140	9,202
Borrowings	11,157	14,116	14,567
Lease liabilities	3,834	3,734	3,452
Other payables	5,843	4,774	5,836
	<b>30,023</b>	31,764	33,057

**d) Derivative financial instruments**

The Group held the following derivative financial instruments, classified as fair value through profit and loss on initial recognition:

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 (restated) £'000	As at 31 Jul 2019 (restated) £'000
Forward currency contracts	(173)	318	1,240
Interest rate caps	22	39	39
Interest rate swaps	(16)	(2)	2
	<b>(167)</b>	355	1,281

The following is a reconciliation of the financial instruments to the statement of financial position:

	As at 31 Jan 2020 £'000	As at 31 Jan 2019 (restated) £'000	As at 31 Jul 2019 (restated) £'000
Trade receivables	19,445	18,339	17,807
Prepayments and other receivables not classified as financial instruments	830	1,277	837
<b>Trade and other receivables (note 17)</b>	<b>20,275</b>	19,616	18,644

	As at 31 Jan 2020	As at 31 Jan 2019 (restated)	As at 31 Jul 2019 (restated)
	£'000	£'000	£'000
Trade and other payables	15,032	13,914	15,038
Other taxes and social security not classified as financial instruments	899	874	246
<b>Trade and other payables (note 18)</b>	<b>15,931</b>	<b>14,788</b>	<b>15,284</b>

#### Derivative financial instruments – Forward contracts

The Group mitigates the exchange rate risk for certain foreign currency trade debtors and creditors by entering into forward currency contracts. At 31 January 2020, the outstanding contracts all mature within 12 months of the period end (31 January 2019: 12 months; 31 July 2019: 12 months). At 31 January 2020, the Group was committed to buy US\$30,350,000, to sell €19,050,000, buy CNY 7,094,000 and to sell CA\$50,000, paying and receiving respectively a fixed sterling amount (31 January 2019: to buy US\$33,000,000, to sell €15,250,000, to buy CNY Nil and to sell CA\$175,000; 31 July 2019: to buy US\$35,500,000, to sell €16,050,000, to buy CNY 7,960,000 and to sell CA\$155,000). The forward currency contracts are measured at fair value using the relevant exchange rates for GBP:USD, GBP:EUR, GBP:CNY and GBP:CAD. The fair value of the contracts at 31 January 2020 is a liability of £173,000 (31 January 2019: £318,000 asset; 31 July 2019: £1,240,000 asset).

Forward currency contracts are valued using level 2 inputs. The valuations are calculated using the period end exchange rates for the relevant currencies which are observable quoted values at the period end dates. Valuations are determined using the hypothetical derivative method which values the contracts based on the changes in the future cash flows based on the change in value of the underlying derivative.

All of the forward contracts to buy US Dollars and some of those to sell Euros meet the conditions for hedge accounting, as set out in the accounting policies of the financial statements for the year ended 31 July 2019.

#### Derivative financial instruments – Interest rate swaps and interest rate caps

The Group has entered into interest rate swaps and interest rate caps to protect the exposure to interest rate movements on the various elements of the Group's banking facility. As at 31 January 2020, protection was in place over an aggregate principal of £13,957,000 (31 January 2019: £17,659,000, 31 July 2019: £11,970,000).

None of the interest rate swaps meet the conditions for hedge accounting, as set out in the accounting policies contained in the financial statements for the year ended 31 July 2019.

Interest rate swaps and caps are valued using level 2 inputs. The valuations are based on the notional value of the swaps and caps, the current available market borrowing rate and the swapped or capped interest rate respectively. The valuations are based on the current valuation of the present saving or cost of the future cash flow differences, based on the difference between the swapped and capped interest rates contracts and the expected interest rate as per the lending agreement.

