CEPS PLC

Chelverton Equity Partners

Report & Accounts 2006

CEPS PLC
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Contents

Chairman's Statement

Overview

During 2006 the business improvements initiated in prior years have been reflected in the Group's performance. The existing businesses all saw steady increases in turnover in the first half, with a surge in turnover during the second half of the year, especially at Davies Odell. Operating margins strengthened in the second half, as anticipated at the half year, as a result of action taken on input costs, pricing and product specification.

This resulted in a substantial increase in operating profit, after Group costs, to £305,000, an 82% improvement on the result for 2005. Both Friedman's and Davies Odell saw improved operating profits for the year and in the second half, by comparison with the same period in 2005, Friedman's operating profit was up by 203% and Davies Odell by 62%. Both businesses controlled their cash positions, with the result that Group net debt (excluding invoice finance borrowings) fell by 17% from the level at the end of 2005.

2007 has started on a positive note with the successful completion of a £2.4 million fundraising at 50p per share following a one for 50 share consolidation.

The proceeds of this fundraising were used to complete the reverse takeover of Sunline Direct Mail Limited (Sunline) in early February 2007 in which the Group has an 80% equity interest.

The consolidation of Sunline's profits into the Group's results for 2007 will have a significant impact as shown in the Sunline acquisition section below.

Financial review

Group operating profit for the year before amortisation of goodwill of £80,000 (2005, £74,000) was £385,000 (2005, £242,000). After amortisation of goodwill and interest charges the Group profit before taxation increased to £199,000 (2005, £53,000).

The taxation credit for the year is £158,000 (2005, charge £6,000). This includes a current year credit for deferred taxation of £192,000 (2005, £2,000) arising principally from the recognition of a proportion of the accumulation of capital allowances that the Group now expects to recover in the foreseeable future.

After tax and minority interests the retained profit for the year was £346,000 (2005, £40,000).

Earnings per share, basic and fully diluted, were 0.19p (2005, 0.02p) per share and equivalent to 9.7p (2005, 1.1p) per share following the one for 50 share consolidation referred to above.

Net cash inflow from operating activities was £450,000 (2005, £138,000) and Group net debt decreased in the year by £205,000 to £1,015,000 (2005, £1,220,000).

Group net assets at 31 December 2006, excluding the pension liability, increased to £1,621,000 (2005, £1,314,000) and total equity shareholders' funds increased by £405,000 to £1,121,000 (2005, £716,000). The pension scheme liability reduced during the year by £109,000 to £362,000 (2005, £471,000).

Operational review

Group sales for 2006 increased by 11.4% to £7.7 million, with a particularly strong result from Davies Odell with an 11.9% increase to £5,046,000 (2005, £4,509,000). With this strong increase in turnover and improving margins in the second half, segmental profits before Group costs rose by 35% to £513,000 (2005, £380,000). Group costs were £208,000 (2005, £212,000).

Chairman's Statement continued

Operational review continued

After successful relocation in the first half, Friedman's achieved a 10.5% growth in turnover for the year by comparison with the 11 months of our ownership in 2005. The second half was particularly strong with higher volumes of better margin bespoke lycra sales. This enabled the business to finish the year with an 11.8% improvement in trading profit at £180,000 (2005, £161,000). Overall margins achieved are now in line with expectations at the time of the acquisition.

Davies Odell saw a strong increase in overall turnover in 2006, with a 17.5% increase to £2,894,000 (2005, £2,463,000) in the second half.

In the Davies matting business, turnover exceeded both budget and the previous year by some way, largely as result of strong orders for *Cowmats*. However margins were a little below expectation, though overall profitability exceeded our plan. The focus achieved on the matting business as a result of the mid-year reorganisation has provided the impetus to develop a number of new products, which will be launched in the first half of 2007.

The Odell business had a strong year both in its core footwear component operations and for its protection products. Sales of men's leather heel top-pieces and stiletto top-pieces for ladies shoe repairs both continued strongly, and the steady recovery of turnover in the Phillips footwear repair business continued. Margins have been well managed, despite the major buffeting from energy and raw material prices.

The protection business has moved forward strongly with *Forcefield* body armour products at the forefront. Sales were up 30% year-on-year as the product range was expanded from just the top-rated back protector to include protective undershirts, shorts and pants, and limb protectors. Further new products are ready to launch in 2007, and the recently recruited Sales Manager is making substantial progress with extended UK distribution for the *Forcefield* range.

Sunline acquisition

Included within the table below are the results of Sunline Direct Mail Limited for the fifteen month period to 31 January 2007.

	Sunline Direct Mail £'000
Turnover	8,935
Cost of sales	(5,767)
Gross profit	3,168
Net operating expenses	(2,343)
Operating profit	825

The figures set out above are expressed before any goodwill amortisation.

Had the Group consolidated these results on a pro rata basis for a twelve month period the Group would have reported operating profits before goodwill of £1.0 million on turnover of £14.8 million for the current year.

Dividend

The Board is not recommending the payment of a final dividend for 2006 (2005, nil). It is nevertheless committed to returning to the dividend list, and to paying a growing dividend as part of investors' overall return from their investment.

Chairman's Statement continued

Power to issue shares

The Board seeks to renew the powers, approved by shareholders at the extraordinary general meeting in February 2007, to issue shares and to disapply Section 89(1) of the Companies Act 1985 that requires shares always to be issued proportionately to existing shareholders. These powers would for example allow the Group to issue shares as consideration, in part or whole, for a suitable acquisition.

The Board seeks to renew the powers to allot shares up to a maximum aggregate amount of £334,308.60 and to issue shares other than in strict proportion to existing shareholders up to a nominal value of £272,300.85.

The Board considers that to limit its ability to issue shares, other than in strict proportion to existing shareholders, to 5% of the present issue share capital would be unduly restrictive. Whilst there is no present intention of issuing shares, the Board considers that the powers could be helpful and are not excessive in view of its investment strategy and the present size of the Group.

People

Our businesses depend upon the dedicated service to our customers provided by the people who work in all the CEPS companies. I would like to thank them all for their continued efforts to drive their own particular businesses forward. I believe that we are beginning to see a return upon all this effort to get CEPS established, in the steadily improving results from each of the business units.

Prospects

From a trading perspective 2007 has started well, with all the businesses seeing turnover increases with stable margins. Friedman's is seeing steady turnover growth driven by increasing European orders and the recently negotiated sole rights to distribute a specialist Italian crepe lycra.

At Davies Odell the turnover growth in the second half of last year has carried over into the first half of 2007. In particular, the benefits of the significant investment in product development and sales personnel for our *Forcefield* body armour range are coming through in strong orders, improving UK and overseas distribution, and a flow of positive press comment about our products. Shoe repair sales remain buoyant but may well ease through the year as fashion changes.

