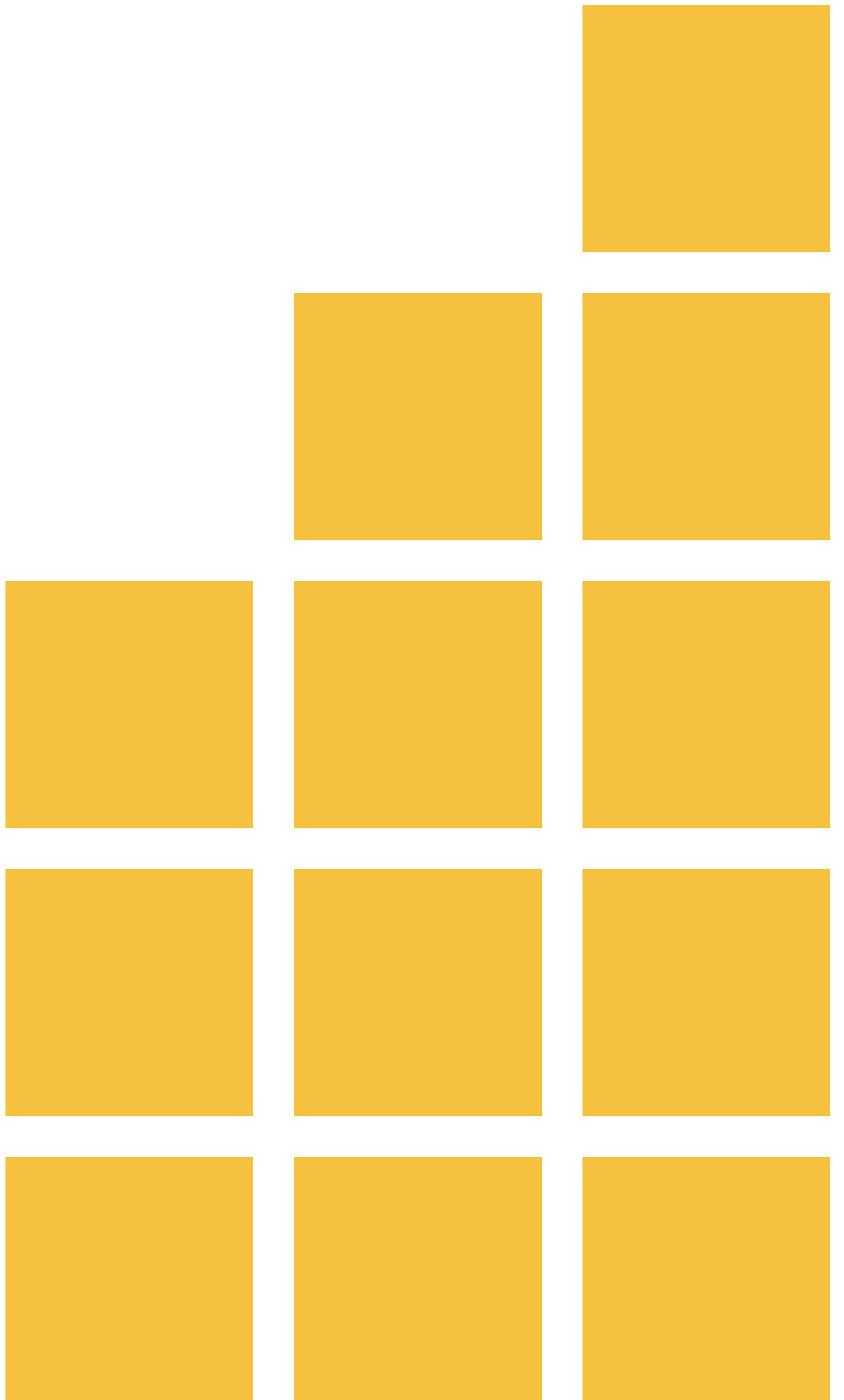
chelverton
equity partners

2010

Report & Accounts



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Chairman's Statement

Review of the year

As I suggested in my review at the half-year, 2010 has turned out to be the toughest year the Group has had to cope with. Consumer demand has remained very fragile throughout, with the prospects remaining subdued as a result of the Emergency Budget and the requirement to deal with the massive public spending deficit. As I have mentioned before, raw material input prices have accelerated, driven both by the deteriorating UK exchange rate and global price inflation. Just to round things off, the extremely cold weather at the end of the year adversely affected trading in December and at the start of 2011.

Against this backdrop the Group has produced a creditable result. Revenue across the Group was up 4% at £16.5m (2009: £15.9m) and close once more to the levels achieved in 2008. Continuing the theme of my half-year report, trading profit has fallen from £1.1m to £811,000 for the reasons outlined above. However, I am pleased to report that we have at least held, or slightly increased, our market share and in some instances developed new markets, both at home and internationally, during this difficult period.

The decision to consolidate Sunline's operations on one site has given rise to exceptional costs of £302,000. The impact of trading conditions and these one-off costs is to significantly reduce the Group's net operating profit, after Group costs, from £722,000 in 2009 to £165,000 in the current year.

Financial review

The strong cash generative nature of the Group's trading businesses has been clearly demonstrated this year. Segmental EBITDA before exceptional costs for the businesses is in excess of £1.0m and this has allowed the operating businesses to absorb the large increase in trading inventories of £424,000, the provision for exceptional charges at Sunline, £302,000, and Group costs of £344,000.

Inventories are considerably higher due to the expansion of Davies Odell's product range and also due to deliveries of stock just before the year end, which have been subsequently sold and the cash released during the first quarter of 2011. As a consequence, cash generated from operations for the year was £52,000 (2009: £1.3m).

After interest charges, tax and capital expenditure, the Group's net debt rose modestly from £2.2m to £2.5m at the year end. Shareholder funds increased marginally from £5.8m at the end of 2009 to £5.9m at the end of 2010. Despite the decline in profitability, the Group has reduced its acquisition borrowings from £921,000 to £500,000.

Operational review

Davies Odell

Overall in 2010 Davies Odell produced steady sales growth, but was unable to pass on all the raw material price increases it received. Turnover rose by 8% to £5.7m (2009: £5.3m), but raw material costs rose faster, by 11% overall.

The drive to build an appropriate pan-European sales network for the *Forcefield* body-armour products has proceeded well. Sales rose by 28% for the year, with excellent new dealers engaged and operating in key European target markets. Both the new Sales Director and UK salesman are now fully operational, the point-of-sale roll-out continues and the advertising and marketing activity is producing increasing exposure and positive press coverage. *Forcefield* has created and developed a market-leading position and the pace of new product development has continued, with the most recent introduction a selection of brightly coloured, children's-size back protectors. The strategic progress we set out to achieve with *Forcefield* is coming through strongly, even in a European motorcycle market where sales are apparently 15% down.

In the matting part of the business sales have risen by 6% with cost increases exceeding this figure. Only an increase in Cowmat business to more profitable markets has enabled this profit erosion effect to be neutralised, with operating profits very similar to 2009.

Chairman's Statement continued

Operational review
continued

The shoe repair part of the business has not had an easy year. Where it imports raw materials or finished goods, pricing and margins have been under continuous pressure and consumer demand has been slowly reducing. In this context, to achieve the same turnover as 2009 must be viewed as a good result. Where the business manufactures leather heel components in the UK for the premium UK based men's shoe manufacturers the picture is much more positive. Demand has been strong, benefiting from the weaker export exchange rate, and sales have grown 9%. Finally, this business has always had a materials factoring operation supplying both shoe and non-shoe customers. The small, focused team that has worked on these products has produced an exceptional result, a sales increase of 30% at the average margin for Davies Odell.

The investment in increasing *Forcefield*'s sales and marketing activities has depressed the Davies Odell segmental result from £250,000 in 2009 to £138,000 in 2010, but the out-turn is close to the budget we set for the business in December 2009.

Friedman's

Steady turnover growth, coupled with a well-timed change of sourcing strategy and the introduction of a bespoke, digital printing service, have produced a very strong result at Friedman's for the full year. Overall turnover increased by 5% to £3.2m (2009: £3.0m) with much of the growth coming from export and short-run digital printing orders.

More impressively, gross profit is up 13% with a full 2% rise in gross margin. This is very much the product of moving part of the sourcing of several core fabrics to China and Korea and the growing impact of the additional margins which can be derived from the digital printing of our own release papers. Overall costs have been contained to the levels of 2009 and the cash generated has been used to significantly reduce creditor balances.

The team at Friedman's is to be congratulated on raising its segmental result by 65% to £334,000 (2009: £203,000) and in achieving an operating profit to sales ratio of 10% in the toughest of trading conditions.