## 22. Events Occurring After the Reporting Period

### COVID-19

Since the conclusion of the six months ended 31 January 2020, the Coronavirus crisis has spread beyond China and is now being felt worldwide. The rapidly evolving pandemic and corresponding measures being taken by governments to control the virus are impacting both the Group and wider global economy. Since the lockdown, the Group has seen a reduction in demand for its products and a decline in turnover as retailers respond to the closure of their stores by cancelling or deferring orders. The Group has also seen a delay in the placing of new orders.

In response to lockdown measures, the Group's UK and European offices are currently closed, however employees are working remotely with no resulting disruption to the day-to-day running of the business. No permanent headcount reductions have been made, however a number of employees have been placed on furlough leave. The Group's online business remains open, with a strictly monitored and comprehensive range of safety measures in order to protect those employees involved in the processing and distributing of orders. The Group's Guangzhou office has reopened and supply chain operations in China have now normalised, with over 90 % of its factories back up to full production.

The Group has implemented a range of measures to protect the business during this challenging time, including:

- making use of the UK government's VAT deferral, Job Retention Scheme and Time to Pay initiatives;
- receiving credit approval for a £4.0 m increase in its RCF facility, amortising over the period to 31 January 2021, in addition to an extension of the funding period of its import loan facility from 120 days to 180 days and an increase in the percentage of receivables advanced via the invoice discounting facility, both already agreed and implemented;
- temporarily halting all non-essential capital expenditure projects;
- suspending the interim dividend;
- deferring or delaying purchase orders placed with the Group's manufacturers where necessary.

The Directors continue to monitor developments with a potential impact of the Coronavirus in the short and medium term.

### Purchase of own shares

On 18 February 2020 the UPGS EBT acquired 500,000 shares in the Company for a total cost of £342,143, including the associated acquisition costs. On 28 February 2020 the UPGS EBT acquired a further 250,000 shares in the Company for a total cost of £161,762. Following these transactions, the UPGS EBT holds 4,058,307 shares, representing 4.94 % of the Company's issued share capital with voting rights.

## 23. Related Party Transactions

	<b>6 months ended 31 Jan 2020 £'000</b>	6 months ended 31 Jan 2019 £'000	Year ended 31 Jul 2019 £'000
Transactions with related companies and businesses:			
Lease payments to Heron Mill Limited	<b>143</b>	143	285
Lease payments to Berbar Properties Limited	<b>90</b>	90	180

## 24. Significant Accounting Changes: IFRS 16, Leases

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial position and financial performance.

IFRS 16 is effective for the accounting period commencing 1 August 2019. The Group adopted the standard using the fully retrospective method, with comparatives restated from a transition date of 1 August 2018.

IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities on balance sheet for all leases, except short-term and low value asset leases. At commencement of the lease, the lease liability equals the present value of future lease payments, discounted at the incremental borrowing rate at the start of the lease, and the right-of-use asset equals the lease liability, adjusted for payments already made, lease incentives, initial direct costs and any provision for dilapidation costs.

For pre-IFRS 16 operating leases, the rental charge is replaced by depreciation of the right-of-use asset and interest on the lease liability.

Under IFRS 16, the lease liability is remeasured upon the occurrence of certain events, such as a change in lease term or a change in future lease payments resulting from a change in an index or rate (for example, inflation-linked payments or market rate rent reviews). A corresponding adjustment is made to the right-of-use asset.

The Group applied the practical expedient not to reassess whether a contract is, or contains, a lease on transition. The Group has elected to recognise payments for short-term leases and leases of low value assets on a straight-line basis as an expense in the income statement.

The most significant IFRS 16 judgements and estimates include the determination of lease term when there are extension or termination options, the selection of an appropriate discount rate to calculate the lease liability and the impairment of right-of-use assets. See Note 3 for further information.

The Group's lease portfolio consists of its principal properties (Manor Mill, Heron Mill, Guangzhou and Cologne) along with certain other plant and equipment.

IFRS 16 has an impact on reported assets, liabilities and the Income Statement of the Group, as well as the classification of cash flows relating to lease contracts. The standard impacts a number of key measures including operating profit, EBITDA and Earnings per Share.

