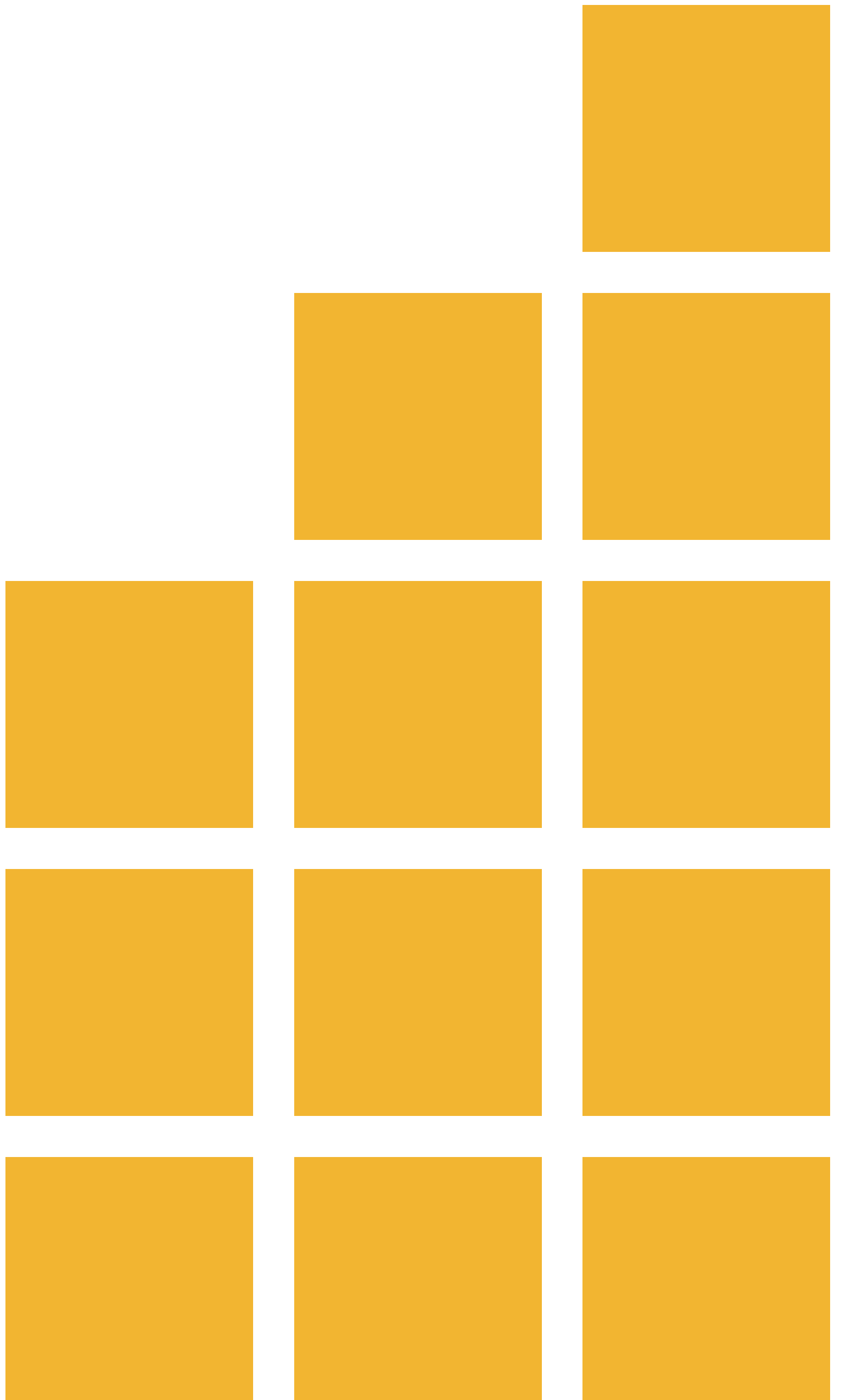
chelverton
equity partners

# 2011

# Report & Accounts



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# Chairman's Statement

## Review of the year

The trading environment across our main markets remained difficult in the second half of 2011, as many economies tottered on the edge of recession and the Eurozone debt crisis created global financial turbulence. Oil and commodity prices did not ease as anticipated, leaving input inflation well above expectations and consumer spending very subdued. Most of our markets in Western Europe have been subject to vigorous government austerity measures, and falling consumer spending in real terms.

Net revenues saw a significant fall in the second half of 2011 to £7.8m (2010: £8.6m) after a first half where revenue was level with the previous year. Overall revenue was £15.6m for the year (2010: £16.5m) a drop of 5.5%, almost entirely accounted for by reduced turnover at Sunline. Operating margins have remained under pressure in all the businesses, with our trading profit falling from £811,000 in 2010 (4.9% of turnover) to £579,000 in 2011 (3.7% of turnover). However, Group costs have shown a welcome further reduction to £303,000 (2010: £344,000).

Profit after tax from continuing operations was £90,000 for the year compared to £220,000 in 2010, with much of the variation accounted for by reducing operating margins. Within this figure a provision of £65,000 has been taken to reflect staff reorganisation costs in Davies Odell's matting business at Kettering. Earnings per share on a basic and diluted basis, after accounting for non-controlling interests, are 0.20p versus 2.10p in 2010.

## Financial review

Despite the decline in profitability during the year the Group generated cash from operating activities of £939,000 (2010: £52,000). Repayment of the acquisition bank loans and the capital element of finance leases utilised £719,000 (2010: £694,000), net capital expenditure was £111,000 (2010: £34,000) and interest charges were £146,000 (2010: £149,000). This resulted in a net decrease in cash and cash equivalents of £75,000 (2010: £873,000).

The increase in the Group's invoice finance facilities over the period from £836,000 at the end of 2010 to £1,151,000 at the current year end made possible the repayment of the £500,000 acquisition bank loans that were outstanding at the beginning of 2011. As a result, net debt has been reduced to £2,206,000 (2010: £2,470,000) and gearing to 37% (2010: 42%).

## Operational review

### Davies Odell

*Forcefield* sales have continued to grow with continued new product and supply chain investment and significant progress has been made in sales through new European distributors. In the UK, through our established dealer network, sales increased, despite an overall 2.5% decline in the sales of new motorbikes and scooters.

Autumn 2011 was the first full season of ski/snowboard sales through retail outlets. The feedback is encouraging, with *Forcefield* products selling-through strongly. Sales to this market will not grow at the rate that motorcycle market sales probably will, but demonstrate that with proper targeting, substantial winter sales can be developed alongside our strong spring/summer profile.