Sunline

It has been apparent for some time that the consolidation of Sunline's activities on one site at Loughborough would give rise to significant operational efficiencies and provide a more coherent service to its clients. A combination of events during the current year created advantageous conditions for the company to make this positive step. Property became available adjacent to Sunline's existing operations in Loughborough and a reduction of activity at the Redditch site, which was precipitated by the loss of its most substantial and profitable customer in May 2010, as noted in my half-yearly report. The company decided, therefore, to close the Redditch site (Sunline Solutions) and consolidate the remaining business and equipment on the Loughborough site during the period when disruption to the Solutions' business would be minimal.

Turnover for the whole business was flat in 2010 at £7.6m and the segmental result, before exceptional costs associated with the closure of the Redditch site, was £619,000 compared with £913,000 in 2009. However, these results covered some major differences between Loughborough and Redditch. At Loughborough sales grew by 28% as the business ensured it was fully loaded. As noted previously, there remained an overhang of 'shaky competitors' and excess capacity in the mail polywrapping sector which has continued to exert serious downward pressures on margins. In consequence, the overall operating profit coming from this site was only marginally improved on the 2009 result.

Chairman's Statement continued

Operational review
continued

At Redditch the picture was rather different. The second half saw regular monthly losses with the profit achieved in the first half eroded, such that the year-end result was marginally above break-even. The closure of the plant and the removal of the equipment has now been completed. The exceptional costs associated with these changes, amounting to £302,000, have been provided for in these accounts. Of this amount approximately £67,000 is a non-cash element relating to the write-off of assets which will not be transferred to Loughborough. We are confident the new configuration will enhance Sunline's business and enable it to prosper once more on the one extended site.

Dividend

With the on-going effect of the recession on consumer spending, the vital investment in *Forcefield* products and branding, and the need for substantial reorganisation at Sunline, the Board has again decided that it is prudent to conserve cash. As a result, the payment of a dividend is not recommended at this stage, although the Board remains keen to do so as soon as conditions become more favourable.

Power to issue and purchase shares

The Board will seek at the Annual General Meeting to renew the following authorities that were approved by shareholders at the Annual General Meeting in 2010:

1. that the directors be given authority in accordance with section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £334,284.50; and

2. that the directors be given authority pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash as if section 561(1) of the Act did not apply to any such allotment, provided that this power is limited to a pre-emptive issue and any other issue of equity securities for cash up to an aggregate nominal amount of £200,150.00 (representing approximately 48% of the present issued ordinary share capital).

The directors believe that these authorities would, for example, allow the Group to issue new ordinary shares as consideration, in part or whole, for a suitable acquisition.

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.

The Board will also seek the power at the Annual General Meeting to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 5 pence each in the capital of the Company on such terms as the directors think fit, provided that the maximum number of ordinary shares authorised to be purchased is limited to an aggregate of 831,431 shares, representing 10% of the Company's present issued ordinary capital, and subject to certain other conditions related to price.

People

I would like to thank all our employees for their hard work in what has been a very tough year. Given the increasing impact of the Government's spending cuts, I anticipate that our core markets will provide little in the way of easy sales or margin growth. In these circumstances we will remain absolutely dependent on the skills and wit of our employees to provide the spark of ingenuity which will enable us to outperform our competitors. I salute their efforts in 2010 and remain confident they will drive profitable growth in 2011 and beyond.

Chairman's Statement continued

Prospects

The Board has reviewed a number of acquisition opportunities during 2010, but because bank finance has been difficult to secure these have not been pursued. The directors will continue to review potential acquisition opportunities in the current year.

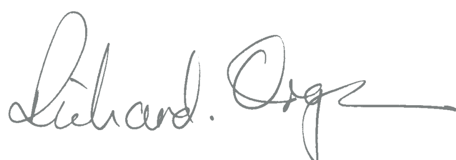
Looking to the trading prospects for 2011, I remain cautious. At the time of writing the expected UK growth rate has just been cut to 1.7% and consumer inflation is running at around 5%. Raw material price inflation does not appear to be abating yet, with the 'BRIC' economies still growing strongly and out-competing us for raw material supply. This is not a recipe for sales or margin growth and in these circumstances we will only grow at the expense of our competitors.

Davies Odell has had a steady start to the year, with sales and profits close to budget. As noted earlier, the very cold December weather had a very nasty hangover effect on shoe repair trading in January and February, but we have seen an improving trend of late. We are looking for an increase in *Forcefield* sales again and we are busily taking increased forward orders now for our second snow/ski season.

Friedman's, too, has made a steady start to the year and is about to take delivery of a second, much faster digital printer. A designer has been engaged to take full advantage of the total capability we now have at our disposal. This should enable additional, larger margin, bespoke orders to be produced, further increasing turnover and margin.

At Sunline the relocation of the lettershop equipment and its smooth run-up into full production needs to be tackled in the second quarter. Additional sales are possible on this underused plant and our sales team will be looking for profitable additions. Perhaps most importantly of all, further efforts will need to be made to drive up prices and margins on our core polywrapping activity. For budgeting purposes, we have taken a cautious view of how quickly this can be achieved in 2011, but the whole team remains committed to this requirement.

Overall I foresee modest improvement for 2011. To conclude, I remain cautious about the outlook for 2011, but feel strongly that all the Group companies are now in good shape to meet their particular challenges.



Richard Organ
Chairman
3 May 2011

Directors' Report

The directors have pleasure in submitting their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

Principal activities and business review

The principal activities of CEPS PLC are that of an industrial holding company, acquiring majority stakes in stable, profitable and steadily growing entrepreneurial companies. The activities of the Company's trading subsidiaries are described in note 16 to the accounts. Segmental analysis is given in note 4 to the accounts.

A review of the business and its prospects are set out in the Chairman's Statement on pages 2 to 5.

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

	2010	2009
Revenue	**£16,519,000**	£15,880,000
Gross margin	**9%**	12%
Segmental result (EBITDA) before exceptional costs	**£1,091,000**	£1,366,000
Operating profit	**£165,000**	£722,000
Profit after tax	**£220,000**	£619,000
Total equity	**£5,902,000**	£5,765,000
Net debt (total borrowing less cash)	**£2,470,000**	£2,220,000
Gearing ratio (net debt/total equity)	**42%**	39%

The Chairman has commented on these key performance indicators in his Statement on pages 2 to 5.

The Group has made a provision of £302,000 in relation to the closure of one of its subsidiaries' sites.

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.

The Board operates a continuous process for identifying, evaluating and managing risk. The internal controls seek to minimise the impact of identified risks, as explained in the Corporate Governance statement on pages 8 and 9.

The principal risks faced by the Group are those associated with the trading subsidiaries which are considered further within the Chairman's Statement on pages 2 to 5. The key risks the Board seeks to mitigate are: competition, employee relations and the supply chain.

Competition – while the Group's trade is differentiated, there is still significant pricing pressure and the barriers to entry are relatively low. In order to mitigate this pressure, local management seek to hold regular discussions with customers and actively monitor the market for changes in competitors' prices.

Employee relations – the Group's performance is largely dependent on its subsidiary staff and managers. The loss of a key individual could adversely impact the Group's results. To mitigate this the Group actively seek to retain key staff through a practice of succession planning.

Supply chain – the differentiated nature of the Group's trade means that it is exposed to a reliance on a small number of suppliers. The Group mitigates this risk through effective supplier selection and procurement practices.

Directors

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

R T Organ BA(Hons) FRSA (58) is a non-executive director and Chairman. He has

Directors' Report continued

Directors continued

significant experience of manufacturing and marketing in the footwear and clothing industries gained with C & J Clark Ltd and Coats Viyella PLC.

D A Horner (51) is a Chartered Accountant. He qualified with Touche Ross and in 1986 joined 3i Corporate Finance Limited. In 1997 he set up 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, manages the Small Companies Dividend Trust Plc and is a director of Athelney Trust plc and a number of private companies.

P G Cook (59) is Group Managing Director. He is a Chartered Accountant who, having qualified with Kidsons Impey, has taken finance and commercial roles with a number of companies. He is currently a director of a number of other companies.

G C Martin (66) is a non-executive director. He is a Chartered Accountant who was previously Financial Director and Company Secretary of the Group.

V E Langford (49) was appointed Finance Director on 1 July 2010. She is a Chartered Accountant and is also the Company Secretary of CEPS PLC.

The directors retiring by rotation in accordance with Articles 71 and 72 are P G Cook and V E Langford who, being eligible, offer themselves for re-election.

Significant shareholdings

In addition to directors' shareholdings shown on page 30, the following shareholders held more than 3% of the Company's ordinary shares at 16 April 2011:

	Shares	%
ODL Nominees Limited	290,000	3.5
Rensburg Sheppards Investment Management Limited	301,000	3.6
David Abell	476,000	5.7
Chelverton Growth Trust Plc	625,856	7.5
Lynchwood Nominees Limited	917,720	11.0
Mark Thistlethwayte	1,290,000	15.5

Creditor payment policy

The policy of the Group and Company is to determine terms and conditions of payment with suppliers when negotiating other terms of supply and to abide by the terms of payment. There were no amounts owing to trade creditors by the Company at the year end (2009: nil).