### **Income Statement restatement**

The table below sets out the impact of IFRS 16 on the comparative period income statements for the 6 months ended 31 January 2019 and the year ended 31 July 2019. Administrative expenses reduce and finance costs increase as straight-line operating lease rental expense is replaced by depreciation of the right-of-use asset and interest on the lease liability. This results in higher operating profit and higher EBITDA. As the interest expense is front-end loaded and decreases as the lease liability decreases, profit before tax is lower in the early stages of a lease and higher in the later stages when compared to a straight-line rental expense.

	6 months ended 31 Jan 2019			Year ended 31 Jul 2019		
	As reported £'000	IFRS 16 impact £'000	Restated £'000	As reported £'000	IFRS 16 impact £'000	Restated £'000
Revenue	65,823	-	<b>65,823</b>	123,257	-	<b>123,257</b>
Cost of sales	(51,064)	-	<b>(51,064)</b>	(96,013)	-	<b>(96,013)</b>
<b>Gross profit</b>	14,759	-	<b>14,759</b>	27,244	-	<b>27,244</b>
Administration expenses before share-based payment charges	(8,467)	30	<b>(8,437)</b>	(18,106)	59	<b>(18,047)</b>
Profit from operations before share-based payment charges	6,292	30	<b>6,322</b>	9,138	59	<b>9,197</b>
Share-based payment charges	(96)	-	<b>(96)</b>	(257)	-	<b>(257)</b>
Administration expenses	(8,563)	30	<b>(8,533)</b>	(18,363)	59	<b>(18,304)</b>
<b>Profit from operations</b>	6,196	30	<b>6,226</b>	8,881	59	<b>8,940</b>
Finance income	-	-	-	6	-	<b>6</b>
Finance costs	(344)	(64)	<b>(408)</b>	(692)	(124)	<b>(816)</b>
<b>Profit before taxation</b>	5,852	(34)	<b>5,818</b>	8,195	(65)	<b>8,130</b>
Income tax	(1,201)	7	<b>(1,194)</b>	(1,733)	13	<b>(1,720)</b>
<b>Profit for the period</b>	4,651	(27)	<b>4,624</b>	6,462	(52)	<b>6,410</b>
	Pence		<b>Pence</b>	Pence		<b>Pence</b>
<b>Earnings per share - basic</b>	5.7		<b>5.8</b>	8.1		<b>8.0</b>
<b>Earnings per share - diluted</b>	5.7		<b>5.8</b>	8.0		<b>8.0</b>

#### Statement of Financial Position restatement

The tables below set out the impact of IFRS 16 on the comparative period Statements of Financial Position as at 31 January 2019 and 31 July 2019. Property, plant and equipment and lease liabilities both increase as right-of-use assets are brought on balance sheet. As leases are brought on balance sheet, gains or losses on hedging instruments used to mitigate the exchange risk for certain foreign currency property leases no longer meet the conditions for hedge accounting, resulting in an adjustment to the hedging reserve.