Our shoe repair and factoring business has remained constant with turnover comparable to the previous year. The sheer variety of products and markets we supply here is strength in a difficult trading environment.

Matting sales have been growing steadily, but operating margins have been falling for some time. At the close of 2011 we decided to reorganise to reduce overheads and revitalise the business. A substantial provision has been made for these changes, but we expect to see renewed energy in product development and sales of matting.

# Chairman's Statement continued

## Operational review
continued

### Friedman's

Sales growth has been achieved in the year, with an overall 4.8% increase. This has been through the efforts of the team in Stockport to find both new designs to sell to existing customers and probably more importantly by finding new export customers.

A second digital printer is now fully commissioned, enabling the business to undertake larger volume bespoke orders. New designs which fully capitalise upon this capability have been presented to customers during the autumn trade shows and are beginning to deliver volume orders. Operating margins are broadly comparable with 2010.

### Sunline

Sunline has had a difficult second half, after making good progress after the Redditch closure in the first half. The first half saw an 8.0% fall in turnover, but the second half has seen a sharp fall of about 24.1%. Direct mail volumes have declined due to rising mail costs and the pressure on clients' marketing budgets. The Redditch closure has been well managed and its costs should be contained within the provision set up at the end of 2010. Overheads and finance costs have been contained within budget, and below last year's levels.

## Dividend

In the light of continuing economic uncertainty, the Board has decided that cash conservation must remain a priority. Consequently, a dividend is not proposed at this time, but the situation will be kept under review.

## 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 2011:

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 £209,284.50; 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 £200,000.00 (representing approximately 37% 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 1,081,431 shares, representing 10% of the Company's present issued ordinary capital, and subject to certain other conditions related to price.

# Chairman's Statement continued

## People

2011 proved to be very challenging year indeed, with the beginnings of a double-dip recession and continuing uncertainty across most consumer markets. Our staff have tirelessly confronted the business issues that have arisen and have entered 2012 with no illusions as to the challenges ahead. I thank them all for their application, persistence and ingenuity in such trying circumstances.

## Prospects

As announced on 2 April 2012 CEPS acquired for £500,000 a 21.4% shareholding in a new company set up to acquire 100% of CEM Group Limited ("CEM Group"). CEPS financed this acquisition by the placing of 2,500,000 ordinary shares at 20p per share. CEM Group is the holding company for CEM Press Limited, a business founded 40 years ago which manufactures and distributes the sample booklets used in the marketing and sale of household fabrics and wall coverings.

The total consideration for CEM Group Limited was £2.2m, the balance of the transaction, including fees, being funded by loan notes of £460,000 and by £1.4m provided by a number of private individuals. The investment by these individuals was made under the Enterprise Investment Scheme.

It is the Board's intention over time, subject to price and availability, to increase the CEPS shareholding. In the meantime, CEPS will seek to identify similar opportunities in which to invest.

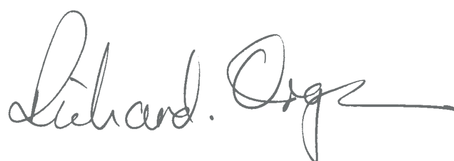
It is encouraging to note that all of our businesses have traded at satisfactory levels in the first quarter of 2012, and close to their respective budgets.

At Davies Odell, the restructuring at Kettering is complete, and there are signs that the business has been unaffected by these upheavals. *Forcefield* sales growth continues. Overall our sales to shoe repair and manufacturing are meeting expectations.

Friedman's sales have exceeded the previous year throughout the first quarter and currency exchange rates have also been more favourable during this period.

At Sunline a number of initiatives are in hand to improve the processes and efficiency of our operations, given that margins are unlikely to improve. We have appointed a new Operations Director to oversee this change. There is considerable work to do to ensure adequate performance in 2012.

I remain cautious about the outlook for 2012 because none of the economic drivers seem likely to give us any help, so any improvement will only flow from the actions of our management teams.



Richard Organ
*Chairman*
*6 June 2012*

# 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 2011.

## 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 4.

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:

| | 2011 | 2010 |
|---|---|---|
| Revenue | £15,628,000 | £16,519,000 |
| Gross margin | 8% | 9% |
| Segmental result (EBITDA) before exceptional costs | £839,000 | £1,091,000 |
| Operating profit before interest and tax | £211,000 | £165,000 |
| Profit after tax | £90,000 | £220,000 |
| Total equity | £5,895,000 | £5,902,000 |
| Net debt (total borrowing less cash) | £2,206,000 | £2,470,000 |
| Gearing ratio (net debt/total equity) | 37% | 42% |

The Chairman has commented on these key performance indicators in his Statement on pages 2 to 4.

The Group has made a provision of £65,000 in relation to the management restructure of one of its subsidiary's sites (see note 23 for further details).

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 7 and 8.

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 4. 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 (59) 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 (52) 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 (60) 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 (67) is a non-executive director. He is a Chartered Accountant who was previously Finance Director and Company Secretary of the Group.

V E Langford (50) is Group Finance Director. 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 R T Organ and D A Horner 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 May 2012:

| | Shares | % |
|---|---|---|
| David Abell | 415,856 | 3.9 |
| Chelverton Asset Management Limited | 500,000 | 4.6 |
| Lynchwood Nominees Limited | 917,720 | 8.5 |
| Mark Thistlethwayte | 1,720,000 | 15.9 |
| Chelverton Growth Trust Plc | 1,750,000 | 16.2 |

## 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 payables by the Company at the year end (2010: 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*
*6 June 2012*

# 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 5 and 6.

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 Company 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 2011 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 Statement of Directors' Responsibilities, set out on page 8, 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 2011 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
*6 June 2012*