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 21a to the accounts on page 44.

For further details of Group financial risk and management thereof see note 2 on pages 22 to 24.

Disclosure of information to auditors

So far as each director is aware, there is no relevant 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

PricewaterhouseCoopers LLP are willing to continue in office and a resolution proposing their re-appointment will be submitted to the Annual General Meeting.

By order of the Board
V E Langford
Company Secretary
3 May 2011

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 comprises three non-executive directors, one of whom is Chairman, and two executive directors. Further details of the Board members are given in the Directors' Report on pages 6 and 7.

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 D A Horner (Chair), R T Organ and G C Martin. 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 is comprised of the Chairman and D A Horner. It is responsible for making recommendations to the Board on any appointment to the Board.

Remuneration committee

This committee is comprised of the Chairman, D A Horner and G C Martin.

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 were based on salary alone and were provided by the Company defined contribution scheme and defined benefits scheme. Contributions were 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. From 2010 no benefits have accrued to directors under these schemes.

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 7 to the financial statements on pages 29 and 30.

AIM compliance committee

In accordance with AIM Rule 31 the Company is required to have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules; seek advice from its nominated adviser ('Nomad') regarding its compliance with the AIM Rules whenever appropriate and take that advice into account; provide the Company's Nomad with any information it requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Companies and the AIM Rules for Nominated Advisers; ensure that each of the Company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and ensure that each director discloses without delay all information which the Company needs in order to comply with

Corporate Governance continued

AIM compliance committee continued

AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

In order to ensure that these obligations are being discharged, the Board has established a committee of the Board (the 'AIM committee'), chaired by Richard Organ, a non-executive director of the Company.

Having reviewed relevant Board papers, and met with the Company's Executive Board and the Nomad to ensure that such is the case, the AIM committee is satisfied that the Company's obligations under AIM Rule 31 have been satisfied during the period under review.

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 controls and has concluded that the internal financial control environment is appropriate, with no significant matters noted. 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

At the time of approving the financial statements the directors consider that it is appropriate to adopt the going concern basis of preparation.

The directors have considered the impact of the current economic environment on the Group's future cash flows and its ability to meet liabilities as they fall due, being a period of not less than 12 months from the date of approving the financial statements. The directors have also considered compliance with future banking covenants, and the borrowings structure of the Group.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors' Report to the members of CEPS PLC

We have audited the Group and parent company financial statements (the 'financial statements') of CEPS PLC for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Cashflows and the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit and Group's and parent company's cash flows for the year then ended;

– the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors' Report to the members of CEPS PLC continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
3 May 2011

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 Statement of Comprehensive Income

	Notes	2010 £'000	2009 £'000
Revenue	4	16,519	15,880
Cost of sales		(15,108)	(13,968)
Gross profit		1,411	1,912
Distribution costs		(214)	(222)
Administration expenses		(1,032)	(968)
Operating profit	5	165	722
Analysis of operating profit			
Trading		811	1,086
Exceptional costs	5,23	(302)	–
Group costs		(344)	(282)
Deemed loss arising on the increase in the non-controlling interest		–	(82)
		165	722
Net finance costs	9	(151)	(146)
Profit before tax		14	576
Taxation	10	206	43
Profit for the year from continuing operations		220	619
Other comprehensive income			
Actuarial loss on defined benefit pension plans	8	(83)	(74)
Other comprehensive loss for the year, net of tax		(83)	(74)
Total comprehensive income for the year		137	545
Profit attributable to:			
Owners of the parent		175	550
Non-controlling interest		45	69
		220	619
Total comprehensive income attributable to:			
Owners of the parent		92	476
Non-controlling interest		45	69
		137	545
Earnings per share			
basic and diluted	12	2.10p	6.62p

Consolidated and Company Balance Sheets

Registered number 507461

		Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Assets	Non-current assets					
	Property, plant and equipment	14	1,376	1,548	–	–
	Intangible fixed assets	15	4,732	4,744	79	85
	Fixed asset investments	16	–	–	2,553	2,553
	Deferred tax asset	22	582	164	1	–
			6,690	6,456	2,633	2,638
	Current assets					
	Inventories	17	1,993	1,569	–	–
	Trade and other receivables	18	2,704	2,622	827	750
	Cash and cash equivalents	27	282	736	–	24
			4,979	4,927	827	774
	Total assets		11,669	11,383	3,460	3,412
Equity	Capital and reserves attributable to owners of the parent					
	Called up share capital	24	416	416	416	416
	Share premium		2,756	2,756	2,808	2,808
	Retained earnings		2,285	2,193	117	122
			5,457	5,365	3,341	3,346
	Non-controlling interest		445	400	–	–
	Total equity		5,902	5,765	3,341	3,346
Liabilities	Non-current liabilities					
	Borrowings	20	777	1,346	–	–
	Deferred tax liability	22	171	–	–	–
	Provisions for liabilities and charges	23	155	55	–	–
			1,103	1,401	–	–
	Current liabilities					
	Borrowings	20	1,975	1,610	22	–
	Trade and other payables	19	2,449	2,562	97	62
	Current tax liabilities		38	45	–	4
	Provisions for liabilities and charges	23	202	–	–	–
			4,664	4,217	119	66
	Total liabilities		5,767	5,618	119	66
	Total equity and liabilities		11,669	11,383	3,460	3,412

The financial statements on pages 12 to 47 were approved by the Board of Directors on 3 May 2011 and signed on its behalf by

P G Cook (Director).

Consolidated and Company Statement of Cashflows

		Group		Company	
		2010	2009	2010	2009
		£'000	£'000	£'000	£'000
Cash flows from operating activities	Cash generated from/(used in) operations	52	1,326	(167)	(209)
	Income tax (paid)/received	(48)	(202)	(6)	87
	Interest paid	(149)	(129)	–	–
	Net cash (used in)/generated from operations	(145)	995	(173)	(122)
Cash flows from investing activities	Purchase of property, plant and equipment	(66)	(62)	–	–
	Disposal of property, plant and equipment	30	3	–	–
	Interest received	2	3	127	143
	Net cash (used in)/generated from investing activities	(34)	(56)	127	143
Cash flows from financing activities	Repayment of borrowings	(421)	(650)	–	–
	Repayment of capital element of finance leases	(273)	(190)	–	–
	Net cash used in financing activities	(694)	(840)	–	–
	Net (decrease)/increase in cash and cash equivalents	(873)	99	(46)	21
	Cash and cash equivalents at the beginning of the year	631	532	24	3
	Cash and cash equivalents at the end of the year (note 27)	(242)	631	(22)	24
Cash generated from operations	Profit/(loss) before income tax	14	576	(87)	(117)
	Adjustments for:				
	Depreciation and amortisation	286	285	6	6
	(Profit)/loss on disposal of property plant and equipment	(14)	9	–	–
	Increase in non-controlling interest	–	82	–	–
	Net finance costs	151	146	(164)	(165)
	Retirement benefit obligations	(69)	(74)	–	–
	Changes in working capital:				
	(Increase)/decrease in inventories	(424)	226	–	–
	(Increase)/decrease in trade and other receivables	(82)	206	43	73
	(Decrease)/increase in trade and other payables	(112)	(130)	35	(6)
	Increase in provisions	302	–	–	–
	Cash generated from/(used in) operations	52	1,326	(167)	(209)

Consolidated and Company Statement of Changes in Equity

Group

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Attributable to the owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2009	416	2,756	1,717	4,889	249	5,138
Actuarial loss	–	–	(74)	(74)	–	(74)
Profit for the year	–	–	550	550	69	619
Total comprehensive income for the year	–	–	476	476	69	545
Increase in non-controlling interest charged against profit for the year	–	–	–	–	82	82
At 31 December 2009	416	2,756	2,193	5,365	400	5,765
Actuarial loss	–	–	(83)	(83)	–	(83)
Profit for the year	–	–	175	175	45	220
Total comprehensive income for the year	–	–	92	92	45	137
At 31 December 2010	416	2,756	2,285	5,457	445	5,902

Company

	Called up share capital £'000	Share premium £'000	(Accumulated losses)/ retained earnings £'000	Total equity £'000
At 1 January 2009	416	2,808	(66)	3,158
Total comprehensive profit for the year	–	–	188	188
At 31 December 2009	416	2,808	122	3,346
Total comprehensive loss for the year	–	–	(5)	(5)
At 31 December 2010	416	2,808	117	3,341

Notes to the Financial Statements

1. Accounting policies

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

The Company is a limited liability company, domiciled and registered in England and its registered office is 11 George Street, Bath BA1 2EH.

Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC interpretations and Companies Act 2006 as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Company has taken advantage of the exemption under the Companies Act 2006 not to present a Statement of Comprehensive Income. Information about the Company result for the year is given in note 13.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

Currently there have been no new standards or amendments to standards adopted by the Group.