	As at 31 Jan 2019			As at 31 Jul 2019		
	As reported £'000	IFRS 16 impact £'000	Restated £'000	As reported £'000	IFRS 16 impact £'000	Restated £'000
<b>Assets</b>						
Intangible assets	103	-	<b>103</b>	98	-	<b>98</b>
Property, plant and equipment	1,909	3,385	<b>5,294</b>	1,950	3,043	<b>4,993</b>
Deferred tax	101	51	<b>152</b>	73	57	<b>130</b>
<b>Total non-current assets</b>	<b>2,113</b>	<b>3,436</b>	<b>5,549</b>	<b>2,121</b>	<b>3,100</b>	<b>5,221</b>
Inventories	18,410	-	<b>18,410</b>	20,399	-	<b>20,399</b>
Trade and other receivables	19,697	(81)	<b>19,616</b>	18,724	(80)	<b>18,644</b>
Derivative financial instruments	361	-	<b>361</b>	1,335	-	<b>1,335</b>
Cash and cash equivalents	157	-	<b>157</b>	122	-	<b>122</b>
<b>Total current assets</b>	<b>38,625</b>	<b>(81)</b>	<b>38,544</b>	<b>40,580</b>	<b>(80)</b>	<b>40,500</b>
<b>Total assets</b>	<b>40,738</b>	<b>3,355</b>	<b>44,093</b>	<b>42,701</b>	<b>3,020</b>	<b>45,721</b>
<b>Liabilities</b>						
Trade and other payables	(14,960)	172	<b>(14,788)</b>	(15,434)	150	<b>(15,284)</b>
Derivative financial instruments	(6)	-	<b>(6)</b>	(54)	-	<b>(54)</b>
Lease liabilities	-	(745)	<b>(745)</b>	-	(793)	<b>(793)</b>
Current tax	(1,164)	-	<b>(1,164)</b>	(812)	-	<b>(812)</b>
Borrowings	(12,269)	-	<b>(12,269)</b>	(14,567)	-	<b>(14,567)</b>
<b>Total current liabilities</b>	<b>(28,399)</b>	<b>(573)</b>	<b>(28,972)</b>	<b>(30,867)</b>	<b>(643)</b>	<b>(31,510)</b>
<b>Net current assets</b>	<b>10,226</b>	<b>(654)</b>	<b>9,572</b>	<b>9,713</b>	<b>(723)</b>	<b>8,990</b>
Borrowings	(1,847)	-	<b>(1,847)</b>	-	-	<b>-</b>
Lease liabilities	-	(2,989)	<b>(2,989)</b>	-	(2,659)	<b>(2,659)</b>
<b>Total non-current liabilities</b>	<b>(1,847)</b>	<b>(2,989)</b>	<b>(4,836)</b>	<b>-</b>	<b>(2,659)</b>	<b>(2,659)</b>
<b>Total liabilities</b>	<b>(30,246)</b>	<b>(3,562)</b>	<b>(33,808)</b>	<b>(30,867)</b>	<b>(3,302)</b>	<b>(34,169)</b>
<b>Net assets</b>	<b>10,492</b>	<b>(207)</b>	<b>10,285</b>	<b>11,834</b>	<b>(282)</b>	<b>11,552</b>
<b>Equity</b>						
Share capital	205	-	<b>205</b>	205	-	<b>205</b>
Share premium	2	-	<b>2</b>	2	-	<b>2</b>
Employee Benefit Trust reserve	(897)	-	<b>(897)</b>	(1,649)	-	<b>(1,649)</b>
Share-based payment reserve	368	-	<b>368</b>	529	-	<b>529</b>
Hedging reserve	248	10	<b>258</b>	1,278	(40)	<b>1,238</b>
Retained earnings	10,566	(217)	<b>10,349</b>	11,469	(242)	<b>11,227</b>
<b>Equity attributable to owners of the company</b>	<b>10,492</b>	<b>(207)</b>	<b>10,285</b>	<b>11,834</b>	<b>(282)</b>	<b>11,552</b>



### Cash Flow Statement restatement

The table below sets out the impact of IFRS 16 on the comparative period cash flow statements for the 6 months ended 31 January 2019 and the year ended 31 July 2019. IFRS 16 has no impact on total cash flow for the period or cash and cash equivalents at the end of the period. Cash generated from operations increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows are instead split between interest paid and repayments of obligations under leases, which both increase.