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 | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|---|
| Revenue | 4 | 15,628 | 16,519 |
| Cost of sales | | (14,335) | (15,108) |
| Gross profit | | 1,293 | 1,411 |
| Distribution costs | | (193) | (214) |
| Administration expenses | | (889) | (1,032) |
| Operating profit | 5 | 211 | 165 |
| Analysis of operating profit | | | |
| Trading | | 579 | 811 |
| Exceptional costs | 5,23 | (65) | (302) |
| Group costs | | (303) | (344) |
| | | 211 | 165 |
| Net finance costs | 9 | (121) | (151) |
| Profit before tax | | 90 | 14 |
| Taxation | 10 | – | 206 |
| Profit for the year from continuing operations | | 90 | 220 |
| Other comprehensive income | | | |
| Actuarial loss on defined benefit pension plans | 8 | (97) | (83) |
| Other comprehensive loss for the year, net of tax | | (97) | (83) |
| Total comprehensive (loss)/income for the year | | (7) | 137 |
| Profit attributable to: | | | |
| Owners of the parent | | 17 | 175 |
| Non-controlling interest | | 73 | 45 |
| | | 90 | 220 |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of the parent | | (80) | 92 |
| Non-controlling interest | | 73 | 45 |
| | | (7) | 137 |
| Earnings per share | | | |
| basic and diluted | 12 | 0.20p | 2.10p |

# Consolidated and Company Balance Sheets

Registered number 507461

| | | Notes | Group 2011 £'000 | Group 2010 £'000 | Company 2011 £'000 | Company 2010 £'000 |
|---|---|---|---|---|---|---|
| Assets | Non-current assets | | | | | |
| | Property, plant and equipment | 14 | 1,172 | 1,376 | – | – |
| | Intangible assets | 15 | 4,742 | 4,732 | 79 | 79 |
| | Investments | 16 | – | – | 2,553 | 2,553 |
| | Deferred tax asset | 22 | 529 | 582 | 1 | 1 |
| | | | 6,443 | 6,690 | 2,633 | 2,633 |
| | Current assets | | | | | |
| | Inventories | 17 | 1,908 | 1,993 | – | – |
| | Trade and other receivables | 18 | 2,342 | 2,704 | 682 | 827 |
| | Cash and cash equivalents | 27 | 157 | 282 | 54 | – |
| | | | 4,407 | 4,979 | 736 | 827 |
| | Total assets | | 10,850 | 11,669 | 3,369 | 3,460 |
| 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 | | 2,205 | 2,285 | 71 | 117 |
| | | | 5,377 | 5,457 | 3,295 | 3,341 |
| | Non-controlling interest in equity | | 518 | 445 | – | – |
| | Total equity | | 5,895 | 5,902 | 3,295 | 3,341 |
| Liabilities | Non-current liabilities | | | | | |
| | Borrowings | 20 | 524 | 777 | – | – |
| | Deferred tax liability | 22 | 106 | 171 | – | – |
| | Provisions for liabilities and charges | 23 | 55 | 155 | – | – |
| | | | 685 | 1,103 | – | – |
| | Current liabilities | | | | | |
| | Borrowings | 20 | 1,839 | 1,975 | – | 22 |
| | Trade and other payables | 19 | 2,280 | 2,449 | 74 | 97 |
| | Current tax liabilities | | 12 | 38 | – | – |
| | Provisions for liabilities and charges | 23 | 139 | 202 | – | – |
| | | | 4,270 | 4,664 | 74 | 119 |
| | Total liabilities | | 4,955 | 5,767 | 74 | 119 |
| | Total equity and liabilities | | 10,850 | 11,669 | 3,369 | 3,460 |

The financial statements on pages 11 to 47 were approved by the Board of Directors on 6 June 2012 and signed on its behalf by

P G Cook
*Director*

# Consolidated and Company Statement of Cashflows

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | £'000 | £'000 | £'000 | £'000 |
| Cash flows from operating activities | Cash generated from/(used in) operations | 939 | 52 | (102) | (167) |
| | Income tax paid | (38) | (48) | – | (6) |
| | Interest paid | (146) | (149) | (1) | – |
| | **Net cash generated from/(used in) operations** | 755 | (145) | (103) | (173) |
| Cash flows from investing activities | Purchase of property, plant and equipment | (130) | (66) | – | – |
| | Disposal of property, plant and equipment | 19 | 30 | – | – |
| | Interest received | – | 2 | 179 | 127 |
| | **Net cash (used in)/generated from investing activities** | (111) | (34) | 179 | 127 |
| Cash flows from financing activities | Repayment of borrowings | (500) | (421) | – | – |
| | Repayment of capital element of finance leases | (219) | (273) | – | – |
| | **Net cash used in financing activities** | (719) | (694) | – | – |
| | **Net (decrease)/increase in cash and cash equivalents** | (75) | (873) | 76 | (46) |
| | Cash and cash equivalents at the beginning of the year | (242) | 631 | (22) | 24 |
| | **Cash and cash equivalents at the end of the year (note 27)** | (317) | (242) | 54 | (22) |
| Cash generated from operations | Profit/(loss) before income tax | 90 | 14 | (46) | (87) |
| | Adjustments for: | | | | |
| | Depreciation and amortisation | 260 | 286 | – | 6 |
| | Loss/(profit) on disposal of property plant and equipment | 43 | (14) | – | – |
| | Net finance costs | 121 | 151 | (178) | (164) |
| | Retirement benefit obligations | (72) | (69) | – | – |
| | Changes in working capital: | | | | |
| | Decrease/(increase) in inventories | 85 | (424) | – | – |
| | Decrease/(increase) in trade and other receivables | 362 | (82) | 145 | 43 |
| | Increase/(decrease) in trade and other payables | 146 | (112) | (23) | 35 |
| | (Decrease)/increase in provisions | (96) | 302 | – | – |
| | **Cash generated from/(used in) operations** | 939 | 52 | (102) | (167) |

# 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 2010 | 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 |
| Actuarial loss | – | – | (97) | (97) | – | (97) |
| Profit for the year | – | – | 17 | 17 | 73 | 90 |
| Total comprehensive (loss)/ income for the year | – | – | (80) | (80) | 73 | (7) |
| **At 31 December 2011** | **416** | **2,756** | **2,205** | **5,377** | **518** | **5,895** |

## Company

| | Called up share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 1 January 2010 | 416 | 2,808 | 122 | 3,346 |
| Total comprehensive loss for the year | – | – | (5) | (5) |
| At 31 December 2010 | 416 | 2,808 | 117 | 3,341 |
| Total comprehensive loss for the year | – | – | (46) | (46) |
| **At 31 December 2011** | **416** | **2,808** | **71** | **3,295** |

# Notes to the Financial Statements

## 1. Accounting policies

CEPS PLC is a company incorporated and domiciled in England and Wales. The Company is a public limited company, which is listed on the AIM market of the London Stock Exchange. The address of the registered office is 12b George Street, Bath BA1 2EH.

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. Segmental analysis is given in note 4.