(b) Standards, amendments and interpretations to existing standards effective in 2010, but not relevant to the Group

- *IFRS 3 (revised) – Business combinations* – effective from 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Consolidated Statement of Comprehensive Income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010;

- *IFRIC 17 – Distribution of non-cash assets to owners*, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions;

- *IFRIC 18 – Transfers of assets from customers*, effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers;

Notes to the Financial Statements

1. Accounting policies
continued

- *Additional exemptions for first-time adopters (Amendment to IFRS 1)* was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer;

- Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard, but most are effective 1 January 2010.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been adopted early:

- *IFRS 9 – Financial instruments;*

- *Revised IAS 24 – Related party disclosures;*

- *Prepayments of a minimum funding requirement (Amendments to IFRIC 14);*

- *IFRIC 19 – Extinguishing financial liabilities with equity instruments;*

- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard, but most are effective 1 January 2011.

Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are accounted for using the purchase method of accounting. They are de-consolidated from the date that control ceases.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, historically, costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Historically, disposals to non-controlling interests resulted in gains and losses for the Group that were recorded in the Consolidated Statement of Comprehensive Income. Purchases from non-controlling interests resulted in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

From 1 January 2010 any new acquisitions or transactions with non-controlling interests will be accounted for in accordance with IFRS 3 (revised). As such, cost of acquisitions will be expensed and transactions with non-controlling interests will be recorded in equity.

Notes to the Financial Statements continued

1. Accounting policies continued

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, the Board, and used to assess performance. Information is given for all operating segments where discrete financial information is available.

Revenue recognition

The revenues of Friedman's and Davies Odell arise from the invoiced value of goods sold (recognised on despatch), excluding VAT.

The revenues of Sunline arise from the invoiced value for services provided (recognised on completion of the service), excluding VAT.

Property, plant and equipment

Property, plant and equipment is stated at initial cost, including expenditure that is directly attributable to the acquired item, less accumulated depreciation and impairment losses.

Depreciation is calculated on an appropriate basis over the deemed useful life of an asset and is applied to the cost less any residual value. The asset classes are depreciated over the following periods (the useful life, the residual value and the depreciation method is assessed annually):

Plant and machinery, tools and moulds:	Between 5 and 10 years, over the period of the contract, or on a 25% reducing balance basis
Motor vehicles:	5 years straight line
Leasehold property improvements:	Over the term of the lease on a straight line basis.

The residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Intangible assets

a) Goodwill

Goodwill is recognised to the extent that it arises through business combinations. In respect of business combinations that have occurred since 1 January 2006, goodwill represents the difference between the cost of the acquisition and the fair value of net identifiable assets acquired. In respect of business combinations prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to appropriate cash generating units (those expected to benefit from the business combination) and is no longer amortised, but is tested for impairment annually.

b) Computer software and websites

Computer software and costs incurred in the development of websites are stated at cost less accumulated amortisation. Non-integral computer software purchases are capitalised at cost. These costs are amortised on a straight line basis over their

Notes to the Financial Statements continued

1. Accounting policies continued

estimated useful lives (between 3 and 10 years). Costs associated with implementing or maintaining computer software programmes are recognised as an expense as incurred.

Costs incurred in the development of new websites are capitalised only where the cost can be directly attributed to developing the website to operate in the manner intended by management and only to the extent of the future economic benefits expected from its use. These costs are amortised on a straight line basis over their useful lives (between 3 and 5 years). Costs associated with maintaining websites are recognised as an expense as incurred.

Impairment of intangible assets

Assets that have an indefinite useful life are not subject to amortisation, but are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Any impairment losses relating to goodwill are not reversed.

Investments

Investments in subsidiaries are stated at cost, which reflects the fair value of the consideration paid. The investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Inventories

Inventories are valued at the lower of cost and net realisable value. 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, where applicable.

Current and deferred taxation

The tax credit for the year comprises current and deferred tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be generated enabling the utilisation of the temporary timing differences.

Foreign currencies

The results are recorded in Sterling which is deemed to be the functional currency of the Group, the Company and all its subsidiaries.

Notes to the Financial Statements continued

1. Accounting policies
continued

Foreign currency transactions are expressed in Sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated 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 Consolidated Statement of Comprehensive Income.

Pensions
The Company operates a defined benefit pension scheme for the benefit of the majority of its employees, the assets of which are held separately from those of the Company in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income.

Pension schemes' surpluses only, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

Defined benefit pension costs are recognised in the Consolidated Statement of Comprehensive Income. The full annual actuarial gain or loss is recognised in the Consolidated Statement of Comprehensive Income as other comprehensive income. Contributions to the defined contribution schemes are charged to the Consolidated Statement of Comprehensive Income as incurred.

Operating leases
The annual costs of operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Hire purchase leases
For leases where a significant portion of the risks and rewards of ownership is obtained or where legal title is to pass to the Group the assets are capitalised at cost in the balance sheet and depreciated over the expected useful economic life. The interest element of the rental obligation is charged to the Consolidated Statement of Comprehensive Income over the period of the lease and represents a constant proportion of the balance of capital repayment outstanding.

Non-controlling interest
Non-controlling interests represent the interest of shareholders in subsidiaries which are not wholly owned by the Group.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Notes to the Financial Statements continued

1. Accounting policies
continued

Share capital
Ordinary shares are classified as equity while redeemable preference shares are classified as liabilities.

Financial instruments
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on the balance sheet at fair value when the Group becomes a party to the contractual provisions of the instrument.

a) Loans and receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and its estimated future cash flow. The carrying amount of the asset is reduced through the use of a bad debt provision and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income within cost of sales. When a trade receivable is uncollectible it is written off against the bad debt provision. Subsequent recoveries of amounts previously written off are credited against cost of sales in the Consolidated Statement of Comprehensive Income.

Cash and cash equivalents include cash in hand, short term bank deposits held at call, other short term highly liquid investments with an original maturity of less than three months, and bank overdrafts. Bank overdrafts are shown in current liabilities as borrowings. All are carried at cost in the balance sheet.

b) Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

c) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost.

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

Notes to the Financial Statements continued

2. Financial risk management

2.1 Financial risk factors

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), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

a) Market risk
i) Foreign exchange risk
The Group undertakes transactions internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US Dollar and Sterling. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has a policy to require Group companies to manage their foreign exchange risk against their functional currency. The policy is to match as far as possible through the normal course of trade the level of sales and purchases in foreign currencies and, where applicable, to enter forward foreign exchange contracts as hedges of foreign exchange risk on specific assets, liabilities or future transactions.

At 31 December 2010, if Sterling had weakened by 5% against the Euro and all other variables held constant, post-tax profit for the year would have been £48,000 (2009: £37,000) lower as a consequence of foreign exchange losses.

ii) Cash flow and fair value interest rate risk
As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Group policy is to maintain an appropriate balance between borrowings expressed in fixed rates and those at variable rates. All of the Group's borrowings are denominated in Sterling. The strategy of CEPS PLC is as far as possible to use the assets of businesses in which it makes investments to secure the necessary borrowings for those investments.

The impact on post tax profit of a 1% shift in interest rates on the Group's non-current bank borrowings would be a maximum of £1,000 (2009: £5,000).

b) Credit risk
The Group is exposed to the credit risk inherent in non-payment by either its customers or the counterparties of its financial instruments. The Group utilises credit insurance policies to mitigate its risk from some of its trading exposure, especially in overseas markets, and in all cases seeks satisfactory references and the best possible terms of payment. It mitigates its exposure on financial instruments by only using instruments from banks and financial institutions with a minimum rating of 'A'.

c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and having available an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Group's available liquidity on the basis of expected future cash flows. Forecasts are generated in the first instance at local level in the operating subsidiaries of the Group.

Notes to the Financial Statements continued

2. Financial risk management continued

2.1 Financial risk factors continued

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2010				
Trade payables	2,449	–	–	–
Other loans*	–	190	206	–
Bank borrowings**	400	100	–	–
Bank overdrafts	524	–	–	–
Trade receivables backed working capital facilities	836	–	–	–
Finance lease obligations	237	208	97	–
	4,446	498	303	–
At 31 December 2009				
Trade and other payables	2,562	–	–	–
Others loans*	–	189	206	–
Bank borrowings**	421	400	100	–
Bank overdrafts	105	–	–	–
Trade receivables backed working capital facilities	888	–	–	–
Finance lease obligations	241	218	239	–
	4,217	807	545	–

* The loan holder has confirmed that he will not seek repayment during 2011.

** The borrowing payments relate to capital only, interest is paid as accrued at an interest rate between 2% and 3.25% above the bank's base rate.

2.2 Capital risk management

The Group's objectives when managing capital (being the equity and reserves of the Group) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may pay dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio measures net debt as a proportion of total equity as shown in the Consolidated Balance Sheet. Net debt is calculated as total borrowings less cash and cash equivalents.