It is encouraging to note that Sunline is currently busy and has a solid order book for the coming summer months.

Identifying suitable acquisitions remains one of our key objectives for 2007. There remains a funding gap in the market and several promising targets have already been reviewed. The evidence of improving results from the existing companies, the significant impact of the Sunline acquisition on the 2007 results and the widened shareholder base will enable us to raise sufficient funds for attractive opportunities at the appropriate time.

The Board has been encouraged by the trading performance of the Group so far this year and is optimistic about the outcome for 2007. The company is now in discussions with a number of companies that fit the investment criteria of CEPS and would be hopeful that a similarly attractive transaction to Sunline will be achieved this year.

Richard. Organ

Richard Organ
Chairman
9 May 2007

Directors' Report

Your directors have pleasure in submitting their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

Principal activities and business review

The principal activities of the Group during the year were the manufacture and distribution of protection equipment, matting and footwear components and the conversion and distribution of specialist Lycra. A review of the business, its prospects and future developments are set out in the Chairman's Statement on pages 1 to 3.

The Group internal reporting system enables the Board to assess the strategic direction of the Group against its agreed targets. The table below shows the most important key performance indicators used by the Group.

	2006	2005
Turnover	£7,709,000	£6,919,000
Gross margin	14.6%	15.2%
Operating profit before interest and tax	£305,000	£168,000
Profit after taxation	£357,000	£47,000
Net assets	£1,259,000	£843,000
Net debt	£1,015,000	£1,220,000
Gearing	81%	145%

The directors do not recommend the payment of a dividend. The profit for the year is added to reserves.

The Board also monitors matters relating to health and safety and the environment and reviews them at its regular meetings. The risks to the business arising from changes to the trading environment and employee retention and training are also regularly monitored and reviewed.

Group reconstruction

The company has transferred to a new wholly owned subsidiary, Davies Odell Limited, the business and assets that had previously been carried on and owned by the trading divisions of CEPS PLC together with certain pension assets, liabilities and obligations. Further details are given in note 29 to the accounts on page 33.

Directors

The directors' beneficial interests in shares of the company at the end of the financial year are shown in note 8 to the accounts on page 21.

R T Organ BA(Hons) FRSA (54) is a non-executive director and Chairman. He has significant experience of manufacturing and marketing in the footwear and clothing industries gained with C & J Clark Ltd and Coats Viyella PLC. He is a non-executive director of Swallowfield PLC.

D A Horner (47) is a Chartered Accountant. He qualified with Touche Ross and in 1986 joined 3i Corporate Finance Limited. In 1997 he founded Chelverton Asset Management Limited which specialises in managing portfolios of investments in private companies and small to medium size public companies. He set up and manages Chelverton Growth Trust Plc, Small Companies Dividend Trust Plc and Chelverton UK Equity Fund and is a director of Athelney Trust plc and The Quoted Companies Alliance.

P G Cook (55) is a Chartered Accountant and, having qualified with Kidsons Impey, has taken finance and commercial roles with a number of companies. He served as finance director and managing director of Assurity Europe Limited, a venture capital financed MBO whose activities are focused on the fast growing market for business consultancy and disaster recovery services serving blue chip clients in the UK. He is currently a director of a number of other companies.

Directors continued

G C Martin FCA (62) is Financial Director. He has a service contract with the company requiring six months notice of termination.

The director retiring by rotation in accordance with Articles 90 and 91 is P G Cook who, being eligible, offers himself for re-election.

Post balance sheet events

In February 2007 the company, through Sunline Direct Mail (Holdings) Limited (SDMH), acquired the entire issued share capital of Sunline Direct Mail Limited (SDM), a supplier of poly wrapping and associated services to the direct mail market, for an initial consideration of £3,800,000. The company acquired 80% of SDMH, the remaining 20% being owned by the managing director of SDM.

On 12 February 2007 shareholders approved a share consolidation on the ratio of 50 existing ordinary shares of 0.1p each for one new ordinary share of 5p each and a placing to raise £2,375,000 before expenses of £650,000 by the issue of 4,750,000 placing shares at 50p per share (equivalent to 1p per share prior to the share consolidation). The proceeds were used to acquire a majority interest in SDMH and to strengthen the Group's balance sheet.

Further details of these events are given in note 28 to the accounts on page 32.

Substantial shareholdings

In addition to directors' shareholdings shown on page 21, the following shareholders held more than 3% of the company's ordinary shares at 26 April 2007:

	Shares
David Abell	421,000
Chelverton Growth Trust Plc	625,856
HSBC Global Custody Nominee (UK) Limited 813259 ACCT	865,220
Praxis Trustees Limited ATF The Purbrook Trust	1,000,000

Creditor payment policy

Group policy is to determine terms and conditions of payment with suppliers when negotiating other terms of supply and to abide by the terms of payment. At the year end the Group had an average of 56 days (2005, 57 days) purchases outstanding in trade creditors.

Financial and treasury policy

The Group finances its operations by a combination of retained profits, management of working capital, bank overdraft and debtor backed working capital facilities and medium term loans. The disclosures for financial instruments are made in note 20 to the accounts on page 27.

Interest rate risk is controlled by a combination of fixed and variable rates of interest.

Liquidity risk is managed by the preparation of cash flow forecasts and by monthly comparison of actual cash flows against the forecasts. Group policy is to ensure that funding is in place sufficient that trading activities are not adversely impacted.

Currency risk is principally in respect of transactions in US Dollars and Euros. Group policy is to match as far as possible through the normal course of trade the level of sales and purchases in foreign currencies.

Auditors

PricewaterhouseCoopers LLP are willing to continue in office and a resolution proposing their re-appointment will be submitted to the annual general meeting.

On behalf of the Board
G C Martin
Secretary
9 May 2007

Corporate Governance

The Board is committed to high standards of corporate governance and recognises that it is accountable to shareholders for good governance. The company's corporate governance procedures define the duties and constitution of the Board and the various Board committees and, as appropriate, specify responsibilities and level of responsibility. The principal procedures are summarised below:

The Board

The Board is comprised of three non-executive directors, one of whom is Chairman, and one executive director. Further details of the Board members are given in the Directors' Report on pages 4 and 5.

All directors are subject to retirement by rotation and re-election by the shareholders in accordance with the Articles of Association.

The Board meets regularly, at least six times a year and with additional meetings being arranged when necessary.

The company seeks constructive dialogue with institutional and private shareholders through direct contact and through the opportunity for all shareholders to attend and ask questions at the annual general meeting.

Audit committee

This committee comprises the non-executive directors and is chaired by P G Cook. The audit committee is responsible for the appointment of the external auditor, agreeing the nature and scope of the audit and reviewing and making recommendations to the Board on matters related to the issue of financial information to the public. It assists all directors in discharging their responsibility to ensure that accounting records are adequate and that the financial statements give a true and fair view.