The financial statements are presented in British Pounds Sterling, the currency of the primary economic environment in which the Group's activities are operated. The Group comprises CEPS PLC and its subsidiary companies as set out in note 16.

The registered number of the Company is 00507461.

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

### 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 its own Statement of Comprehensive Income. Information about the Company result for the year is given in note 13.

*(a) Standards, amendments and interpretations to existing standards effective in 2011*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group. However, the following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2011, but are not currently considered to be relevant or material to the Group (although they may affect the accounting for future transactions and events).

- *Revised IAS 24 – Related Party Disclosures* – issued in November 2009. It supersedes *IAS 24 – Related Party Disclosures* – issued in 2003. The revised IAS 24 clarifies and simplifies the definition of a related party. The Group will need to disclose details of relationships between a parent and its subsidiaries.

- *Classification of rights issues* (Amendment to IAS 32) – issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.

- *IFRIC 19 – Extinguishing financial liabilities with equity instruments.* This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

# Notes to the Financial Statements

## 1. Accounting policies
continued

- *Prepayments of a minimum funding requirement* (Amendments to IFRIC 14), issued in November 2009. The amendments are effective for annual periods beginning 1 January 2011.

- *Annual Improvements to IFRSs*, issued in May 2010. The amendments to various accounting standards are effective for annual periods beginning on 1 January 2011.

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group:*

- *IAS 19 – Employee benefits* was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

- *IFRS 9 – Financial instruments*, issued in December 2009. This addresses the classification and measurement of financial assets and may affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess IFRS 9's full impact.

- *IFRS 10 – Consolidated financial statements*, effective for periods beginning on or after 1 January 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact.

- *IFRS 11 – Joint arrangements*, effective for periods beginning on or after 1 January 2013. This standard significantly amends the accounting treatment of joint arrangements, but it is not expected to impact the Company.

- *IFRS 12 – Disclosures of interests in other entities*, effective for periods beginning on or after 1 July 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact.

- *IFRS 13 – Fair value measurement* is effective for periods beginning on or after 1 January 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

# Notes to the Financial Statements continued

## 1. Accounting policies continued

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern their financial and operating policies generally accompanying a shareholding of more than fifty per cent 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. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

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

### 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.

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

### 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administration expenses in the Consolidated Statement of Comprehensive Income.

### 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 over their 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 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

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

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. Provision is made, where relevant, to reduce the carrying value of slow moving, obsolete and defective stock to its net realisable value.

### 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 British Pounds Sterling which is deemed to be the functional currency of the Group, the Company and all its subsidiaries.

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 Group operates a defined benefit pension scheme for the benefit of some of its former employees, the assets of which are held separately from those of the Group in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

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.

### 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.

# Notes to the Financial Statements continued

## 1. Accounting policies
continued

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. Trade payables includes trade payables, other payables and accruals.

c) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Borrowings includes bank overdrafts, bank loans, other loans, trade receivables backed working capital facilities and hire purchase obligations.

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 2011, if Sterling had weakened by 5% against the Euro and all other variables held constant, post-tax profit for the year would have been £28,000 (2010: £48,000) 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.

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 2011** | | | | |
| Trade payables | 2,280 | – | – | – |
| Other loans* | – | 396 | – | – |
| Bank borrowings** | – | – | – | – |
| Bank overdrafts | 474 | – | – | – |
| Trade receivables backed working capital facilities | 1,151 | – | – | – |
| Finance lease obligations | 230 | 124 | 12 | – |
| | 4,135 | 520 | 12 | – |
| **At 31 December 2010** | | | | |
| Trade payables | 2,449 | – | – | – |
| Others 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 | – |

* The loan holder has confirmed that he will not seek repayment during 2012. The amounts referred to above reflect the capital balances only.

** 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 2011 and 2010 were as follows:

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Total borrowings | 2,363 | 2,752 |
| Less: cash | (157) | (282) |
| Net debt | 2,206 | 2,470 |
| Total equity | 5,895 | 5,902 |
| Gearing ratio | 37% | 42% |

Total borrowings have been reduced in the year by the repayment of £500,000 bank loans and finance lease obligations of £219,000 plus the reduction in overdrafts by £50,000. The figure has been increased by trade receivables backed working capital facilities of £315,000 and new finance lease obligations of £65,000. Cash balances fell by £125,000. Total equity decreased by the total comprehensive loss for the year of £7,000. As a result gearing decreased to 37% (2010: 42%), 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.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. However, no contracts were open at either the current or prior year end.

## 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. See note 22 for further details.

### 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. See note 8 for further details.

# 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 £15,628,000 (2010: £16,519,000) revenue £12,940,000 (2010: £14,123,000) is derived from UK customers with the remaining £2,688,000 (2010: £2,396,000) 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 2011 £'000 | Friedman's 2011 £'000 | Sunline 2011 £'000 | Group 2011 £'000 |
|---|---|---|---|---|
| Revenue | 5,946 | 3,305 | 6,377 | 15,628 |
| Segmental result (EBITDA) before exceptional costs | 121 | 315 | 403 | 839 |
| Exceptional costs | (65) | – | – | (65) |
| Segmental result (EBITDA) after exceptional costs | 56 | 315 | 403 | 774 |
| Depreciation and amortisation charge | | | | (260) |
| Group costs | | | | (303) |
| Interest expenses | | | | (121) |
| Profit before taxation | | | | 90 |
| Taxation | | | | – |
| Profit for the year | | | | 90 |

# Notes to the Financial Statements continued

## 4. Segmental analysis
continued

| | Davies Odell 2010 £'000 | Friedman's 2010 £'000 | Sunline 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 |

### ii) Assets and liabilities by segment as at 31 December

| | Segment assets | | Segment liabilities | | Segment net assets | |
|---|---|---|---|---|---|---|
| | **2011 £'000** | 2010 £'000 | **2011 £'000** | 2010 £'000 | **2011 £'000** | 2010 £'000 |
| CEPS Group | **146** | 85 | **(74)** | (118) | **72** | (33) |
| Davies Odell | **2,537** | 3,018 | **(1,247)** | (1,676) | **1,290** | 1,342 |
| Friedman's | **3,077** | 2,832 | **(1,514)** | (1,471) | **1,563** | 1,361 |
| Sunline | **5,090** | 5,734 | **(2,120)** | (2,502) | **2,970** | 3,232 |
| Total – Group | **10,850** | 11,669 | **(4,955)** | (5,767) | **5,895** | 5,902 |

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

| Capital expenditure | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Davies Odell | **25** | 23 |
| Friedman's | **58** | 3 |
| Sunline | **112** | 92 |
| Total – Group | **195** | 118 |

# Notes to the Financial Statements continued

## 5. Operating profit

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **Profit on ordinary activities before tax is stated after charging:** | | |
| Loss/(profit) on disposal of property, plant and equipment | 43 | (14) |
| Exchange gain | (13) | (32) |
| Other operating lease rentals on land and buildings and on plant and machinery: | 448 | 400 |

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **Exceptional costs** | | |
| Provision for the redundancy costs of employees | 48 | 57 |
| Provision for other direct costs of restructuring | 17 | 245 |
| | 65 | 302 |

Exceptional costs in 2011 relate to costs incurred in respect of the management restructure of an operating site at Davies Odell. Exceptional costs in 2010 relate to costs incurred in respect of the closure of an operating site at Sunline.