Notes to the Financial Statements continued

2. Financial risk management continued

2.2 Capital risk management continued

The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010 £'000	2009 £'000
Total borrowings	2,752	2,956
Less: cash and cash equivalents	(282)	(736)
Net debt	2,470	2,220
Total equity	5,902	5,765
Gearing ratio	42%	39%

Total borrowings have been reduced in the year by the repayment of bank loans and finance lease obligations totalling £623,000 and trade receivables backed working capital facilities of £52,000 and increased by overdrafts of £419,000 and new finance lease obligations of £52,000. Cash balances fell by £454,000. Total equity increased by the total comprehensive income for the year of £137,000. As a result gearing increased to 42% (2009: 39%), which is deemed acceptable.

2.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of the financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current interest rate.

3. Critical accounting assumptions and judgements

a) Impairment of intangible assets

Where there is an indication that the carrying value of intangible assets may have been impaired through events or changes in circumstances, a review will be undertaken of the recoverable amount of those assets based on a value in use calculation that will involve estimates and assumptions to be made by management. A review is performed annually for goodwill. Goodwill is held in respect of Sunline and Friedman's. See note 15 for further details.

b) Deferred tax assets

Certain subsidiaries of the Group (principally Davies Odell) have accelerated capital allowances and brought forward tax losses. Deferred tax assets have been recognised in respect of accelerated capital allowances to be claimed over the next five years and the full amount of the brought-forward tax losses. The recognition of the assets reflects management's estimate of the recoverable amounts in respect of these items.

c) Retirement benefit liabilities

One subsidiary of the Group operates a defined benefits pension scheme. The scheme is subject to triennial actuarial valuation and the Group commissions an independent qualified actuary to update to each financial year end the previous triennial result. The results of this update are included in the financial statements. In reaching the annually updated results management makes assumptions and estimates. These assumptions and estimates are made advisedly, but are not any guarantee of the performance of the scheme or of the outcome of each triennial review.

Notes to the Financial Statements continued

4. Segmental analysis

The chief operating decision-maker of the Group is its Board. Each operating segment regularly reports its performance to the Board which, based on those reports, allocates resources to and assesses the performance of those operating segments.

The operating segments set out below are the only level for which discrete information is available or utilised by the chief operating decision-maker.

Operating segments and their principal activities are as follows:

Davies Odell, the manufacture and distribution of protection equipment, matting and footwear components

Friedman's, the conversion and distribution of specialist Lycra

Sunline, a supplier of services to the direct mail market.

The United Kingdom is the main country of operation from which the Group derives its revenue and operating profit and is the principal location of the assets of the Group. The Group information provided below, therefore, also represents the geographical segmental analysis. Of the £16,519,000 (2009: £15,880,000) revenue £14,123,000 (2009: £13,823,000) is derived from UK customers with the remaining £2,396,000 (2009: £2,057,000) being derived from a number of overseas countries, none of which is material in isolation.

The Board assesses the performance of each operating segment by a measure of adjusted earnings before interest, tax, Group costs, depreciation and amortisation (EBITDA) before exceptional costs. Other information provided to the Board is measured in a manner consistent with that in the financial statements.

i) Results by segment

	Davies Odell 2010 £'000	Friedman's 2010 £'000	Sunline 2010 £'000	CEPS 2010 £'000	Group 2010 £'000
Revenue	5,734	3,154	7,631	–	16,519
Segmental result (EBITDA) before exceptional costs	138	334	619	–	1,091
Exceptional costs	–	–	(302)	–	(302)
Segmental result (EBITDA) after exceptional costs	138	334	317	–	789
Depreciation and amortisation charge					(280)
Group costs					(344)
Interest expenses					(151)
Profit before taxation					14
Taxation					206
Profit for the year					220

Notes to the Financial Statements continued

4. Segmental analysis
continued

	Davies Odell 2009 £'000	Friedman's 2009 £'000	Sunline 2009 £'000	CEPS 2009 £'000	Group 2009 £'000
Revenue	5,296	2,993	7,591	–	15,880
Segmental result (EBITDA)	250	203	913	–	1,366
Depreciation and amortisation charge					(280)
Group costs					(282)
Increase in non-controlling interest					(82)
Interest expenses					(146)
Profit before taxation					576
Taxation					43
Profit for the year					619

ii) Assets and liabilities by segment as at 31 December

	Segment assets 2010 £'000	Segment assets 2009 £'000	Segment liabilities 2010 £'000	Segment liabilities 2009 £'000	Segment net assets 2010 £'000	Segment net assets 2009 £'000
CEPS Group	86	114	(120)	(67)	(34)	47
Davies Odell	2,918	2,332	(1,576)	(1,043)	1,342	1,289
Friedman's	2,826	2,853	(1,465)	(1,694)	1,361	1,159
Sunline	5,668	6,084	(2,435)	(2,814)	3,233	3,270
Total – Group	11,498	11,383	(5,596)	(5,618)	5,902	5,765

iii) Non-cash expenses and capital expenditure
Other than as stated above there were no significant non-cash expenses.

Capital expenditure	2010 £'000	2009 £'000
Davies Odell	23	9
Friedman's	3	39
Sunline	92	175
Total – Group	118	223

Notes to the Financial Statements continued

5. Operating profit

	2010 £'000	2009 £'000
Profit on ordinary activities before tax is stated after charging:		
(Profit)/loss on disposal of property, plant and equipment	(14)	9
Exchange gain	(32)	(64)
Other operating lease rentals on land and buildings and on plant and machinery:	400	385

	2010 £'000	2009 £'000
Exceptional costs		
Provision for the redundancy costs of employees	57	–
Provision for other direct costs of closure	245	–
	302	–

Exceptional costs relate to costs incurred in respect of the closure of an operating site in Sunline.

	2010 £'000	2009 £'000
Fees paid to auditors		
Audit fees in respect of the audit of the accounts of the Company	16	16
Audit fees in respect of the audit of the accounts of subsidiaries of the Company	25	25
	41	41
Services relating to taxation	18	18
Services relating to the pension scheme	–	4
Services relating to an aborted acquisition	15	–
Other non-audit services	15	–
Total fees	89	63

	2010 £'000	2009 £'000
Expenses by nature		
Change in inventories	424	(226)
Purchase of materials for sale	7,505	7,783
Employee benefit expenses	4,823	4,559
Depreciation and amortisation	286	285
Operating lease payments	400	385
Other expenses	2,916	2,372
	16,354	15,158

Notes to the Financial Statements continued

6. Employees

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

	2010	2009
Management and administration	39	39
Production and sales	158	149
	197	188

The aggregate payroll costs of these persons were:

	2010 £'000	2009 £'000
Wages and salaries	4,306	4,103
Social security costs	403	371
Other pension costs	114	85
	4,823	4,559

Key management personnel are deemed to be members of the Board and certain local management and their compensation is shown in note 7.

Notes to the Financial Statements continued

7. Directors' emoluments and interests

The aggregate remuneration of the directors was:

	2010 £'000	2009 £'000
Fees	–	–
Salaries and benefits	159	155
	159	155

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

	Salaries and fees		Benefits		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
P G Cook	62	62	–	–	62	62
D A Horner	16	16	–	–	16	16
V E Langford	24	–	–	–	24	–
G C Martin	27	47	4	4	31	51
R T Organ	26	26	–	–	26	26
	155	151	4	4	159	155

Benefits represent the value attributed to medical insurance.

G C Martin has a pension secured in the Group defined benefits scheme from which he is currently drawing. He is not accruing any further additional benefit under this pension scheme.

G C Martin was also a member of a Group defined contribution scheme. Contributions on his behalf to the scheme in 2010 were £nil (2009: £nil).

The aggregate payroll costs of members of the Board and other key personnel of the Group were:

	2010 £'000	2009 £'000
Wages and salaries	358	380
Social security costs	40	43
Other pension costs	36	38
	434	461

Notes to the Financial Statements continued

7. Directors' emoluments and interests continued

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

	at 31 December 2010		at 31 December 2009	
	shares	warrants	shares	warrants
P G Cook	366,666	–	366,666	70,000
D A Horner	1,287,110	–	1,287,110	200,000
G C Martin	20,251	–	20,251	10,125
R T Organ	169,333	–	169,333	53,000

There have been no changes in the interests of any director between 31 December 2010 and 3 May 2011.

The warrants lapsed unexercised on 20 April 2010.

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 3 May 2011. The market price of the shares at 31 December 2010 was 18.0p and the range during 2010 was 17.0p to 35.5p.

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 Financial Statements continued

8. Pension costs

The Group operates a number of 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 £113,000 (2009: £81,000).