Nomination committee

This committee comprises the Chairman and the other non-executive directors. It is responsible for making recommendations to the Board on any appointment to the Board.

Remuneration committee

This committee is comprised of the Chairman and the other non-executive directors.

The remuneration committee sets the remuneration and other terms of employment of executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package appropriate for the responsibilities involved.

Directors' contracts are designed to provide the assurance of continuity which the company desires. There are no provisions for pre-determined compensation on termination.

Pensions for directors are based on salary alone and are provided by the Group defined contribution scheme and defined benefits scheme. Contributions are paid to these schemes in accordance with independent actuarial recommendations or funding rates determined by the remuneration committee as appropriate to the type of scheme.

Non-executive directors have no service contracts and no pension contributions are made on their behalf.

Full details of directors' remuneration and benefits are given in note 8 to the financial statements on pages 20 and 21.

Internal financial control

The Board has overall responsibility for the system of internal financial control which is designed with regard to the size of the company to provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of the internal financial control environment. The organisational structure of the Group gives clear management responsibilities in relation to internal financial control. Financial risks are controlled through clearly laid down authorisation levels. There is an annual budget which is approved by the directors. The results are reported monthly and compared to the budget. The audit committee receives a report from the external auditors annually.

Going concern

The directors have considered the financial and operating position of the Group and they consider that it is appropriate to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities

The directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the results for the year. In preparing the financial statements suitable accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made. The financial statements are prepared on a going concern basis and in compliance with UK applicable accounting standards and with the Companies Act 1985.

The directors are also responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as 'information needed by the company's auditors in connection with preparing their report'. Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors' Report to the members of CEPS PLC

We have audited the consolidated and parent company financial statements (the 'financial statements') of CEPS PLC for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the Group and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the chairman's statement that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinon, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the chairman's statement, the directors' report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the members of CEPS PLC continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
9 May 2007

Notes:

(a) The maintenance and integrity of the CEPS PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

Profit and Loss account

	Note	2006 £'000	2005 £'000
Turnover, continuing operations	2	**7,709**	6,919
Cost of sales		**(6,584)**	(5,869)
Gross profit		**1,125**	1,050
Net operating expenses	3	**(820)**	(882)
Operating profit, continuing operations		**305**	168
Analysis of operating profit			
trading		**593**	454
amortisation of goodwill		**(80)**	(74)
group costs		**(208)**	(212)
Interest payable	6	**(106)**	(115)
Profit on ordinary activities before taxation	7	**199**	53
Taxation	9	**158**	(6)
Profit on ordinary activities after taxation		**357**	47
Minority interests		**(11)**	(7)
Profit for the year		**346**	40
Dividends	11	**–**	–
Retained profit for the year	23	**346**	40
Earnings per share	12		
– basic		**0.19p**	0.02p
– diluted		**0.19p**	0.02p

Consolidated statement of total recognised gains and losses

	Note	£'000	£'000
Profit for the year		**346**	40
Actuarial gain/(loss) recognised in pension scheme	5,23	**85**	(272)
Movement on deferred tax relating to pension scheme	21,23	**(26)**	82
Total recognised gains/(losses) for the year		**405**	(150)

The notes on pages 13 to 33 form an integral part of these financial statements.

Balance Sheets

		Note	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Net assets employed	**Fixed assets**					
	Intangible	13	**1,449**	1,529	**1**	1
	Tangible	14	**279**	259	**–**	217
	Investments	15	**–**	–	**500**	500
			1,728	1,788	**501**	718
	Current assets					
	Stocks	16	**1,324**	1,087	**–**	564
	Debtors	17	**2,011**	1,428	**573**	824
	Cash at bank and in hand		**35**	24	**3**	–
			3,370	2,539	**576**	1,388
	Creditors: amounts falling due within one year	18	**(2,852)**	(2,093)	**(105)**	(801)
	Net current assets		**518**	446	**471**	587
	Total assets less current liabilities		**2,246**	2,234	**972**	1,305
	Creditors: amounts falling due after more than one year	19	**(593)**	(878)	**–**	(157)
	Provisions for liabilities and charges	21	**(32)**	(42)	**–**	–
	Net assets excluding pension liability		**1,621**	1,314	**972**	1,148
	Pension liability	5	**(362)**	(471)	**–**	–
	Net assets including pension liability		**1,259**	843	**972**	1,148
Capital and reserves	Called up share capital	22	**178**	178	**178**	178
	Share premium	23	**676**	676	**676**	676
	Profit and loss account	23	**267**	(138)	**118**	294
	Total equity shareholders' funds		**1,121**	716	**972**	1,148
	Minority interests		**138**	127	**–**	–
	Capital employed		**1,259**	843	**972**	1,148

The notes on pages 13 to 33 form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 9 May 2007.

R T Organ
G C Martin
Directors

Consolidated Cash Flow Statement

	Note	2006 £'000	2005 £'000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**305**	168
Depreciation and amortisation charges		**190**	170
Difference between pension charge and cash contributions		**(71)**	(53)
Increase in stocks		**(237)**	(63)
Increase in debtors		**(382)**	(120)
Increase in creditors		**653**	36
Movement in provisions for liabilities and charges		**(8)**	–
Net cash inflow from operating activities		**450**	138

	Note	2006 £'000	2005 £'000
Cash Flow Statement			
Net cash inflow from operating activities		**450**	138
Returns on investments and servicing of finance	26	**(106)**	(115)
Taxation	26	**10**	(68)
Capital expenditure and financial investment	26	**(89)**	(41)
Acquisition	26	**(20)**	(1,599)
		245	(1,685)
Financing	26	**(266)**	1,197
Decrease in cash		**(21)**	(488)

	Note	2006 £'000	2005 £'000
Reconciliation of net cash flow to movement in net debt			
Decrease in cash		**(21)**	(488)
Cash decrease/(increase) from change in debt and finance lease obligations		**266**	(438)
New finance lease obligations		**(40)**	–
Change in net debt		**205**	(926)
Net debt at 1 January		**(1,220)**	(294)
Net debt at 31 December	27	**(1,015)**	(1,220)

Notes to the Accounts

1. Accounting policies

(a) Accounting convention:
These accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985. Accounting policies have been consistently applied.

(b) Changes in accounting policy:
The Group has adopted Financial Reporting Standard 20 'Share Based Payments' in the financial statements. The adoption of the standard has not affected the results as the share options were granted before 7 November 2002 and the Group has taken advantage of the relevant exemption included in the Standard.

(c) Basis of consolidation:
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra Group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to these assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary, are credited or charged to the post acquisition profit and loss account.

(d) Income recognition:
Turnover comprises the invoiced value of goods sold (recognised on despatch or transfer of substantial risks and rewards where different), excluding VAT.