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **Fees paid to auditors** | | |
| Audit fees in respect of the audit of the accounts of the Company | 17 | 16 |
| Audit fees in respect of the audit of the accounts of subsidiaries of the Company | 26 | 25 |
| | 43 | 41 |
| Services relating to taxation | 17 | 18 |
| Services relating to an aborted acquisition | – | 15 |
| Other non-audit services | 5 | 15 |
| **Total fees** | 65 | 89 |

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **Expenses by nature** | | |
| Change in inventories | 85 | (424) |
| Purchase of materials for sale | 7,538 | 7,505 |
| Employee benefit expenses | 4,717 | 4,806 |
| Depreciation and amortisation | 260 | 286 |
| Operating lease payments | 448 | 400 |
| Other expenses | 2,369 | 3,781 |
| | 15,417 | 16,354 |

# Notes to the Financial Statements continued

## 6. Employees

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

| | 2011 | 2010 |
|---|---|---|
| Management and administration | 36 | 39 |
| Production and sales | 146 | 158 |
| | 182 | 197 |

The aggregate payroll costs of these persons were:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Wages and salaries | 4,213 | 4,306 |
| Social security costs | 404 | 403 |
| Other pension costs | 100 | 97 |
| | 4,717 | 4,806 |

Key management personnel are deemed to be members of the Board and 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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Salaries and benefits | 168 | 159 |

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

| | Salaries and fees | | Benefits | | Total | |
|---|---|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| P G Cook | 62 | 62 | – | – | 62 | 62 |
| D A Horner | 16 | 16 | – | – | 16 | 16 |
| V E Langford | 48 | 24 | – | – | 48 | 24 |
| G C Martin | 16 | 27 | – | 4 | 16 | 31 |
| R T Organ | 26 | 26 | – | – | 26 | 26 |
| | 168 | 155 | – | 4 | 168 | 159 |

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.

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

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Wages and salaries | 369 | 358 |
| Social security costs | 43 | 40 |
| Other pension costs | 36 | 36 |
| | 448 | 434 |

# 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 6 June 2012 shares | at 31 December 2011 shares | at 31 December 2010 shares |
|---|---|---|---|
| P G Cook | 366,666 | 366,666 | 366,666 |
| D A Horner | 1,837,110 | 1,087,110 | 1,087,110 |
| G C Martin | 20,251 | 20,251 | 20,251 |
| R T Organ | 219,333 | 169,333 | 169,333 |

As a result of the placing on 3 April 2012 of 2,500,000 ordinary 5p shares, the directors' interests changed as shown above.

During the year, R T Organ had options to subscribe for 3,000 shares at 337.5p per share. These options expired unexercised on 21 May 2012. No further options have been granted since this date.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings.

# 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 £125,000 (2010: £113,000).

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 2010 and the main actuarial assumptions were investment returns of 4.7% before retirement and 4.2% after retirement. The valuation showed that the total value of the scheme assets was £3,048,000 and that the level of funding on an on-going basis is 83%. At 1 October 2011 the Group agreed a recovery plan of £6,200 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 2011 the results of the actuarial valuation at 1 July 2010. The results of the update are as follows:

| | 2011 | 2010 |
|---|---|---|
| Assumptions at 31 December | | |
| Interest rate for discounting liabilities | 4.80% | 5.50% |
| Expected return on plan assets | 5.50% | 6.30% |
| Retail Price Inflation | 3.00% | 3.40% |
| Pensions increase | 2.90% | 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 | 23.5 | 23.4 |
| For a 65 year old female | 25.8 | 25.8 |
| For a 65 year old male, currently aged 50 | 24.4 | 24.3 |
| For a 65 year old female, currently aged 50 | 26.6 | 26.6 |

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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Amounts recognised in the balance sheet are as follows: | | |
| Fair value of plan assets | 2,566 | 2,347 |
| Present value of defined benefit obligation | (2,531) | (2,282) |
| Actuarial surplus not recognised | (35) | (65) |
| Net surplus | – | – |

The actuarial surplus arising on the defined benefit pension scheme has not been recognised as the Group does not have an unconditional right to refunds of surpluses arising in the scheme.

# Notes to the Financial Statements continued

## 8. Pension costs continued

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Pension cost recognised in the Consolidated Statement of Comprehensive Income** | | |
| Operating cost: | | |
| Current service cost (cost of sales) | – | 1 |
| Finance cost: | | |
| Interest cost | 124 | 120 |
| Expected return on plan assets | (149) | (134) |
| | (25) | (14) |
| Total pension credit | (25) | (13) |
| **Consolidated Statement of Comprehensive Income** | | |
| Actuarial loss | 173 | 130 |
| Experience gains on assets | (46) | (84) |
| Movement in actuarial surplus not recognised | (30) | 37 |
| Total loss | 97 | 83 |
| **Movement in balance sheet for the year** | | |
| Net pension liability at the start of the year | – | – |
| Employer's pension cost | 25 | 13 |
| Consolidated Statement of Comprehensive Income | (97) | (83) |
| Employer contributions | 72 | 70 |
| Accrued pension cost at the end of the year | – | – |
| **Reconciliation of the defined benefit obligation** | | |
| Defined benefit obligation at the start of the year | 2,282 | 2,101 |
| Current service cost | – | 1 |
| Interest cost | 124 | 120 |
| Actuarial loss | 173 | 130 |
| Benefits paid | (48) | (70) |
| Defined benefit obligation at the end of the year | 2,531 | 2,282 |
| **Reconciliation of plan assets** | | |
| Fair value of plan assets at the start of the year | 2,347 | 2,129 |
| Expected return on plan assets | 149 | 134 |
| Experience gains on assets | 46 | 84 |
| Employer contributions | 72 | 70 |
| Benefits and expenses paid | (48) | (70) |
| Fair value of plan assets at the end of the year | 2,566 | 2,347 |