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, for accrued service, the 'projected unit' method and, for future service, the 'attained age' method. The most recent actuarial valuation was at 1 July 2007 and the main actuarial assumptions were investment returns of 5.8% before retirement, 5.3% after retirement and a rate of salary increase of 5.0%. The valuation showed that the total value of the scheme assets was £2,623,000 and that the level of funding on an on-going basis is 87%. At 1 October 2008 the Group agreed a recovery plan of £3,515 per month, an amount intended to restore a 100% funding level over ten years.

The Group commissioned an independent qualified actuary to update to 31 December 2010 the results of the actuarial valuation at 1 July 2007. The results of the update are as follows:

	2010	2009
Assumptions at 31 December		
Interest rate for discounting liabilities	5.50%	5.80%
Expected return on plan assets	6.30%	6.30%
Rate of salary increase	N/A	N/A
Retail Price Inflation	3.40%	3.40%
Pensions increase	3.40%	3.40%
Mortality	PCA00	PCA00
Current and future pensioners	year of birth long cohort	year of birth long cohort
Life expectancies		
For a 65 year old male	23.4	23.4
For a 65 year old female	25.8	25.7
For a 65 year old male, currently aged 50	24.4	24.3
For a 65 year old female, currently aged 50	26.6	26.5

The expected return on plan assets has been determined by the current rate of return on the plan, less allowances for future uncertainties on the plan and an allowance for costs to be incurred in administering the plan.

The following amounts were measured in accordance with the requirements of IAS 19:

	2010 £'000	2009 £'000
Amounts recognised in the balance sheet are as follows:		
Fair value of plan assets	2,347	2,129
Present value of defined benefit obligation	(2,282)	(2,101)
Actuarial surplus not recognised	(65)	(28)
Net surplus/(liability)	–	–

Notes to the Financial Statements continued

8. Pension costs continued

	2010 £'000	2009 £'000
Pension cost recognised in the Consolidated Statement of Comprehensive Income		
Operating cost:		
Current service cost (cost of sales)	1	6
Finance cost:		
Interest cost	120	112
Expected return on plan assets	(134)	(125)
	(14)	(13)
Total pension credit	(13)	(7)
Consolidated Statement of Comprehensive Income		
Actuarial loss	130	325
Experience (gains)/losses on assets	(84)	(25)
Movement in actuarial surplus not recognised	37	(226)
Total loss	83	74
Movement in balance sheet for the year		
Net pension liability at the start of the year	–	–
Employer's pension cost	13	7
Consolidated Statement of Comprehensive Income	(83)	(74)
Employer contributions	70	67
Accrued pension cost at the end of the year	–	–
Reconciliation of the defined benefit obligation		
Defined benefit obligation at the start of the year	2,101	1,738
Current service cost	1	6
Interest cost	120	112
Plan participants' contributions	–	3
Actuarial loss	130	325
Benefits paid	(70)	(83)
Defined benefit obligation at the end of the year	2,282	2,101
Reconciliation of plan assets		
Fair value of plan assets at the start of the year	2,129	1,992
Expected return on plan assets	134	125
Experience gains on assets	84	25
Employer contributions	70	67
Plan participants' contributions	–	3
Benefits and expenses paid	(70)	(83)
Fair value of plan assets at the end of the year	2,347	2,129

Notes to the Financial Statements continued

8. Pension costs continued

	2010	2009
Asset categories at the end of the year		
Equities	46%	41%
Bonds	42%	37%
Property	7%	9%
Cash	5%	13%

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Amounts for the current and previous four years are as follows:					
Plan assets	2,347	2,129	1,992	1,982	1,852
Defined benefit obligation	(2,282)	(2,101)	(1,738)	(2,144)	(2,369)
Actuarial surplus not recognised	(65)	(28)	(254)	–	–
Deficit in scheme	–	–	–	(162)	(517)
Actuarial (losses)/gains on liabilities due to assumptions	(130)	(325)	523	208	66
Experience gains/(losses) on assets	84	25	(187)	71	20
Movement in actuarial surplus not recognised	(37)	226	(254)	–	–
Total (losses)/gains recognised for the year	(83)	(74)	82	279	86
Cumulative amount of gains recognised in the Consolidated Statement of Comprehensive Income	290	373	447	365	86

9. Net finance costs

	2010 £'000	2009 £'000
Interest receivable	2	3
Pension scheme finance income (note 8)	14	13
Total finance income	16	16
Interest payable on bank loans and overdrafts	67	63
Interest payable on other loans	40	37
Finance lease costs	40	42
Preference dividend accrued	20	20
Total finance costs	167	162
Net finance costs	151	146

Notes to the Financial Statements continued

10. Taxation

	2010 £'000	2009 £'000
Analysis of taxation in the year:		
Current tax		
UK corporation tax on profits of the year at 28% (2009: 28%)	59	96
Tax in respect of prior periods	(18)	1
Total current tax	41	97
Deferred tax		
Origination and reversal of temporary differences	(82)	31
Prior year adjustment	(159)	(171)
Impact of change in UK tax rate	(6)	–
Total deferred tax	(247)	(140)
Total tax credit	(206)	(43)
Deferred tax charged to the Consolidated Statement Comprehensive Income	–	–

The tax assessed for the year is lower (2009: lower) than the standard rate of corporation tax in the UK (28%) (2009: 28%).

	2010 £'000	2009 £'000
Factors affecting current taxation:		
Profit before taxation	14	576
Profit multiplied by the standard rate of UK tax of 28% (2009: 28%)	4	161
Effects of:		
Small companies tax relief	(1)	(4)
Other timing differences	–	(61)
Expenses not deductible for tax purposes	6	31
Prior year adjustment, current tax	(18)	1
Prior year adjustment, deferred tax	(159)	(171)
Effects of changes in tax rate	(6)	–
Losses carried forward	19	–
Deferred tax movements not recognised	(51)	–
Total tax credit	(206)	(43)

During the year, as a result of the change in the United Kingdom corporation tax rate from 28% to 27% that was substantively enacted on 26 June 2010 and will be effective from 1 April 2011, the relevant deferred tax balances have been remeasured.

Further reductions to the United Kingdom tax rate have been announced. The changes, which are expected to be enacted separately each year, propose to reduce the rate to 26% from 1 April 2011 and by 1% per annum thereafter to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The prior year credit for deferred taxation in both periods relates principally to the recognition of tax losses previously not recognised.

Notes to the Financial Statements continued

11. Dividends

No ordinary dividends have been paid or proposed for the year (2009: £nil).

12. Earnings per share

Basic earnings per share is calculated on the profit for the year after taxation attributable to equity holders of the Company of £175,000 (2009: £550,000) and on 8,314,310 (2009: 8,314,297) ordinary shares, being the weighted number in issue during the year.

Diluted earnings per share is calculated on the weighted number of ordinary shares in issue adjusted to reflect the potential effect of the exercise of share warrants and options. No adjustment is required in either year because the fair value of warrants and options was below the exercise price. The warrants lapsed unexercised on 20 April 2010.

13. Profits of the holding company

Of the Group profit for the year a loss of £5,000 prior to consolidation adjustments (2009: profit £188,000) is dealt with in the accounts of CEPS PLC. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented the results for the Company alone.

Notes to the Financial Statements continued

14. Property, plant and equipment

Group

	Leasehold property improvements £'000	Plant, machinery, tools and moulds £'000	Motor vehicles £'000	Total £'000
Cost				
at 1 January 2009	57	3,822	104	3,983
additions at cost	1	198	24	223
disposals	–	(21)	(19)	(40)
at 31 December 2009	58	3,999	109	4,166
additions at cost	–	95	23	118
disposals	–	(19)	(19)	(38)
at 31 December 2010	58	4,075	113	4,246
Accumulated depreciation				
at 1 January 2009	33	2,292	48	2,373
charge for the year	3	252	18	273
disposals	–	(13)	(15)	(28)
at 31 December 2009	36	2,531	51	2,618
charge for the year	3	250	21	274
disposals	–	(10)	(12)	(22)
at 31 December 2010	39	2,771	60	2,870
Net book amount				
at 31 December 2010	19	1,304	53	1,376
at 31 December 2009	22	1,468	58	1,548
at 1 January 2009	24	1,530	56	1,610

At the year end, assets held under hire purchase contracts and capitalised as plant, machinery and tools have a net book value of £714,000 (2009: £793,000).

The depreciation has been charged to cost of sales in the Consolidated Statement of Comprehensive Income.

Company

Throughout 2009 and 2010 the Company held no property, plant and equipment.