(e) Fixed assets:
Fixed assets are depreciated on a straight line basis over the following periods:

Plant and machinery, tools and moulds:
between 5 and 10 years, or over the period of the contract

Motor vehicles:
5 years.

Leasehold property improvements are depreciated over the term of the lease.

The carrying value of assets, including tangible, intangible and investments, is compared to the higher of value in use and the pre-tax realisable value. If the carrying value exceeds the higher of the value in use and pre-tax realisable value the asset is impaired and its value reduced by charging additional depreciation.

(f) Stocks:
Stocks are valued at the lower of cost and net realisable value. Stocks of raw materials are valued on a first in first out basis at net invoice values charged by suppliers. The value of work in progress and finished goods includes the direct cost of materials and labour together with an appropriate proportion of factory overheads.

(g) Deferred taxation:
Provision is made for deferred taxation using the liability method on all timing differences arising between profits as shown by the accounts and profits as computed for taxation purposes. Deferred tax assets are recognised where their recovery is more likely than not. Deferred tax assets and liabilities are not discounted.

Notes to the Accounts continued

1. Accounting policies continued

(h) Foreign currencies:
Items in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Differences arising from changes in exchange rates during the year are taken to the profit and loss account.

(i) Acquisitions:
Net tangible assets acquired are included in the accounts at their fair value. Following the introduction of FRS10 differences arising between the fair value of the consideration and the fair value of assets acquired are capitalised as goodwill and amortised over a period not exceeding 20 years.

In 1997 and prior years such differences were dealt with through reserves. On any subsequent disposal of the related business the appropriate amount will be charged or credited to the profit and loss account.

(j) Pensions:
Defined benefit pension costs are recognised in the profit and loss account and the statement of total recognised gains and losses in accordance with the requirements of FRS17. Contributions to the defined contribution schemes are charged to the profit and loss account as paid.

(k) Operating leases:
The annual costs of operating leases are charged to the profit and loss account as incurred.

(l) Finance leases:
Assets held under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives or the length of the lease if shorter. The interest element of rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

(m) Investments in subsidiaries:
Investments in subsidiaries are held at cost less provisions for impairment.

(n) Minority interests:
Minority interests represent the interests of shareholders in subsidiaries which are not wholly owned by the Group.

Notes to the Accounts continued

2. Turnover and segmental analysis

The United Kingdom is the source of turnover and operating profit and the principal location of the net assets of the Group. The directors consider that the Group operates in two business segments serving various markets. Turnover, segmental profit before Group costs and net assets are analysed as follows:

Segment of activity	Friedman's		Davies Odell		Group	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Turnover	**2,663**	2,410	**5,046**	4,509	**7,709**	6,919
Segmental profit before amortisation of goodwill	**260**	235	**333**	219	**593**	454
Amortisation of goodwill	**(80)**	(74)	**–**	–	**(80)**	(74)
Segmental profit before Group costs	**180**	161	**333**	219	**513**	380
Group costs					**(208)**	(212)
Profit before interest and taxation					**305**	168
Interest payable					**(106)**	(115)
Group profit before taxation					**199**	53
Net assets	**1,395**	1,517	**1,150**	1,017	**2,545**	2,534
Pension liability					**(362)**	(471)
Unallocated net debt					**(1,015)**	(1,220)
CEPS central assets					**91**	–
Total net assets					**1,259**	843

The investment in Friedman's was acquired on 25 January 2005. Friedman's converts and distributes specialist Lycra.

Davies Odell manufactures and distributes protection equipment, matting and footwear components.

Notes to the Accounts continued

2. Turnover and segmental analysis continued

Geographical analysis of turnover by destination

	2006 £'000	2005 £'000
United Kingdom	**5,780**	5,504
Rest of Europe	**1,589**	1,198
The Americas	**156**	89
Australasia	**2**	6
Far East	**103**	78
Africa	**79**	44
	7,709	6,919

3. Net operating expenses

	2006 £'000	2005 £'000
Distribution costs	**183**	173
Administrative expenses	**637**	709
	820	882

4. Staff numbers and costs

The average number of persons employed by the Group during the year was:

	2006	2005
Management and administration	**18**	21
Production and sales	**39**	38
	57	59

The aggregate payroll costs of these persons was:

	2006 £'000	2005 £'000
Wages and salaries	**1,131**	1,089
Social security costs	**107**	103
Other pension costs	**66**	47
	1,304	1,239

Notes to the Accounts continued

5. Pension costs

The Group operates two defined contribution schemes. The assets of the schemes are held in independently administered funds. The pension cost charge represents contributions payable to the funds and amounted to **£54,000** (2005, £33,000).

The Group also operates a defined benefits scheme. The scheme was closed to new members in 1988. The assets of the scheme are held separately from those of the Group in a deposit administration contract underwritten by an insurance company. Contributions to the scheme are determined by a qualified external actuary on the basis of triennial valuations using the attained age method. The most recent actuarial valuation was at 1 July 2004 and the main actuarial assumptions were investment returns of 7.0% before retirement, 5.0% after retirement and a rate of salary increase of 5.0%. The valuation showed that the market value of the scheme assets was £1,777,000 and that the level of funding on an ongoing basis is 89%. At 1 July 2005 the Group funding rate was increased to £7,313 per month, an amount intended to restore a 100% funding level over four years.

The Group commissioned an independent qualified actuary to update to 31 December 2006 the results of the previous actuarial valuation. The results of the update are as follows:

	31 December 2006	31 December 2005	31 December 2004
Financial assumptions:			
Salary increases	**3.85%**	3.50%	3.50%
Increases to pensions and deferred pensions	**3.10%**	2.75%	2.75%
Discount rate	**5.30%**	5.00%	5.40%
RPI	**3.10%**	2.75%	2.75%
The assets of the scheme and the expected return on assets were:			
Assets	**£1,852,000**	£1,831,000	£1,748,000
Return on assets	**6.8%**	6.5%	6.9%

The principal demographic assumption used by the actuary relating to post-retirement member mortality is PXA92C2025, which is consistent with that used in 2005.