# Notes to the Financial Statements continued

## 8. Pension costs continued

| | 2011 | 2010 |
|---|---|---|
| Asset categories at the end of the year | | |
| Equities | 45% | 46% |
| Bonds | 47% | 42% |
| Property | 7% | 7% |
| Cash | 1% | 5% |

| | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 | 2007 £'000 |
|---|---|---|---|---|---|
| Amounts for the current and previous four years are as follows: | | | | | |
| Plan assets | 2,566 | 2,347 | 2,129 | 1,992 | 1,982 |
| Defined benefit obligation | (2,531) | (2,282) | (2,101) | (1,738) | (2,144) |
| Actuarial surplus not recognised | (35) | (65) | (28) | (254) | – |
| Deficit in scheme | – | – | – | – | (162) |
| Actuarial (losses)/gains on liabilities due to assumptions | (173) | (130) | (325) | 523 | 208 |
| Experience gains/(losses) on assets | 46 | 84 | 25 | (187) | 71 |
| Movement in actuarial surplus not recognised | 30 | (37) | 226 | (254) | – |
| Total (losses)/gains recognised for the year | (97) | (83) | (74) | 82 | 279 |
| Cumulative amount of gains recognised in the Consolidated Statement of Comprehensive Income | 193 | 290 | 373 | 447 | 365 |

## 9. Net finance costs

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Interest receivable | – | 2 |
| Pension scheme finance income (note 8) | 25 | 14 |
| **Total finance income** | 25 | 16 |
| Interest payable on bank loans and overdrafts | 54 | 67 |
| Interest payable on other loans | 40 | 40 |
| Finance lease costs | 32 | 40 |
| Preference dividend accrued | 20 | 20 |
| **Total finance costs** | 146 | 167 |
| **Net finance costs** | 121 | 151 |

# Notes to the Financial Statements continued

## 10. Taxation

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Analysis of taxation in the year: | | |
| Current tax | | |
| UK corporation tax on profits of the year at 26.5% (2010: 28%) | 34 | 59 |
| Tax in respect of prior periods | (22) | (18) |
| Total current tax | 12 | 41 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (69) | (82) |
| Prior year adjustment | 29 | (159) |
| Impact of change in UK tax rate | 28 | (6) |
| Total deferred tax | (12) | (247) |
| Total tax credit | – | (206) |
| Deferred tax charged to the Consolidated Statement of Comprehensive Income | – | – |

The tax assessed for the year is lower (2010: lower) than the standard rate of corporation tax in the UK (26.5%) (2010: 28%).

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Factors affecting current taxation: | | |
| Profit before taxation | 90 | 14 |
| Profit multiplied by the standard rate of UK tax of 26.5% (2010: 28%) | 24 | 4 |
| Effects of: | | |
| Small companies tax relief | (2) | (1) |
| Permanent differences | (23) | 6 |
| Prior year adjustment, current tax | (22) | (18) |
| Prior year adjustment, deferred tax | 29 | (159) |
| Effect of changes in tax rate | 32 | (6) |
| Losses carried forward | – | 19 |
| Deferred tax movements not recognised | (38) | (51) |
| Total tax credit | – | (206) |

During the year, as a result of the change in the United Kingdom corporation tax rate from 27% to 25% that was substantively enacted on 26 June 2011 and will be effective from 1 April 2012, 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 24% from 1 April 2012 and by 1% per annum thereafter to 22% 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.

# Notes to the Financial Statements continued

## 11. Dividends

No ordinary dividends have been paid or proposed for the year (2010: £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 £17,000 (2010: £175,000) and on 8,314,310 (2010: 8,314,310) 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 and the share options lapsed unexercised on 21 May 2012.

## 13. Loss of the holding company

Of the Group profit for the year a loss of £46,000 prior to consolidation adjustments (2010: loss £5,000) 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 2010 | 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 |
| additions at cost | 38 | 140 | – | 178 |
| disposals | – | (348) | (24) | (372) |
| at 31 December 2011 | 96 | 3,867 | 89 | 4,052 |
| Accumulated depreciation | | | | |
| at 1 January 2010 | 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 |
| charge for the year | 8 | 230 | 15 | 253 |
| disposals | – | (233) | (10) | (243) |
| at 31 December 2011 | 47 | 2,768 | 65 | 2,880 |
| Net book amount | | | | |
| at 31 December 2011 | 49 | 1,099 | 24 | 1,172 |
| at 31 December 2010 | 19 | 1,304 | 53 | 1,376 |
| at 1 January 2010 | 22 | 1,468 | 58 | 1,548 |

At the year end, assets held under hire purchase contracts and capitalised as plant, machinery and tools have a net book value of £520,000 (2010: £714,000) and an accumulated depreciation balance of £394,000 (2010: £357,000).

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

Company

Throughout 2010 and 2011 the Company held no property, plant and equipment.

# Notes to the Financial Statements continued

## 15. Intangible fixed assets

**Group**

| | Goodwill £'000 | Other £'000 | Total £'000 |
|---|---|---|---|
| Cost | | | |
| at 1 January 2010 and 31 December 2010 | 4,839 | 50 | 4,889 |
| additions at cost | – | 17 | 17 |
| at 31 December 2011 | 4,839 | 67 | 4,906 |
| Accumulated amortisation | | | |
| at 1 January 2010 | 121 | 24 | 145 |
| charge | – | 12 | 12 |
| at 31 December 2010 | 121 | 36 | 157 |
| charge | – | 7 | 7 |
| at 31 December 2011 | 121 | 43 | 164 |
| Net book amount | | | |
| at 31 December 2011 | 4,718 | 24 | 4,742 |
| at 31 December 2010 | 4,718 | 14 | 4,732 |
| at 1 January 2010 | 4,718 | 26 | 4,744 |

**Company**

| | Goodwill £'000 | Other £'000 | Total £'000 |
|---|---|---|---|
| Cost | | | |
| at 1 January 2010, 31 December 2010 and 31 December 2011 | 80 | 17 | 97 |
| Accumulated amortisation | | | |
| at 1 January 2010 | 1 | 11 | 12 |
| charge | – | 6 | 6 |
| at 31 December 2010 | 1 | 17 | 18 |
| charge | – | – | – |
| at 31 December 2011 | 1 | 17 | 18 |
| Net book amount | | | |
| at 31 December 2011 | 79 | – | 79 |
| at 31 December 2010 | 79 | – | 79 |
| at 1 January 2010 | 79 | 6 | 85 |

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 computer software and website 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.