Notes to the Financial Statements continued

15. Intangible fixed assets

		Goodwill £'000	Website and software £'000	Total £'000
Group	Cost			
	at 1 January 2009	4,909	50	4,959
	adjustment of deferred consideration	(70)	–	(70)
	at 31 December 2009 and 31 December 2010	4,839	50	4,889
	Accumulated amortisation			
	at 1 January 2009	121	12	133
	charge	–	12	12
	at 31 December 2009	121	24	145
	charge	–	12	12
	at 31 December 2010	121	36	157
	Net book amount			
	at 31 December 2010	4,718	14	4,732
	at 31 December 2009	4,718	26	4,744
	at 1 January 2009	4,788	38	4,826
Company	Cost			
	at 1 January 2009, 31 December 2009 and 31 December 2010	80	17	97
	Accumulated amortisation			
	at 1 January 2009	1	5	6
	charge	–	6	6
	at 31 December 2009	1	11	12
	charge	–	6	6
	at 31 December 2010	1	17	18
	Net book amount			
	at 31 December 2010	79	–	79
	at 31 December 2009	79	6	85
	at 1 January 2009	79	12	91

Notes to the Financial Statements continued

15. Intangible fixed assets continued

Management assess the nature of purchase consideration and any in excess of identified intangible assets is recorded as goodwill. Goodwill is not amortised under IFRS, but is subject to impairment testing either annually or on the occurrence of a triggering event.

Other intangibles relate to website development costs and are amortised over their estimated economic lives. The annual amortisation charge is expensed to cost of sales in the Consolidated Statement of Comprehensive Income.

Impairment tests for goodwill and other intangibles

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units (CGUs) on a business segment basis:

	2010 £'000	2009 £'000
Friedman's	1,529	1,529
Sunline	3,189	3,189
Total	4,718	4,718

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond five years are assumed to be constant. An appropriate discount rate of 11.6%, representing the Group's current pre-tax cost of capital, has been applied to these projections.

The principal sensitivity in the cashflow forecasts is the rate of growth of sales for the CGUs which are estimated by management, based on their knowledge and experience of the markets, at 5% per annum for Sunline and 3% per annum for Friedman's for the first four years. Thereafter, the long-term growth rate of the UK economy of 2.5% has been applied.

At 31 December 2010 the Group performed its annual impairment test on goodwill using the above discount rate for value-in-use calculations. These tests concluded that no impairment is required. Recoverable amounts for Friedman's and Sunline exceeded the carrying values by £1.2m and £1.7m respectively.

The value-in-use calculations are sensitive to changes in the discount rate and revenue growth. The value-in-use of Friedman's and Sunline would be equal to the carrying value of assets if the discount rate were 19.0% and 16.1% respectively or if forecast revenue growth were (1.2)% and 1.0% respectively.

Notes to the Financial Statements continued

16. Fixed asset investments

Company

	2010 £'000	2009 £'000
Shares in group undertakings		
at 1 January	674	692
disposal	–	(18)
at 31 December	674	674
Loan to group undertakings		
at 1 January	1,879	1,879
additions at cost	–	–
at 31 December	1,879	1,879
Total fixed asset investments	2,553	2,553

Of the loans to Group undertakings £408,000 is represented by 9% Guaranteed Loan Stock 2010 repayable in instalments between January 2007 and January 2010 and £850,000 by 15% loan stock repayable in instalments between April 2009 and February 2012. In both cases repayments will only be requested when surplus cash is available. The balance of £621,000 is repayable at no less than one year's notice.

Investments in subsidiary companies are stated at cost. A list of subsidiary undertakings, all of which have been included in the consolidation, 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	55	
Friedman's Limited	England	ordinary		55
Sunline Direct Mail (Holdings) Limited	England	ordinary	80	
Sunline Direct Mail Limited	England	ordinary		80
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	

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 Limited
Friedman's Limited	Conversion and distribution of specialist Lycra
Sunline Direct Mail (Holdings) Limited	Holding company for Sunline Direct Mail Limited
Sunline Direct Mail Limited	Supplier of services to the direct mail market

During the prior year Signature Fabrics Limited resolved to redesignate 4,750 issued A Ordinary shares of £1 each and 250 issued B Ordinary shares of £1 each into deferred shares of £1 each. Deferred shares do not carry voting rights and are entitled to a maximum aggregate return of capital of £1. The reclassification reduced the Company's holding in Signature Fabrics Limited from 75% to 55%. The resultant loss on disposal of £82,000 was recognised in the Consolidated Statement of Comprehensive Income of the Group and a loss of £18,000 was recognised in the Company's results for 2009.

Notes to the Financial Statements continued

17. Inventories

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Raw materials and consumables	568	497	–	–
Work in progress	17	23	–	–
Finished goods and goods for resale	1,408	1,049	–	–
	1,993	1,569	–	–

18. Trade and other receivables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade receivables	2,501	2,384	–	–
less: provision for impairment of trade receivables	(16)	(15)	–	–
Trade receivables – net	2,485	2,369	–	–
Amount due from subsidiary companies	–	–	820	745
Other receivables	4	2	–	–
Prepayments and accrued income	215	251	7	5
	2,704	2,622	827	750

The above are deemed to be the fair values for the trade and other receivables.

As at 31 December 2010, trade receivables of £1,679,000 (2009: £1,670,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2010, trade receivables of £689,000 (2009: £671,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

At 31 December 2010 trade receivables of £133,000 (2009: £43,000) were impaired. A significant portion of the receivables is expected to be recovered and a provision of £16,000 (2009: £15,000) has been made for non-recovery. The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	2010 £'000	2009 £'000
3 to 6 months	111	43
Over 6 months	22	–
	133	43

Notes to the Financial Statements continued

18. Trade and other receivables continued

The carrying amounts of the Group trade and other receivables are denominated in the following currencies:

	2010 £'000	2009 £'000
Sterling	2,619	2,539
Euro	71	67
US $	14	16
	2,704	2,622

Movements in the Group provision for impairment of trade receivables are as follows:

	2010 £'000	2009 £'000
At 1 January	15	33
Provision for receivables impairment	11	–
Receivables written off during the year	(10)	(14)
Unused amounts reversed	–	(4)
	16	15

The creation and release of provisions for impaired receivables have been included in cost of sales in the Consolidated Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade and other receivables.

Notes to the Financial Statements continued

19. Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade payables	1,704	1,862	–	–
Other tax and social security	330	363	–	–
Other payables	105	84	–	–
Accruals and deferred income	310	253	97	62
	2,449	2,562	97	62

20. Borrowings

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current:				
Bank borrowings	100	500	–	–
Other loans	396	395	–	–
Hire purchase obligations	281	451	–	–
	777	1,346	–	–
Current:				
Bank overdraft	524	105	–	–
Bank borrowings	400	421	–	–
Trade receivables backed working capital facilities	836	888	–	–
Hire purchase obligations	215	196	–	–
	1,975	1,610	–	–
Total borrowings	2,752	2,956	–	–

Bank borrowings and overdrafts are secured by fixed and floating charges over the assets of the subsidiary to which they relate with the exception of CEPS PLC and Davies Odell Limited who have given unlimited cross guarantees to secure the liabilities of each other. Trade receivable backed working capital facilities are secured by the trade receivable to which they relate. All borrowings are denominated in Sterling.

At 31 December 2010 the analysis of the security of bank borrowings and overdrafts and trade receivables backed working capital facilities was as follows:

Secured on the assets of	By fixed and floating charges £'000	By trade receivables £'000	Total £'000
Friedman's	–	278	278
Sunline	500	–	500
Davies Odell and CEPS PLC	524	558	1,082
	1,024	836	1,860

Notes to the Financial Statements continued

20. Borrowings continued

At 31 December 2009 the analysis of the security of bank borrowings and overdrafts and trade receivables backed working capital facilities was as follows:

Secured on the assets of	By fixed and floating charges £'000	By trade receivables £'000	Total £'000
Friedman's	21	304	325
Sunline	900	–	900
Davies Odell and CEPS PLC	105	584	689
	1,026	888	1,914

The committed bank borrowings mature through until February 2012 and carry interest of between 2% and 3.25% above the bank's base rate.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2010		2009	
	Bank £'000	Hire purchase £'000	Bank £'000	Hire purchase £'000
Within one year	1.760	215	1,414	196
Between one and two years	100	280	400	185
Between two and five years	–	1	100	266
	1,860	496	1,914	647

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

The carrying amounts of the non-current bank borrowings is £100,000 (2009: £500,000) and their fair values £100,000 (2009: £480,000). The carrying amounts of the non-current finance lease obligations is £281,000 (2009: £451,000) and their fair values £254,000 (2009: £321,000).

Other loans represent preference shares of £130,000 and loan stock of £200,000, subscribed by non-controlling interests and loan stock of £66,000 issued to non-controlling interests in settlement of deferred consideration. Preference shares carry a dividend of 15% pa and loan stock interest of 15% pa and were repayable in quarterly instalments over three years commencing in April 2009. However, repayment has been deferred until 2012. The preference shares and loan notes are held by the non-controlling interest and are in Sunline Direct Mail Holdings Limited.

The minimum lease payments under hire purchase agreements fall due as follows:

	2010 £'000	2009 £'000
Not more than one year	237	241
Later than one year but not more than five years	305	458
	542	699
Finance charge	(46)	(52)
Present value of hire purchase agreement liabilities	496	647

The carrying amounts of the Group's borrowings are denominated in Sterling.