Notes to the Accounts continued

5. Pension costs continued

	31 December 2006	31 December 2005	31 December 2004
Financial position:	**£'000**	£'000	£'000
The assets of the scheme	**1,852**	1,831	1,748
Actuarial liabilities	**(2,369)**	(2,504)	(2,202)
Deficit	**(517)**	(673)	(454)
Related deferred tax asset	**155**	202	136
Net pension liability	**(362)**	(471)	(318)
Analysis of the amount charged to operating profit:			
Current service cost	**12**	14	30
Analysis of the amount (charged)/credited to financing of pension provisions:			
Expected return	**116**	120	115
Interest on pension liabilities	**(121)**	(120)	(81)
	(5)	–	34
Amount recognised in the statement of total recognised gains and losses (STRGL):			
Actual return less expected return on scheme assets	**11**	(1)	(24)
Experience gains and losses on scheme liabilities	**13**	(75)	(486)
Change in assumptions underlying present value of scheme liabilities	**61**	(196)	(150)
Actuarial gain/(loss) in STRGL	**85**	(272)	(660)

Notes to the Accounts continued

5. Pension costs continued

	31 December 2006 £'000	31 December 2005 £'000	31 December 2004 £'000
Movement in surplus during the year:			
(Deficit)/surplus at the beginning of the year	**(673)**	(454)	166
Current service cost	**(12)**	(14)	(30)
Company contributions	**88**	67	36
Net finance (charge)/credit	**(5)**	–	34
Actuarial gain/(loss) in STRGL	**85**	(272)	(660)
Deficit at the end of the year	**(517)**	(673)	(454)

	31 December				
	2006	2005	2004	2003	2002
Details of experience gains and losses:					
Difference between the expected and actual return on scheme assets					
amount £'000	**11**	(1)	(24)	(33)	(166)
% of scheme assets	**1%**	(0%)	(1%)	(2%)	(9%)
Experience gains and losses on scheme liabilities					
amount £'000	**13**	(75)	(486)	53	284
% of the present value of the scheme's liabilities	**1%**	(3%)	(22%)	4%	17%
Total amount recognised in STRGL					
amount £'000	**85**	(272)	(660)	(23)	(35)
% of the present value of the scheme's liabilities	**4%**	(11%)	(30%)	(2%)	(2%)

6. Interest payable

	2006 £'000	2005 £'000
On bank loans and overdrafts	**100**	115
Finance cost related to pension scheme	**5**	–
On finance leases	**1**	–
	106	115

Notes to the Accounts continued

7. Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
is stated after charging:		
Auditors' remuneration and expenses:		
for audit of the accounts of the company and consolidation	**12**	22
for audit of the accounts of subsidiaries of the company	**20**	–
	32	22
for other services relating to taxation	**15**	10
in respect of the pension scheme	**3**	3
total fees	**50**	35
Depreciation and amortisation:		
of intangible fixed assets	**80**	74
of tangible fixed assets	**110**	96
Operating lease rentals:		
on land and buildings	**137**	108
on plant and machinery	**39**	22

In addition fees totalling £150,000 were payable to the company's auditors in respect of acquisition related financial due diligence and other similar related services provided during the year. These fees will be included within the cost of the acquisition completed in February 2007.

8. Directors' emoluments and interests

	2006 £'000	2005 £'000
The aggregate remuneration of the directors was:		
Fees	**15**	15
Salaries and benefits	**70**	75
Total	**85**	90

The remuneration of the Chairman, R T Organ, and of the other directors who served during the year was:

	Salaries and fees		Benefits		Total	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
P G Cook	**30**	25	**–**	–	**30**	25
D A Horner	**–**	–	**–**	–	**–**	–
G C Martin	**33**	44	**2**	1	**35**	45
R T Organ	**20**	20	**–**	–	**20**	20
	83	89	**2**	1	**85**	90

The remuneration of P G Cook includes a fee related to the negotiation of the acquisition of Sunline Direct Mail Limited.

Benefits represent the value attributed to medical insurance.

Notes to the Accounts continued

8. Directors' emoluments and interests continued

G C Martin has a pension secured in the Group defined benefits scheme of which details are:

	£'000 pa
Accrued pension at 31 December 2005	**20**
Increase in accrued pension during 2006	2
Accrued pension at 31 December 2006	**22**

	£'000
Transfer value of the increase in accrued pension during 2006	**14**

G C Martin was also a member of a Group defined contribution scheme. Contributions on his behalf to the scheme in 2006 were £6,000 (2005, £2,000).

The directors' beneficial interests, including those of their families, in shares of the Group were:

	31 December 2006		31 December 2005	
	shares	**warrants**	shares	warrants
P G Cook	**8,333,333**	**3,500,000**	8,333,333	3,500,000
D A Horner	**21,355,556**	**10,000,000**	21,355,556	10,000,000
G C Martin	**1,012,586**	**506,293**	1,012,586	506,293
R T Organ	**5,966,667**	**2,650,000**	5,966,667	2,650,000

Following the share placing and consolidation, of which details were included in a circular to shareholders dated 11 January 2007 and that were approved by shareholders on 12 February 2007, the directors' beneficial interest in shares of the group were:

	shares	**warrants**
P G Cook	**366,666**	**70,000**
D A Horner	**1,287,110**	**200,000**
G C Martin	**20,251**	**10,125**
R T Organ	**169,333**	**53,000**

There have been no changes in the interests of any director between 12 February and 26 April 2007.

R T Organ has an option expiring on 21 May 2011 to subscribe for 3,000 shares at 337.5p per share the terms of which may be adjusted by the Board to reflect variations of share capital. No options lapsed or were granted or exercised during the year nor have any been granted or exercised up to 26 April 2007. The market price of the shares at 31 December 2006 was 0.80p and the range during 2006 was 1.625p to 0.80p.

D A Horner was, until his resignation on 18 August 2005, a director of Dowgate Capital PLC, the parent company of City Financial Associates Limited (CFA). During 2006 CFA received fees of £17,000 (2005, £17,000) in connection with its duties as nominated adviser and broker to the company.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe for shares.

Notes to the Accounts continued

9. Taxation

	2006 £'000	2005 £'000
Analysis of taxation in the year:		
UK corporation tax on profits of the year	**25**	22
Tax repaid in respect of prior periods	**–**	(14)
Total current tax	**25**	8
Deferred tax:		
Current year credit	**(192)**	(2)
Prior year charge	**9**	–
Total deferred tax	**(183)**	(2)
Tax (credit)/charge on profit on ordinary activities	**(158)**	6

The current year credit for deferred taxation arises principally from the recognition of a proportion of the accumulation of capital allowances that the Group now expects to recover in the foreseeable future.

	2006 £'000	2005 £'000
Factors affecting current taxation:		
Profit before taxation	**199**	53
Profit multiplied by the standard rate of corporation tax of 30%	**60**	16
Effects of:		
Small companies tax relief	**(7)**	(13)
Current year losses utilised	**(66)**	–
Pension cost in excess of pension charge	**–**	(16)
Other timing differences	**2**	15
Expenses not deductible for tax purposes	**18**	–
Capital allowances in excess of depreciation	**(6)**	(1)
Goodwill amortisation	**24**	21
Tax repaid in respect of previous periods	**–**	(14)
Total current taxation	**25**	8

10. Profits of holding company

Of the retained profit for the financial year, a loss of **£176,000** (2005, profit £1,000) is dealt with in the accounts of CEPS PLC. The company seeks to invest and acquire majority shareholdings in private industrial service companies with a history of profitability and cash generation. The directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and not presented a profit and loss account for the company alone.