# Notes to the Financial Statements continued

## 15. Intangible fixed assets
continued

### 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:

| | 2011 £'000 | 2010 £'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 11.8% (2010: 11.6%), representing the Group's current pre-tax cost of capital, has been applied to these projections. The risk profile of both CGUs is considered to be similar.

The key assumptions used in the value-in-use calculations are as follows:

| | Revenue growth | | Gross margin | | Long-term growth | |
|---|---|---|---|---|---|---|
| | 2011 % | 2010 % | 2011 % | 2010 % | 2011 % | 2010 % |
| Friedman's | 2.5 | 3.0 | 32.0 | 31.7 | 2.5 | 2.5 |
| Sunline | 1.0 | 5.0 | 35.4 | 32.8 | 1.0 | 2.5 |

Management has determined the budgeted revenue growth and gross margins based on past performance and their expectations of market developments in the future. Long-term growth rates are based on the lower of the UK long-term growth rate and management's general expectations for the relevant CGU.

At 31 December 2011 the Group performed its annual impairment test on goodwill using the above assumptions. These tests concluded that no impairment is required. Recoverable amounts for Friedman's and Sunline exceeded the carrying values by £159,000 and £475,000 respectively. In Friedman's, a reduction in revenue growth of 0.6%, a reduction in gross margin of 0.5% or a reduction in the long-term growth rate of 1.0% would remove the remaining headroom, whilst in Sunline a reduction in revenue growth of 1.0%, a reduction in gross margin of 1.0% or a reduction in the long-term growth rate of 1.4% would remove the remaining headroom.

# Notes to the Financial Statements continued

## 16. Fixed asset investments

**Company**

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Shares in Group undertakings at 1 January 2011 and 31 December 2011 | 674 | 674 |
| Loans to Group undertakings at 1 January 2011 and 31 December 2011 | 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) Limited | England | ordinary | 100 | |
| Phillips Rubber Limited | 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 |

# Notes to the Financial Statements continued

## 17. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Raw materials and consumables | 590 | 568 | – | – |
| Work in progress | 15 | 17 | – | – |
| Finished goods and goods for resale | 1,303 | 1,408 | – | – |
| | 1,908 | 1,993 | – | – |

## 18. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Trade receivables | 2,164 | 2,501 | – | – |
| less: provision for impairment of trade receivables | (15) | (16) | – | – |
| Trade receivables – net | 2,149 | 2,485 | – | – |
| Amount due from subsidiary companies | – | – | 668 | 820 |
| Other receivables | 4 | 4 | – | – |
| Prepayments and accrued income | 189 | 215 | 14 | 7 |
| | 2,342 | 2,704 | 682 | 827 |

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

As at 31 December 2011, trade receivables of £1,484,000 (2010: £1,679,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2011, trade receivables of £602,000 (2010: £689,000) 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 2011 trade receivables of £78,000 (2010: £133,000) were impaired. A significant portion of the receivables is expected to be recovered and a provision of £15,000 (2010: £16,000) 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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| 3 to 6 months | 78 | 111 |
| Over 6 months | – | 22 |
| | 78 | 133 |

# 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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Sterling | 2,260 | 2,619 |
| Euro | 72 | 71 |
| US $ | 10 | 14 |
| | 2,342 | 2,704 |

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

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| At 1 January | 16 | 15 |
| Provision for receivables impairment | 15 | 11 |
| Receivables written off during the year | (11) | (10) |
| Unused amounts reversed | (5) | – |
| | 15 | 16 |

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 | |
|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Trade payables | 1,516 | 1,704 | – | – |
| Other tax and social security | 379 | 330 | – | – |
| Other payables | 125 | 105 | – | – |
| Accruals and deferred income | 260 | 310 | 74 | 97 |
| | 2,280 | 2,449 | 74 | 97 |

## 20. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Non-current: | | | | |
| Bank borrowings | – | 100 | – | – |
| Other loans | 396 | 396 | – | – |
| Hire purchase obligations | 128 | 281 | – | – |
| | 524 | 777 | – | – |
| Current: | | | | |
| Bank overdraft | 474 | 524 | – | 22 |
| Bank borrowings | – | 400 | – | – |
| Trade receivables backed working capital facilities | 1,151 | 836 | – | – |
| Hire purchase obligations | 214 | 215 | – | – |
| | 1,839 | 1,975 | – | 22 |
| Total borrowings | 2,363 | 2,752 | – | 22 |

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 2011 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 | – | 397 | 397 |
| Sunline | – | 374 | 374 |
| Davies Odell and CEPS PLC | 474 | 380 | 854 |
| | 474 | 1,151 | 1,625 |

# Notes to the Financial Statements continued

## 20. Borrowings continued

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 |

The committed bank borrowings were settled in 2011 and carried 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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Bank £'000 | Hire purchase £'000 | Bank £'000 | Hire purchase £'000 |
| Within one year | 1,625 | 214 | 1,760 | 215 |
| Between one and two years | – | 117 | 100 | 280 |
| Between two and five years | – | 11 | – | 1 |
| | 1,625 | 342 | 1,860 | 496 |

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 £nil (2010: £100,000) and their fair values £nil (2010: £100,000). The carrying amounts of the non-current finance lease obligations is £128,000 (2010: £281,000) and their fair values £118,000 (2010: £254,000).

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 at least 2013. 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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Not more than one year | 230 | 237 |
| Between one and two years | 124 | 208 |
| Between two and five years | 12 | 97 |
| | 366 | 542 |
| Finance charge | (24) | (46) |
| | 342 | 496 |

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 2011

| Assets as per balance sheet | Loans and receivables £'000 |
|---|---|
| Trade and other receivables (excluding prepayments) | 2,153 |
| Cash and cash equivalents | 157 |
| Total | 2,310 |

| Liabilities at amortised cost as per balance sheet | Other financial liabilities £'000 |
|---|---|
| Bank borrowings (excluding hire purchase leases) | 1,625 |
| Hire purchase liabilities | 342 |
| Trade and other payables (excluding statutory liabilities) | 1,901 |
| Other loans | 396 |
| Total | 4,264 |

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 |

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 | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Davies Odell | 821 | 1,053 |
| Friedman's | 517 | 408 |
| Sunline | 826 | 1,040 |
| | 2,164 | 2,501 |

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 £157,000 (2010: £282,000) 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 recognised by the Group, and the movement thereon, during the current and prior years.

| | Losses<br>£'000 | Other timing differences<br>£'000 | Accelerated capital allowances<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| At 1 January 2010, asset/(liability) | 319 | 24 | (179) | 164 |
| (Charge)/credit to the Consolidated Statement of Comprehensive Income | 163 | 76 | 8 | 247 |
| at 31 December 2010, asset/(liability) | 482 | 100 | (171) | 411 |
| Credit/(debit) to the Consolidated Statement of Comprehensive Income | 7 | (60) | 65 | 12 |
| at 31 December 2011, asset/(liability) | 489 | 40 | (106) | 423 |

Deferred income tax assets and liabilities are recognised at 25% (2010: 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 £80,000 (2010: £82,000) of the asset and £nil (2010: £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. The Group did not recognise deferred tax assets of £161,000 (2010: £180,000) in respect of depreciation charges in excess of capital allowances in Davies Odell amounting to £644,000 (2010: £666,000). These assets have not been recognised as it is uncertain they will reverse in the forseeable future, especially given the level of losses already recognised in respect of Davies Odell.

The Company has recognised in 2011 a deferred tax asset of £1,000 (2010: £1,000) in relation to unclaimed capital allowances.

# Notes to the Financial Statements continued

## 23. Provisions for liabilities and charges

| | Dilapidations £'000 | Redditch closure £'000 | Kettering restructure £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2010 | 55 | – | – | 55 |
| Amounts provided for in the year | – | 302 | – | 302 |
| At 31 December 2010 | 55 | 302 | – | 357 |
| Amounts provided for in year | – | – | 65 | 65 |
| Amounts utilised for in year | – | (228) | – | (228) |
| **At 31 December 2011** | 55 | 74 | 65 | 194 |
| These amounts are expected to be settled as follows: | | | | |
| Current | – | 74 | 65 | 139 |
| Non-current | 55 | – | – | 55 |
| | 55 | 74 | 65 | 194 |

**Dilapidations**
Dilapidation provisions are carried against the costs anticipated on termination of property leases. The leases to which they relate are currently due to terminate in 2012. However, it is anticipated that extensions to these leases will be signed.

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

**Kettering restructure costs**
These costs relate to staff reorganisation costs in Davies Odell's matting business at Kettering which were announced in 2011. The costs will be defrayed in 2012.

## 24. Ordinary shares

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Ordinary shares | | |
| Authorised: | | |
| 15,000,000 (2010: 15,000,000) shares of 5.0p per share | 750 | 750 |
| Allotted called and fully paid: | | |
| 8,314,310 (2010: 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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Land and buildings leases expiring: | | |
| within one year | 338 | 123 |
| within two to five years | 276 | 548 |
| | 614 | 671 |

## 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 preference share dividend | | | |
| – 2011 | – | 78 | – |
| – 2010 | – | 78 | – |
| Receipt of loan note interest | | | |
| – 2011 | – | 127 | 37 |
| – 2010 | – | 127 | 37 |
| Receipt of management charge income | | | |
| – 2011 | – | 15 | 12 |
| – 2010 | – | 15 | 12 |
| Amount owed to the Company | | | |
| – 31 December 2011 | 125 | 440 | 103 |
| – 31 December 2010 | 105 | 424 | 291 |

## 27. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| Cash at bank and in hand | 157 | 282 | 54 | – |
| Bank overdrafts repayable on demand | (474) | (524) | – | (22) |
| | (317) | (242) | 54 | (22) |

## 28. Event after the balance sheet date

As announced on 2 April 2012 the Company acquired a 21.4% shareholding for £500,000 in a new company set up to acquire 100% of CEM Group Limited for £2.2m. The Company financed its acquisition by the placing of 2,500,000 ordinary 5p shares at 20p per share. CEM Group Limited is the holding company for CEM Press Limited, a business founded 40 years ago which manufactures and distributes the sample booklets used in the marketing and sale of household fabrics and wall coverings.

In the year ended 31 December 2010, CEM Press Limited's sales were £2,867,000 and profit before tax was £359,000. At 31 December 2010, net assets were £423,000. Trading performance of CEM Press in 2011 was in line with management's expectations for the year. No further estimate of the impact of this acquisition on the CEPS Group is available at this time.

# 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 29 June 2012 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 2011 together with the directors' report and auditors' report on those accounts.

2 To re-elect R T Organ as a director.

3 To re-elect D A Horner 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 £209,284.50, 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 £200,000.00 (such shares representing approximately 37% 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 1,081,431 (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 6 June 2012*

Registered office: 12b 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 27 June 2012 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<br>D A Horner, Non-executive<br>V E Langford, Group Finance<br>G C Martin, Non-executive<br>R T Organ, Non-executive Chairman |
| Secretary and registered office | V E Langford<br>12b George Street, Bath BA1 2EH<br>Company number 507461<br>www.cepsplc.com |
| Operating locations | Davies Odell Limited<br>Portland Road, Rushden, Northants NN10 0DJ<br>telephone 01933 410818, fax 01933 315976<br>email info@daviesodell.co.uk; www.forcefieldbodyarmour.com<br>and<br>Beatrice Road, Kettering, Northants NN16 9QS<br>telephone 01536 513456, fax 01536 310080<br>email info@davieskett.co.uk; www.equimat.co.uk<br><br>Friedman's Limited<br>Sunaco House, Unit 2, Bletchley Road, Stockport SK4 3EF<br>telephone 0161 975 9002, fax 0161 975 9003<br>email sales@friedmans.co.uk; www.friedmans.co.uk; www.funkifabrics.com<br><br>Sunline Direct Mail Limited<br>Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ<br>telephone 01509 263434, fax 01509 264225<br>email enquiries@sunlinedirect.co.uk; www.sunlinesolutions.com |
| Registrars and share transfer office | Capita Registrars Limited<br>The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU<br>telephone 0871 664 0300 – calls cost 10p per minute plus network extras,<br>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<br>31 Great George Street, Bristol BS1 5QD |
| Solicitors | Berwin Leighton Paisner LLP<br>Adelaide House, London Bridge, London EC4R 9HA |
| Nominated adviser and broker | Cairn Financial Advisers LLP<br>61 Cheapside, London EC2V 6AX |