	6 months ended 31 Jan 2019			Year ended 31 Jul 2019		
	As reported £'000	IFRS 16 impact £'000	Restated £'000	As reported £'000	IFRS 16 impact £'000	Restated £'000
<b>Net cash flow from operating activities</b>						
Profit for the period	4,651	(27)	<b>4,624</b>	6,462	(52)	<b>6,410</b>
<b>Adjustments for:</b>						
Finance income	-	-	-	(6)	-	<b>(6)</b>
Finance costs	344	64	<b>408</b>	692	124	<b>816</b>
Income tax expense	1,201	(6)	<b>1,195</b>	1,733	(13)	<b>1,720</b>
Depreciation and impairment	311	367	<b>678</b>	779	733	<b>1,512</b>
Amortisation	6	-	<b>6</b>	11	-	<b>11</b>
Derivative financial instruments	27	-	<b>27</b>	132	-	<b>132</b>
Share-based payments	96	-	<b>96</b>	257	-	<b>257</b>
Income taxes paid	(458)	-	<b>(458)</b>	(1,314)	-	<b>(1,314)</b>
<b>Working capital adjustments</b>						
Increase in inventories	(1,944)	-	<b>(1,944)</b>	(3,932)	-	<b>(3,932)</b>
Increase in trade and other receivables	(4,906)	-	<b>(4,906)</b>	(3,933)	-	<b>(3,933)</b>
Increase in trade and other payables	2,415	17	<b>2,432</b>	2,907	40	<b>2,947</b>
<b>Net cash from operations</b>	<b>1,743</b>	<b>415</b>	<b>2,158</b>	<b>3,788</b>	<b>832</b>	<b>4,620</b>

<b>Cash flows used in investing activities</b>						
Purchase of intangible assets	(9)	-	<b>(9)</b>	(9)	-	<b>(9)</b>
Purchase of property, plant and equipment	(202)	-	<b>(202)</b>	(711)	-	<b>(711)</b>
Proceeds from sale of property, plant and equipment	-	-	-	-	18	<b>18</b>
Finance income	-	-	-	6	-	<b>6</b>
<b>Net cash used in investing activities</b>	<b>(211)</b>	<b>-</b>	<b>(211)</b>	<b>(714)</b>	<b>18</b>	<b>(696)</b>
<b>Cash flows (used in)/ from financing activities</b>						
Purchase of own shares	(897)	-	<b>(897)</b>	(1,649)	-	<b>(1,649)</b>
Proceeds from borrowings	1,226	-	<b>1,226</b>	2,091	-	<b>2,091</b>
Repayment of borrowings	-	-	-	(450)	-	<b>(450)</b>
Debt issue costs paid	-	-	-	-	-	-
Principal paid on lease obligations	-	(373)	<b>(373)</b>	-	(763)	<b>(763)</b>
Dividends paid	(1,508)	-	<b>(1,508)</b>	(2,428)	-	<b>(2,428)</b>
Interest paid	(291)	(42)	<b>(333)</b>	(615)	(87)	<b>(702)</b>
<b>Net cash used in finance activities</b>	<b>(1,470)</b>	<b>(415)</b>	<b>(1,885)</b>	<b>(3,051)</b>	<b>(850)</b>	<b>(3,901)</b>
<b>Net increase in cash and cash equivalents</b>	<b>62</b>	<b>-</b>	<b>62</b>	<b>23</b>	<b>-</b>	<b>23</b>
<b>Cash and cash equivalents brought forward</b>	<b>95</b>	<b>-</b>	<b>95</b>	<b>95</b>	<b>-</b>	<b>95</b>
Exchange losses on cash and cash equivalents	-	-	-	4	-	<b>4</b>
<b>Cash and cash equivalents carried forward</b>	<b>157</b>	<b>-</b>	<b>157</b>	<b>122</b>	<b>-</b>	<b>122</b>

## Statement of Directors' Responsibilities

The Directors confirm that these consolidated condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted by the European Union. The interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of UP Global Sourcing Holdings plc are listed on pages 32 to 35 of the Group's Annual Report for the year ended 31 July 2019, which is available on the Group's website, [www.upgs.com](http://www.upgs.com).

For and on behalf of the Board of Directors

Andrew Gossage  
Managing Director  
29 April 2020

Graham Screawn  
Chief Financial Officer  
29 April 2020