11. Dividends

No dividends have been paid or proposed for the year (2005, nil).

Notes to the Accounts continued

12. Earnings per share

Basic earnings per share is calculated on the profit on ordinary activities after taxation and minority interests of **£346,000** (2005, £40,000) and on **178,191,426** (2005, 175,344,987) ordinary shares, being the weighted average number in issue during the year.

Diluted earnings per share is calculated on the weighted average number of ordinary shares in issue adjusted to reflect the potential effect of the exercise of share warrants. In 2005 diluted earnings per share is calculated on 183,199,908 ordinary shares but in 2006 no adjustment is required because the fair value of warrants was below the exercise price.

13. Intangible fixed assets

	2006 Goodwill £'000
Group	
Cost	
at 1 January 2006	**1,650**
Additions	**–**
at 31 December 2006	**1,650**
Amortisation	
at 1 January 2006	**121**
Charge for the year	**80**
at 31 December 2006	**201**
Net book amount	
at 31 December 2006	**1,449**
at 31 December 2005	1,529
Company	
Cost	
at 1 January 2006	**49**
Disposed of to subsidiary company	**(47)**
at 31 December 2006	**2**
Amortisation	
at 1 January 2006	**48**
Disposed of to subsidiary company	(47)
at 31 December 2006	**1**
Net book amount	
at 31 December 2006	**1**
at 31 December 2005	1

Notes to the Accounts continued

14. Tangible fixed assets

	Leasehold property improvements £'000	Plant, machinery and tools £'000	Motor vehicles £'000	Total £'000
Group				
Cost				
at 1 January 2006	21	894	42	957
Additions at cost	30	101	–	131
Disposals	–	–	(42)	(42)
at 31 December 2006	51	995	–	1,046
Depreciation				
at 1 January 2006	17	639	42	698
Charge for the year	4	107	(1)	110
Disposals	–	–	(41)	(41)
at 31 December 2006	21	746	–	767
Net book amount				
at 31 December 2006	**30**	**249**	**–**	**279**
at 31 December 2005	4	255	–	259

Assets held under hire purchase contracts and capitalised have a net book value of £36,000 (2005, £nil) and an accumulated depreciation balance of £12,000 at the year end (2005, £nil).

	Plant, machinery and tools £'000	Motor vehicles £'000	Total £'000
Company			
Cost			
at 1 January 2006	712	42	754
Disposed of to subsidiary company	(712)	(42)	(754)
at 31 December 2006	–	–	–
Depreciation			
at 1 January 2006	495	42	537
Disposed of to subsidiary company	(495)	(42)	(537)
at 31 December 2006	–	–	–
Net Book Amount			
at 31 December 2006	**–**	**–**	**–**
at 31 December 2005	217	–	217

Notes to the Accounts continued

15. Fixed asset investments

	2006 £'000	2005 £'000
Company		
Shares in Group undertakings		
at 1 January	**92**	–
Additions at cost	**–**	92
at 31 December	**92**	92
Loan to Group undertakings		
at 1 January	**408**	–
Additions at cost	**–**	408
at 31 December	**408**	408
Total fixed asset investments	**500**	500

The loan to Group undertakings represents 9% Guaranteed Loan Stock 2010 repayable in instalments between January 2007 and January 2010.

Investments in subsidiary companies are stated at cost. A list of subsidiary undertakings is given below.

Name of undertaking	Incorporated and registered in	Share class	Shares held direct %	Shares held via subsidiaries %
Trading company:				
Davies Odell Limited	England	ordinary	100	
Signature Fabrics Limited	England	'A' ordinary	75	
Friedman's Limited	England	ordinary		75
Non trading:				
Davies & Co (Kettering) Ltd	England	ordinary	100	
Phillips Rubber Ltd	England	ordinary	100	
Farmat Limited	England	ordinary	100	
Davies and Company Limited	England	ordinary	100	
Hot Property Leotards Limited	England	ordinary		75

Nature of business of trading companies:

Davies Odell Limited	Manufacture and distribution of protection equipment, matting and footwear components
Signature Fabrics Limited	Holding company for Friedman's
Friedman's Limited	Conversion and distribution of specialist Lycra

Notes to the Accounts continued

16. Stocks

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**415**	351	**–**	151
Work in progress	**19**	7	**–**	2
Finished goods and goods for resale	**890**	729	**–**	411
	1,324	1,087	**–**	564

In the opinion of the directors the carrying value of stocks is not materially different to its replacement cost.

17. Debtors

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade debtors	**1,556**	1,260	**–**	656
Corporation tax	**–**	1	**–**	14
Deferred tax	**218**	16	**–**	–
Amount due from subsidiary company	**–**	–	**378**	–
Other debtors	**237**	151	**195**	154
	2,011	1,428	**573**	824

An element of the deferred tax asset may be recoverable in more than one year.

18. Creditors: Amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Bank overdraft	**153**	121	**–**	121
Bank loan	**295**	245	**–**	75
Debtor backed working capital facilities	**935**	416	**–**	120
Trade creditors	**1,002**	920	**–**	280
Tax and social security	**163**	165	**–**	103
Corporation tax	**33**	–	**–**	–
Finance lease obligations	**9**	–	**–**	–
Other creditors	**48**	122	**–**	18
Accruals	**214**	104	**105**	84
	2,852	2,093	**105**	801

Bank loans and overdrafts are secured by fixed and floating charges over the assets of the Group.

The bank loan of £295,000 includes £211,000 secured against the assets of a subsidiary company and with no recourse to the rest of the Group.

Notes to the Accounts continued

19. Creditors: Amounts falling due after one year

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Bank loans repayable:				
between one and two years	**291**	245	**–**	75
between two and five years	**275**	633	**–**	82
Finance lease obligations payable:				
between one and two years	**9**	–	**–**	–
between two and five years	**18**	–	**–**	–
	593	878	**–**	157

Bank loans are secured by fixed and floating charges over the assets of the Group. The amount of £295,000 repayable in 2007 is shown in creditors falling due within one year.

The bank loans of £566,000 include £486,000 secured against the assets of a subsidiary company and with no recourse to the rest of the Group.

Finance lease obligations payable in 2007 of £9,000 are shown in creditors falling due within one year.

20. Financial instruments

Financial liabilities	Floating rate £'000	Fixed rate £'000	Fixed rate financial liabilities Weighted average Interest rate %	Fixed rate financial liabilities Weighted average Period that rate is fixed in years
2006	**525**	**489**	**8.35**	**1.07**
2005	622	622	8.35	2.07

Interest on bank loans totalling £489,000 is at a fixed rate of 8.35% until 24 January 2008 and thereafter at 3.25% above base rate. Interest on other bank facilities is at rates of interest of between 1.5% and 3.25% above base rate.