Trade receivables backed working capital facilities are available to the Group and are currently subject to re-negotiation. The Group has no bank loan facilities available for draw down.

Notes to the Financial Statements continued

21a. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group
31 December 2010

Assets as per balance sheet	Loans and receivables £'000
Trade and other receivables (excluding prepayments)	2,489
Cash and cash equivalents	282
Total	2,771

Liabilities at amortised cost as per balance sheet	Other financial liabilities £'000
Bank borrowings (excluding hire purchase leases)	1,860
Hire purchase liabilities	496
Trade and other payables (excluding statutory liabilities)	2,119
Other loans	396
Total	4,871

Group
31 December 2009

Assets as per balance sheet	Loans and receivables £'000
Trade and other receivables	2,371
Cash and cash equivalents	736
Total	3,107

Liabilities at amortised cost as per balance sheet	Other financial liabilities £'000
Bank borrowings (excluding hire purchase leases)	1,914
Hire purchase liabilities	647
Trade and other payables (excluding statutory liabilities)	2,199
Other loans	395
Total	5,155

The Company's assets in both the current and prior year are categorised as loans and receivables. The Company's liabilities are categorised as other financial liabilities.

Notes to the Financial Statements continued

21b. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables are analysed between:

Group	2010 £'000	2009 £'000
Davies Odell	1,053	924
Friedman's	408	442
Sunline	1,040	1,018
	2,501	2,384

The Group has a customer base which is for the most part stable, long standing and well known to the businesses. Credit and credit terms are negotiated with these customers taking into account their trading history with the Group and their payment record. New customers are only given credit after taking references or making trade and agency enquiries. Management does not believe there to be a credit exposure beyond that for which provision has already been made.

The Company cash and cash equivalents includes £282,000 (2009: £736,000) which is on account with differing financial institutions and is readily available. The external credit rating as assessed by Standard & Poor's for short term funds for each of the institutions is A-1+.

22. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group, and the movement thereon, during the current and prior years.

	Losses £'000	Other timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2009, asset/(liability)	5	35	(16)	24
(Charge)/credit to the Consolidated Statement of Comprehensive Income	314	(11)	(163)	140
at 31 December 2009, asset/(liability)	319	24	(179)	164
Credit to the Consolidated Statement of Comprehensive Income	163	76	8	247
at 31 December 2010, asset/(liability)	482	100	(171)	411

Deferred income tax assets and liabilities are recognised at 27% and offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

It is currently anticipated that £82,000 of the asset and £8,000 of the liability will be utilised within one year.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Gross tax losses of £nil (2009: £415,000) and gross ACAs of £666,000 (2009: £1,094,000) are unrecognised at the balance sheet date.

The Company has recognised in 2010 a deferred tax asset of £1,000 (2009: £nil) in relation to unclaimed capital allowances.

Notes to the Financial Statements continued

23. Provisions for liabilities and charges

	Dilapidations £'000	Redditch closure £'000	Total £'000
At 1 January 2009 and 2010	55	–	55
Amounts provided for in the year	–	302	302
At 31 December 2010	55	302	357

These amounts are expected to be settled as follows:

	Dilapidations £'000	Redditch closure £'000	Total £'000
Current	–	202	202
Non-current	55	100	155
	55	302	357

Dilapidations
Dilapidation provisions at 31 December 2010 are carried against the costs anticipated on termination of property leases. The leases to which they relate are currently due to terminate in 2012.

Redditch closure costs
These costs relate to the closure of an operating site in Sunline. This closure will be completed in 2011. However, some of the costs will not be settled until 2012 as they relate to property matters of the site which will be concluded then.

24. Ordinary shares

	2010 £'000	2009 £'000
Ordinary shares		
Authorised:		
15,000,000 (2009: 15,000,000) shares of 5.0p per share	750	750
Allotted called and fully paid:		
8,314,310 (2009: 8,314,310) shares of 5.0p per share	416	416

Warrants for 1,437,287 ordinary shares at a price of 62.5p per share lapsed unexercised on 20 April 2010.

Notes to the Financial Statements continued

25. Operating lease commitments

The Group leases various offices, warehouses and light industrial premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2010 £'000	2009 £'000
Leases expiring:		
within one year	123	342
within two to five years	548	470
after more than five years	–	–
	671	812

26. Related party transactions

The Group has no material transactions with related parties which might reasonably be expected to influence decisions made by users of these financial statements.

During the year the Company entered into the following transactions with its subsidiaries.

	Davies Odell Limited £'000	Sunline Direct Mail Holdings Limited £'000	Signature Fabrics Limited £'000
Receipt of ordinary share dividend			
– 2010	–	–	–
– 2009	200	–	–
Receipt of preference share dividend			
– 2010	–	78	–
– 2009	–	78	–
Receipt of loan note interest			
– 2010	–	127	37
– 2009	–	127	37
Receipt of management charge income			
– 2010	–	15	12
– 2009	–	15	12
Amount owed to the Company			
– 31 December 2010	104	382	291
– 31 December 2009	220	284	241

27. Cash and cash equivalents

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash at bank and in hand	282	736	–	24
Bank overdrafts repayable on demand	(524)	(105)	(22)	–
	(242)	631	(22)	24

Notice of Meeting

Annual General Meeting

Notice is hereby given that the Annual General Meeting of CEPS PLC (the 'Company') will be held at Engineers' House, The Promenade, Clifton Down, Bristol on Friday 27 May 2011 at 11.30am for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 5 will be proposed as ordinary resolutions and numbers 6 and 7 as special resolutions.

1 To receive, consider and adopt the Company's annual accounts for the financial year ended 31 December 2010 together with the directors' report and auditors' report on those accounts.

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

3 To re-elect V E Langford as a director.

4 To re-appoint PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which the accounts are to be laid.

5 To authorise the directors to agree the auditors' remuneration.

6 THAT, in substitution for any existing authority subsisting at the date of this resolution to the extent unused, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £334,284.50, such authority to expire at the commencement of the next Annual General Meeting held 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 equity securities to be allotted after the expiry of such period and the directors may allot equity securities pursuant to such an offer or agreement as if the authority had not expired.

For the purposes of this resolution, 'rights issue' means an offer of equity securities to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the directors in proportion as nearly as may be to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter.

7 THAT subject to and conditional on the passing of resolution number 6 and in substitution for any existing authority subsisting at the date of this resolution to the extent unused, the directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 6 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

7.1 in connection with an offer of such securities by way of rights issue (as defined in resolution number 6);

Notice of Meeting continued

Annual General Meeting
continued

7 continued

7.2 otherwise than pursuant to sub-paragraph 7.1 above up to an aggregate nominal amount of £200,150.00 (such shares representing approximately 48% of the Company's issued ordinary capital as at the date of this notice),

and shall expire at the commencement of the next Annual General Meeting held after 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 equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

8 THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 5 pence each in the capital of the Company on such terms as the directors think fit, provided that:

8.1 the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate of 831,431 (such shares representing approximately 10% of the Company's issued ordinary capital as at the date of this notice);

8.2 the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 5 pence;

8.3 the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to the higher of: (a) 105 per cent of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and

8.4 the authority hereby conferred shall, unless previously revoked and varied, expire at the commencement of the next Annual General Meeting held after the date of the passing of the resolution (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

On behalf of the Board
V E Langford
Secretary
Dated 3 May 2011

Registered office: 11 George Street, Bath BA1 2EH
Registered in England and Wales with number 507461

Notice of Meeting continued

Annual General Meeting
continued

Notes

1. A member entitled to attend and vote is entitled to appoint proxy(ies) to attend, speak and vote instead of him. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. In order to be valid 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, Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, 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 6.00pm on 25 May 2011 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 and vote at the meeting.

4. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that if (i) a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – http://www.icsa.org.uk/ – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Group Information

Directors	P G Cook, Group Managing D A Horner, Non-executive V E Langford, Group Finance G C Martin, Non-executive R T Organ, Non-executive Chairman
Secretary and registered office	V E Langford 11 George Street, Bath BA1 2EH Company number 507461 www.cepsplc.com
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; www.funkifabrics.com Sunline Direct Mail Ltd Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ telephone 01509 263434, fax 01509 264225 email enquiries@sunlinedirect.co.uk; www.sunlinesolutions.com
Registrars and share transfer office	Capita Registrars Limited The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU telephone 0871 664 0300 – calls cost 10p per minute plus network extras, lines are open 8.30am to 5.30pm Monday to Friday
Share price information	The day-to-day movement of the share price on the London Stock Exchange can be found on the Company's website and at www.londonstockexchange.com (code CEPS)
Independent auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors 31 Great George Street, Bristol BS1 5QD
Solicitors	Berwin Leighton Paisner LLP Adelaide House, London Bridge, London EC4R 9HA
Nominated adviser and broker	Cairn Financial Advisers LLP 61 Cheapside, London EC2V 6AX