All of the Group's financial assets and liabilities are denominated in sterling.

Financial assets at 31 December 2006 comprise cash of £35,000 that was held in a bank account earning interest at a floating rate.

The Group enters into forward currency contract positions. The purpose of such transactions is to manage an element of the currency risks arising from certain operations. At the year end the Group has a contract in place to buy Euros 222,000 over the period to 5 March 2007 at an exchange rate of £1 = Euros 1.48. The fair value of this contract is not considered to be material.

Other short term debtors and creditors have been excluded from the above disclosures. The Group's risks for financial instruments are described in the Directors' Report on page 5.

Notes to the Accounts continued

21. Provisions for liabilities and charges

At a tax rate of 30% the Group has potential deferred tax assets in respect of tax losses of £666,000 (2005, £754,000), in respect of accelerated capital allowances of £386,000 (2005, £357,000) and in respect of short term timing differences of £nil (2005, £14,000). The Group has recognised a deferred tax asset of £218,000 in respect of these amounts.

	Onerous lease provision £'000	Deferred tax provision excluding deferred tax on pension liability £'000	Total £'000
at 31 December 2005	40	2	42
Movement in the year	(8)	(2)	(10)
at 31 December 2006	**32**	**–**	**32**

Deferred tax asset	**2006 £'000**	2005 £'000
Deferred tax excluding that related to pension asset		
Timing differences	**218**	14
Pension asset (see note 5)	**155**	202
Total deferred tax asset	**373**	216
at 31 December 2005	**216**	136
Acquisition in the year	**–**	(4)
Deferred tax credit in profit and loss account (see note 9)	**183**	2
Deferred tax (charged)/credited to statement of total recognised gains and losses	**(26)**	82
at 31 December 2006	**373**	216

Notes to the Accounts continued

22. Share capital

	2006	2005
	£'000	£'000
Ordinary shares of 0.1p per share		
Authorised: 330,403,256 (2005, 330,403,256) shares	**330**	330
Allotted called and fully paid: 178,191,426 (2005, 178,191,426) shares	**178**	178

On 12 February 2007 shareholders approved a share consolidation on the ratio of 50 existing ordinary shares of 0.1p each for one new ordinary share of 5p each and a placing to raise £2,375,000 before expenses of £650,000 by the issue of 4,750,000 placing shares at 50p per share (equivalent to 1p per share prior to the share consolidation). The proceeds were used to acquire a majority interest in Sunline Direct Mail (Holdings) Limited (SDMH) and to strengthen the Group's balance sheet. The investors included members of the concert party detailed in the circular sent to shareholders on 11 January 2007. Further information about SDMH is given in note 28.

No share warrants were exercised during the year and at 31 December 2006 share warrants to subscribe at any time until 20 April 2007 for a further 71,900,862 ordinary shares at a price of 2p per share remained unexercised. On 12 February 2007 warrantholders approved amendments to the terms of the warrants reducing the exercise price to 1.25p per share, corresponding to 62.5p per share following the share consolidation, and extending the exercise date to 20 April 2010 and making the warrants freely transferable. Following these changes the number of warrants in issue is 1,437,769.

Options granted and remaining unexercised at 31 December 2006 are:

Number of shares	Period during which the right is exercisable	Price per share to be paid
250,000	until 31 December 2008	6.75p
150,000	until 21 May 2011	6.75p

The terms of the share options may be adjusted by the Board to reflect variations of share capital and, following the amendments approved by shareholders in February 2007 and described above, the effective price per share to be paid is increased to 337.5p and the total number of shares over which options remain unexercised is reduced to 8,000.

Notes to the Accounts continued

23. Reserves

	Share premium £'000	Profit and loss account £'000	Total £'000
Group			
at 1 January 2006	676	(138)	538
Actuarial gain on pension scheme	–	85	85
Movement on deferred tax relating to pension scheme	–	(26)	(26)
Retained profit for the year	–	346	346
at 31 December 2006	**676**	**267**	**943**
Company			
at 1 January 2006	676	294	970
Loss for the year	–	(176)	(176)
at 31 December 2006	**676**	**118**	**794**

The cumulative amount of goodwill arising from acquisitions in earlier years which has been written off through reserves is £707,000.

24. Reconciliation of movement in equity shareholders' funds

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Shareholders' funds at 1 January 2006	**716**	157	**1,148**	157
Profit/(loss) for the financial year	**346**	40	**(176)**	1
Share capital issued, net of expenses	**–**	709	**–**	709
Actuarial gain/(loss) recognised in pension scheme	**85**	(272)	**–**	(272)
Movement on deferred tax relating to pension scheme	**(26)**	82	**–**	82
Pension scheme deficit transferred to subsidiary company	**–**	–	**–**	471
Shareholders' funds at 31 December 2006	**1,121**	716	**972**	1,148

Notes to the Accounts continued

25. Commitments

Capital expenditure contracted for at 31 December 2006 and for which no provision has been made in these accounts is **£nil** (2005, nil).

Commitments for operating lease payments due in the next year are:

	Group 2006 £'000	Group 2005 £'000
Land and buildings leases expiring:		
within one year	**12**	–
within two to five years	**91**	91
after more than five years	**38**	19
Other operating leases expiring:		
within one year	**5**	3
within two to five years	**20**	17
	166	130

26. Gross cash flows

	2006 £'000	2005 £'000
Returns on investment and servicing of finance:		
interest paid	**(106)**	(115)
Taxation:		
UK corporation tax (refunded)/paid	**10**	(68)
Capital expenditure and financial investment:		
tangible fixed assets bought	**(90)**	(41)
tangible fixed assets sold	**1**	–
	(89)	(41)
Acquisition:		
investment in Signature	**(20)**	(1,599)
Financing:		
(decrease)/increase in debt	**(262)**	438
repayment of capital element of hire purchase agreements	**(4)**	–
issue of ordinary share capital	**–**	802
expenses of share issue	**–**	(43)
	(266)	1,197

Notes to the Accounts continued

27. Analysis of changes in net debt

	At 1 Jan 2006 £'000	Cash flows £'000	Non cash flows £'000	At 31 Dec 2006 £'000
Cash at bank and in hand	24	11	–	**35**
Overdrafts	(121)	(32)	–	**(153)**
	(97)	(21)	–	**(118)**
Debt due within one year	(245)	262	(312)	**(295)**
Debt due after one year	(878)	–	312	**(566)**
Finance lease obligations	–	4	(40)	**(36)**
	(1,220)	245	(40)	**(1,015)**

28. Post balance sheet events

In February 2007 the company, through Sunline Direct Mail (Holdings) Limited (SMDH), acquired the entire issued share capital of Sunline Direct Mail Limited (SDM), a supplier of poly wrapping and associated services to the direct mail market, for an initial consideration of £3,800,000. The company acquired 80% of SDMH, the remaining 20% being owned by the managing director of SDM.

For the 15 months ended 31 January 2007 the turnover of SDM was £8,935,000 and the operating profit before goodwill amortisation £825,000. After goodwill amortisation of £55,000 and interest payable of £83,000 the profit before taxation was £687,000. Net assets at the same date were £2,496,000.

The initial consideration was satisfied by a cash payment of £3,450,000 and the issue of shares and loan notes in SDMH to the value of £350,000. The cash payment was funded by non-recourse bank finance of £2,000,000 and subscriptions by the company of £80,000 for equity, £520,000 for preference shares and £850,000 for loan stock. Deferred consideration of up to a maximum of £500,000 will be payable dependent on the future trading performance of SDM.

On 12 February 2007 shareholders approved a share consolidation on the ratio of 50 existing ordinary shares of 0.1p each for one new ordinary share of 5p each and a placing to raise £2,375,000 before expenses of £650,000 by the issue of 4,750,000 placing shares at 50p per share (equivalent to 1p per share prior to the share consolidation). The proceeds were used to acquire a majority interest in SDMH and to strengthen the Group's balance sheet. The investors included members of the concert party detailed in the circular sent to shareholders on 11 January 2007.

Notes to the Accounts continued

29. Group reconstruction

On 9 December 2005 the company formed a new wholly owned subsidiary Davies Odell Limited with the intention of transferring to that subsidiary certain business and assets previously carried on and owned by CEPS PLC.

With effect from 31 December 2005 CEPS PLC ceased its role as principal employer of the Dinkie Heel plc Money Purchase Retirement Benefits Scheme and of the Dinkie Heel plc Retirement Benefits Scheme and transferred that role to Davies Odell Limited. CEPS PLC also guaranteed to the Trustees of each scheme the performance of the obligations of Davies Odell Limited. As a result of the transfer Davies Odell Limited acquired an FRS17 pension deficit of £673,000 and a related deferred tax asset of £202,000.

With effect from 1 January 2006 CEPS PLC transferred to Davies Odell Limited the business and assets that had previously been carried on and owned by the trading divisions of CEPS PLC. The consideration for the disposal was an interest free loan from CEPS PLC repayable on demand. The turnover and segmental profits of the business are shown as Davies Odell in the segmental analysis in note 2 on page 15.

	Book and fair values £'000
Tangible fixed assets	217
Stock	564
Debtors	737
Cash	123
Creditors	(545)
Net assets transferred	1,096

Notice of Meeting

Annual general meeting

Notice is hereby given that the annual general meeting of CEPS PLC will be held at Engineers' House, The Promenade, Clifton Down, Bristol on Friday 1 June 2007 at 11.30am for the following purposes:

ORDINARY BUSINESS:

1 To receive, consider and adopt the company's annual accounts for the financial year ended 31 December 2006 together with the directors' report and auditor's report on those accounts.

2 To re-elect P G Cook as a director.

3 To re-appoint PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, as auditors.

4 To authorise the directors to agree the auditor's remuneration.

SPECIAL BUSINESS:

5 To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT, in substitution for any existing authority subsisting at the date of this resolution to the extent unused, that the directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the 'Act') to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £334,308.60 such authority to expire at the commencement of the next annual general meeting held after the date of the passing of this resolution, or, if earlier, fifteen months after the date of the passing of this resolution but so that the company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired.

6 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT subject to and conditional on the passing of resolution number 5 and in substitution for any existing authority subsisting at the date of this resolution, the directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by resolution number 5 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

Notice of Meeting continued

Annual general meeting
continued

6.1 in connection with an offer of such securities by way of rights issue;

6.2 otherwise than pursuant to sub-paragraph 6.1 above up to an aggregate nominal amount of £272,300.85;

and shall expire on the date of the next annual general meeting held after the passing of this resolution, or if earlier, fifteen months from the date of the passing of this resolution, save that the company may, before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any offer or agreement as if the authority had not expired.

In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders on the register on a fixed record date in proportion as nearly as may be practical to their respective holdings, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory.

On behalf of the Board
G C Martin
Secretary

11 George Street
Bath BA1 2EH
9 May 2007

Notes

1 A member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not also be a member of the company.

2 In order to be valid a hard copy of an appointment of proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must be deposited at the office of the Registrars of the company not less than 48 hours before the time for holding the meeting.

A proxy form is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

3 Under Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders whose names are on the register of members of the company as at 5.00pm on 30 May 2007 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting are entitled to attend and vote at the meeting in respect of the shares registered in their names at that time. Subsequent changes to the register shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4 Copies of all contracts of service under which directors of the company are employed by the company or any of its subsidiaries and the Register of Directors' interests are available for inspection at the company's registered office during business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the conclusion of the annual general meeting and will also be available for inspection at the place of the meeting from fifteen minutes before it is held until its conclusion.

Group Information

Directors	P G Cook, Non-executive D A Horner, Non-executive G C Martin FCA, Financial R T Organ BA(Hons) FRSA, Non-executive Chairman
Secretary and registered office	G C Martin FCA 11 George Street, Bath BA1 2EH Company number 507461
Operating locations	Davies Odell Ltd Portland Road, Rushden, Northants NN10 0DJ telephone 01933 410818 fax 01933 315976 email info@daviesodell.co.uk; www.forcefieldbodyarmour.com and Beatrice Road, Kettering, Northants NN16 9QS telephone 01536 513456, fax 01536 310080 email info@davieskett.co.uk; www.equimat.co.uk Friedman's Ltd Sunaco House, Unit 2, Bletchley Road, Stockport SK4 3EF telephone 0161 975 9002 fax 0161 975 9003 email sales@friedmans.co.uk; www.friedmans.co.uk Sunline Direct Mail Ltd Cotton Way, Weldon Road Industrial Estate, Loughborough, Leicestershire LE11 5FJ telephone 01509 263434 fax 01509 264225 email enquiries@sunlinedirect.co.uk; www.sunlinesolutions.com
Registrars and share transfer office	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA telephone 0870 162 3131 fax 01484 600911
Share price information	Information about the day-to-day movement of the share price on the London Stock Exchange can be found: at www.londonstockexchange.com (code CEPS) from the FT Cityline, telephone 0906 843 0000 (code 2353)
Auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors 31 Great George Street, Bristol BS1 5QD
Bankers	HSBC Bank plc 79 Regent Street, Kingswood, Bristol BS15 8LH
Solicitors	Berwin Leighton Paisner LLP Adelaide House, London Bridge, London EC4R 9HA
Nominated advisor and nominated broker	City Financial Associates Limited Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL