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2012

ceps

chelverton  
equity partners

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Report & Accounts

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**CEPS PLC**  
Registered address:  
12b George Street  
Bath BA1 2EH  
T 01225 483030  
[www.cepsplc.com](http://www.cepsplc.com)  
Incorporated in England  
507461



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## Chairman's Statement

### Review of the year

After the positive start to the year, the second half's trading has proved every bit as challenging as I feared. The economy in the UK has once again hit 'slow gear' and across our consumer markets in Europe the position is, if anything, worse. The weakening of the Pound against both the Euro and the Dollar in the latter part of the year has exerted downward margin pressure once again on many of our imported products.

Against this backdrop CEPS as a whole saw revenues fall by 3.6% to £15.1m (2011: £15.6m) with the bulk of the decrease arising in the second half. Courtesy of an outstanding performance at Friedman's, operating profits for the year, pre impairment charge, are up 10.4% at £233,000 (2011: £211,000). Group costs show a marginal increase to £313,000 (2011: £303,000). Overall this has resulted in a small increase in profit before impairment charge and tax to £117,000 (2011: £90,000), though the success of Friedman's has attracted a substantial tax charge, leaving a small post-tax profit of £19,000, excluding impairment charge, (2011: £90,000) for the year as a whole. The loss per share on a basic and diluted basis, after accounting for non-controlling interests and before impairment charge, is 0.53p compared to earnings per share of 0.20p in 2011.

### Financial Review

As a result of the annual review of the carrying value of goodwill we have made an impairment provision against the goodwill attributable to Sunline of £2.5m the details of which are set out below. The impairment is not a cash item, is exceptional in nature and has been included within administrative expenses. It has the effect, when combined with the trading performance explained above, of producing an operating loss of £2.3m, a post-tax loss of £2.5m and a loss per share of 20.18p. As discussed below, rigorous plans have been implemented to improve the performance at Sunline.

The historical trend for debt reduction has continued with net debt falling from £2.2m at the end of 2011 to £1.8m. Gearing, when calculated excluding the impact of the impairment adjustment, is 29% (2011: 37%), but 48% when the adjustment is taken into account.

In addition, due to the strong performance at Friedman's and the resulting cash generation, £132,000 of 9% Guaranteed Loan Stock was repaid to the Company in 2012, leaving a balance to pay of £276,000.

During the year the Group generated cash from operating activities of £443,000 (2011: £939,000). After net capital expenditure of £27,000 (2011: £111,000), the investment in CEM Press Holdings that was made in April and financed by the placing of 2.5m new ordinary shares, the repayment of the capital element of finance leases of £243,000 (2011: £219,000) and interest charges of £137,000 (2011: £146,000), cash and cash equivalents increased marginally by £8,000 (2011: decrease of £75,000).

### Operational review

#### Davies Odell

Davies Odell continues to pursue the clear plan formulated some two years ago. Sales growth with the *Forcefield* brand continues apace (up 31.7% on 2011) with the addition of new dealers in Europe and the USA, numerous well-engineered product launches and successful entry into the snow/ski market via well-known UK retailers. Sales of new motorcycles and related apparel are down across Europe, but our sales continue to grow strongly into 2013.

As ever some sectors of our shoe component sales are down and some up, but overall sales are up about 4.9% on the year, with the leather heel unit assembly and *Phillips* brand sales showing substantial increases. Margins here have been under pressure of late due to currency movements. A new sales executive has been recruited to develop further the potential in these niche markets, particularly with the buoyant UK men's shoe manufacturers.

## Chairman's Statement continued

### Operational review continued

Our matting business has struggled to retain some of its better margin sales to the cow and horse mat markets, whilst the low-margin business in both has been terminated. Only the protection matting business has remained buoyant. Overall, sales of these products are down substantially.

#### Friedman's

Friedman's has had an outstanding year. Its two digital printers and associated bespoke design capability has enabled the company to increase sales by 11.0% to £3.7m (2011: £3.3m) and to transform the margins it can generate. Indeed sales growth accelerated to an 11.7% increase on the previous year in the second half. Overall EBITDA rose by 43.5% and the sales increase has carried over into 2013.

#### Sunline

In contrast to Friedman's, Sunline continues to suffer from the increasing fragmentation and competitiveness of its core polywrapping and lettershop activities. Sales fell for a second year to £5.7m (2011: £6.4m) although the rate of decline was considerably less in the second half. There is overcapacity now in these markets and margins across them are under severe pressure. Sunline's are no exception with EBITDA more than halved to £162,000 (2011: £403,000).

The direct mail market has evolved such that greater emphasis is now being placed on electronic methods of communication rather than traditional paper based mailings. Sales and margins have been falling for two years and profitability has declined considerably. This has resulted in the need for an impairment charge of £2.5m.

#### CEM Press

This is the first year that I have reported upon CEPS' minority involvement in C.E.M. Press, in which CEPS acquired a 21.4% stake in April 2012. Overall sales were in line with budget for 2012 at £3.0m, but increasing margin pressures in the second half substantially dented the budgeted EBITDA. One source of this was the introduction of increased production capacity by a competitor and associated price cutting. Steps have been taken in 2013 to restore margins by improving production efficiency. In the financial statements we have recognised our share of post-acquisition, post-tax profits of £18,000.

### Dividend

Debt reduction remains a priority for the Group and a dividend is not proposed at this stage.

### 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 2012:

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.

## Chairman's Statement continued

### Power to issue and purchase shares continued

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.

### People

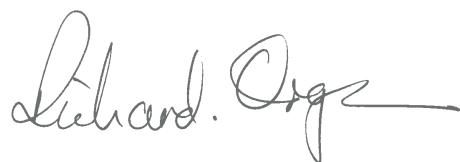
The teams in all our businesses have continued to confront the substantial challenges current trading presents. The Board acknowledges their diligence and hard work in these difficult circumstances and should like to thank them for their continued application in 2012 and through into 2013. Only our talented teams will find a way forward with innovative new products and processes.

### Prospects

The priority for the Board is to ensure Sunline's fortunes are turned around. At the heart of this is the recognition that margins need to improve and that a combination of wage reductions and productivity increases are expected to be the way the core polywrap business will recover and flourish. Action on both these fronts is well underway. In addition, the business recognises that it must find new, more profitable streams of business that utilise the company's accumulated skills and knowledge.

The investment in Davies Odell's *Forcefield* brand is beginning to bear fruit, but we continue to push for improved performance in this company.

Overall I remain very cautious about our trading prospects: we are only making substantial progress where our products are highly innovative and market-changing.



Richard Organ  
Chairman  
24 April 2013

# 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 2012.

## Principal activities and business review

The principal activities of CEPS PLC are that of an industrial holding company, acquiring 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:

	2012	2011
Revenue	£15,068,000	£15,628,000
Gross margin	10%	8%
Segmental result (EBITDA) before exceptional costs	£777,000	£839,000
Operating (loss)/profit before interest and tax	(£2,267,000)	£211,000
(Loss)/profit after tax	(£2,481,000)	£90,000
Total equity	£3,814,000	£5,895,000
Net debt (total borrowing less cash)	£1,812,000	£2,206,000
Gearing ratio (net debt/total equity)	48%	37%

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

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 (60) is a non-executive director and Chairman. He has significant experience of manufacturing and marketing in the footwear and clothing industries gained with C & J Clark Ltd and Coats Viyella PLC.

## Directors' Report continued

### Directors continued

D A Horner (53) is a non-executive director. He is a Chartered Accountant who 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 (61) 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 (68) is a non-executive director. He is a Chartered Accountant who was previously Finance Director and Company Secretary of the Group.

V E Langford (51) 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 G C Martin and V E Langford who, being eligible, offer themselves for re-election.

The Company purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

### Significant shareholdings

In addition to directors' shareholdings shown on page 29, the following shareholders held more than 3% of the Company's ordinary shares at 25 March 2013:

	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 creditors by the Company at the year end (2011: 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 43.

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*  
 24 April 2013

## 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 page 29.

### 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 R T Organ.

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 year 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 and the Group will continue in business.

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

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

# Independent Auditors' Report to the members of CEPS PLC

We have audited the Group and parent company financial statements (the 'financial statements') of CEPS PLC for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows and the Consolidated and Company Statements 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 Report & Accounts 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 2012 and of the Group's loss 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.

Colin Bates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
*24 April 2013*

## Consolidated Statement of Comprehensive Income

	Notes	2012 £'000	2011 £'000
Revenue	4	15,068	15,628
Cost of sales		(13,574)	(14,335)
		<hr/>	<hr/>
Gross profit		1,494	1,293
Distribution costs		(164)	(193)
Administration expenses		(3,597)	(889)
		<hr/>	<hr/>
Operating (loss)/profit	5	(2,267)	211
Analysis of operating (loss)/profit			
Trading		546	579
Exceptional costs	5	(2,500)	(65)
Group costs		(313)	(303)
		<hr/>	<hr/>
		(2,267)	211
Finance income	9	3	25
Finance costs	9	(137)	(146)
Share of profit of associate	16	18	—
		<hr/>	<hr/>
(Loss)/profit before tax		(2,383)	90
Taxation	10	(98)	—
		<hr/>	<hr/>
(Loss)/profit for the year from continuing operations		(2,481)	90
Other comprehensive income			
Actuarial loss on defined benefit pension plans	8	(83)	(97)
		<hr/>	<hr/>
Other comprehensive loss for the year, net of tax		(83)	(97)
		<hr/>	<hr/>
Total comprehensive loss for the year		(2,564)	(7)
(Loss)/profit attributable to:			
Owners of the parent		(2,054)	17
Non-controlling interest		(427)	73
		<hr/>	<hr/>
		(2,481)	90
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(2,137)	(80)
Non-controlling interest		(427)	73
		<hr/>	<hr/>
		(2,564)	(7)
(Loss)/earnings per share			
basic and diluted	12	(20.18)p	0.20p
		<hr/>	<hr/>

## Consolidated and Company Balance Sheets

Registered number 507461

	Notes	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
<b>Assets</b>					
		<b>Non-current assets</b>			
Property, plant and equipment	14	1,048	1,172	—	—
Intangible assets	15	2,232	4,742	79	79
Investments in subsidiaries	16	—	—	2,421	2,553
Investment in associate	16	518	—	500	—
Deferred tax asset	22	505	529	1	1
		<b>4,303</b>	<b>6,443</b>	<b>3,001</b>	<b>2,633</b>
		<b>Current assets</b>			
Inventories	17	1,944	1,908	—	—
Trade and other receivables	18	2,235	2,342	762	682
Cash and cash equivalents (excluding bank overdrafts)	27	56	157	39	54
		<b>4,235</b>	<b>4,407</b>	<b>801</b>	<b>736</b>
		<b>Total assets</b>	<b>8,538</b>	<b>10,850</b>	<b>3,802</b>
<b>Equity</b>					
		<b>Capital and reserves attributable to owners of the parent</b>			
Share capital	24	541	416	541	416
Share premium		3,114	2,756	3,166	2,808
Retained earnings		68	2,205	17	71
		<b>3,723</b>	<b>5,377</b>	<b>3,724</b>	<b>3,295</b>
Non-controlling interest in equity		91	518	—	—
		<b>3,814</b>	<b>5,895</b>	<b>3,724</b>	<b>3,295</b>
<b>Liabilities</b>					
		<b>Non-current liabilities</b>			
Borrowings	20	435	524	—	—
Deferred tax liability	22	80	106	—	—
Provisions for liabilities and charges	23	55	55	—	—
		<b>570</b>	<b>685</b>	—	—
		<b>Current liabilities</b>			
Borrowings	20	1,433	1,839	—	—
Trade and other payables	19	2,604	2,280	78	74
Current tax liabilities		101	12	—	—
Provisions for liabilities and charges	23	16	139	—	—
		<b>4,154</b>	<b>4,270</b>	<b>78</b>	<b>74</b>
		<b>Total liabilities</b>	<b>4,724</b>	<b>4,955</b>	<b>78</b>
		<b>Total equity and liabilities</b>	<b>8,538</b>	<b>10,850</b>	<b>3,802</b>

The financial statements on pages 11 to 46 were approved by the Board of Directors on 24 April 2013 and signed on its behalf by

P G Cook  
Director

## Consolidated and Company Statements of Cash Flows

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<b>Cash flows from operating activities</b>				
Cash generated from/(used in) operations	443	939	(170)	(102)
Income tax (paid)/received	(11)	(38)	6	—
Interest paid	(137)	(146)	—	(1)
<b>Net cash generated from/(used in) operations</b>	<b>295</b>	<b>755</b>	<b>(164)</b>	<b>(103)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(35)	(130)	—	—
Investment in associate	(500)	—	(500)	—
Repayment of loan stock	—	—	132	—
Disposal of property, plant and equipment	8	19	—	—
Interest received	—	—	34	179
<b>Net cash (used in)/generated from investing activities</b>	<b>(527)</b>	<b>(111)</b>	<b>(334)</b>	<b>179</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares net of related costs	483	—	483	—
Repayment of borrowings	—	(500)	—	—
Repayment of capital element of finance leases	(243)	(219)	—	—
<b>Net cash generated from/(used in) financing activities</b>	<b>240</b>	<b>(719)</b>	<b>483</b>	<b>—</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>8</b>	<b>(75)</b>	<b>(15)</b>	<b>76</b>
Cash and cash equivalents at the beginning of the year	(317)	(242)	54	(22)
<b>Cash and cash equivalents at the end of the year (note 27)</b>	<b>(309)</b>	<b>(317)</b>	<b>39</b>	<b>54</b>
<b>Cash generated from operations</b>				
(Loss)/profit before income tax	(2,383)	90	(60)	(46)
Adjustments for:				
Depreciation and amortisation	231	260	—	—
Impairment of goodwill	2,500	—	—	—
Profit of associate	(18)	—	—	—
Loss on disposal of property plant and equipment	7	43	—	—
Net finance costs	134	121	(161)	(178)
Retirement benefit obligations	(80)	(72)	—	—
Changes in working capital:				
(Increase)/decrease in inventories	(36)	85	—	—
Decrease in trade and other receivables	107	362	47	145
Increase/(decrease) in trade and other payables	104	146	4	(23)
Decrease in provisions	(123)	(96)	—	—
<b>Cash generated from/(used in) operations</b>	<b>443</b>	<b>939</b>	<b>(170)</b>	<b>(102)</b>

## Consolidated and Company Statements of Changes in Equity

		Attributable to the owners of the parent					Non-controlling interest £'000	Total equity £'000
		Called up share capital £'000	Share premium £'000	Retained earnings £'000	the parent £'000	Non-controlling interest £'000		
<b>Group</b>	At 1 January 2011	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	
	Actuarial loss	–	–	(83)	(83)	–	(83)	
	Loss for the year	–	–	(2,054)	(2,054)	(427)	(2,481)	
	Total comprehensive loss for the year	–	–	(2,137)	(2,137)	(427)	(2,564)	
	Proceeds from shares issued	125	375	–	500	–	500	
	Cost of share issues	–	(17)	–	(17)	–	(17)	
	Total contribution by owners of the parent recognised in equity	125	358	–	483	–	483	
	At 31 December 2012	541	3,114	68	3,723	91	3,814	
		Called up share capital £'000	Share premium £'000	Retained earnings £'000			Total equity £'000	
<b>Company</b>	At 1 January 2011	416	2,808	117			3,341	
	Loss and total comprehensive loss for the year	–	–	(46)			(46)	
	At 31 December 2011	416	2,808	71			3,295	
	Loss and total comprehensive loss for the year	–	–	(54)			(54)	
	Proceeds from shares issued	125	375	–			500	
	Cost of share issues	–	(17)	–			(17)	
	Total contribution by owners of the parent recognised in equity	125	358	–			483	
	At 31 December 2012	541	3,166	17			3,724	

## Notes to the Financial Statements

### 1. Accounting policies

CEPS PLC (the 'Company') 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 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 507461.

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.

#### Adoption of new and revised accounting standards

The Group has adopted the following new and amended IFRSs as of 1 January 2012:

**Effective date:  
Accounting periods  
commencing on or after**

Amendment to IFRS 1, <i>Hyperinflation and fixed dates</i>	01 July 2011
Amendment to IFRS 7, <i>Financial instruments: Transfers of financial assets</i>	01 July 2011

The adoption of these standards and interpretations has had no material impact on the financial statements of CEPS PLC.

## Notes to the Financial Statements continued

### 1. Accounting policies continued

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective, and have not been early adopted by the Group:

	<b>Effective date: Accounting periods commencing on or after</b>
Amendment to IAS 1, <i>Presentation of financial statements</i> on OCI	01 July 2012
IAS 19 (revised 2011), <i>Employee benefits</i>	01 January 2013
IFRS 13, <i>Fair value measurement</i>	01 January 2013
Amendment to IAS 12, <i>Income taxes on deferred tax</i>	01 January 2013
Amendment to IFRS 1, <i>First time adoption</i> on government loans	01 January 2013
Amendments to IFRS 7, <i>Financial instruments asset and liability offsetting</i>	01 January 2013
IFRIC 20, <i>Stripping costs in the production phase of a surface mine</i>	01 January 2013
Annual improvements 2011	01 January 2013
IAS 27 (revised 2011), <i>Separate financial statements</i>	01 January 2014
IAS 28 (revised 2011), <i>Associates and joint ventures</i>	01 January 2014
IFRS 10, <i>Consolidated financial statements</i>	01 January 2014
IFRS 11, <i>Joint arrangements</i>	01 January 2014
IFRS 12, <i>Disclosure of interests in other entities</i>	01 January 2014

The adoption of these standards and interpretations are not expected to have a material impact on the financial statements of CEPS PLC in the period they are applied.

#### 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 Consolidated Statement of Comprehensive Income.

## Notes to the Financial Statements continued

### 1. Accounting policies continued

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.

#### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of post-acquisition profits or losses is recognised in the Consolidated Statement of Comprehensive Income and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates 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 fair values received or receivable for goods sold which are recognised on despatch and exclude VAT.

The revenues of Sunline arise from the fair value received or receivable for services provided which is recognised on completion of the service and excludes 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 as stated below.

##### 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.

## Notes to the Financial Statements continued

### 1. Accounting policies continued

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

#### **Investments**

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

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Raw materials are valued on a first in first out basis at net invoice values charged by suppliers. The value of work in progress and finished goods includes the direct cost of materials and labour together with an appropriate proportion of factory overheads, where applicable. 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 charge 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 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.

## Notes to the Financial Statements continued

### 1. Accounting policies continued

#### 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 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.

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. The Group has no further payment obligations once contributions have been paid.

#### 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.

Further details on provisions made are disclosed in note 23.

## Notes to the Financial Statements continued

### 1. Accounting policies continued

#### Share capital

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

#### Financial instruments

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

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

##### a) Loans and receivables

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

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

##### b) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. 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 include bank overdrafts, 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.

#### Exceptional costs

Costs are considered as exceptional when their size and nature is considered to be outside the ordinary course of business and they are not expected to recur.

## 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 2012, if Sterling had weakened by 5% against the Euro and all other variables held constant, post-tax profit for the year and net assets would have been £23,000 (2011: £28,000) 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
<b>At 31 December 2012</b>				
Trade and other payables	2,115	—	—	—
Other loans*	59	396	—	—
Bank overdrafts	365	—	—	—
Trade receivables backed working capital facilities	931	—	—	—
Finance lease obligations	148	28	11	—
	—	—	—	—
	<b>3,618</b>	<b>424</b>	<b>11</b>	<b>—</b>
 <b>At 31 December 2011</b>				
Trade and other payables	1,901	—	—	—
Others loans*	59	396	—	—
Bank overdrafts	474	—	—	—
Trade receivables backed working capital facilities	1,151	—	—	—
Finance lease obligations	230	124	12	—
	—	—	—	—
	<b>3,815</b>	<b>520</b>	<b>12</b>	<b>—</b>

\* The loan holder has confirmed that he will not seek repayment during 2013.

#### 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 2012 and 2011 were as follows:

	2012 £'000	2011 £'000
Total borrowings	1,868	2,363
Less: cash and cash equivalents	(56)	(157)
 Net debt	 1,812	 2,206
 Total equity	 3,814	 5,895
 Gearing ratio	 48%	 37%

Total borrowings have been reduced in the year by the repayment of finance lease obligations of £243,000 (2011: £219,000) plus the reduction in overdrafts by £109,000 (2011: £50,000) and trade receivables backed working capital facilities of £220,000 (2011: increase of £325,000). The figure has been increased by new finance lease obligations of £77,000 (2011: £65,000). Cash balances fell by £101,000 (2011: £125,000). Total equity reduced by the net proceeds of the placing (£483,000) less the total comprehensive loss for the year of £2,564,000. As a result gearing increased to 48% (2011: 37%), 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 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 who, 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.

Group costs, costs incurred at Head Office level to support the activities of the Group.

The United Kingdom is the main country of operation from which the Group derives its revenue and operating (loss)/profit and the principal location of the assets and liabilities of the Group. The Group information provided below, therefore, also represents the geographical segmental analysis. Of the £15,068,000 (2011: £15,628,000) revenue £12,730,000 (2011: £12,940,000) is derived from UK customers with the remaining £2,338,000 (2011: £2,688,000) being derived from a number of overseas countries, none of which is material in isolation. All assets and liabilities are held in the United Kingdom.

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 2012 £'000	Friedman's 2012 £'000	Sunline 2012 £'000	Total 2012 £'000
Revenue	5,714	3,668	5,686	15,068
Segmental result (EBITDA) before exceptional costs	163	452	162	777
Exceptional costs				
Impairment charge	—	—	(2,500)	(2,500)
Segmental result (EBITDA) after exceptional costs	163	452	(2,338)	(1,723)
Depreciation and amortisation charge				(231)
Group costs				(313)
Net finance costs				(134)
Share of profit of associate				18
Loss before taxation				(2,383)
Taxation				(98)
Loss for the year				(2,481)

## Notes to the Financial Statements continued

### 4. Segmental analysis continued

	Davies Odell 2011 £'000	Friedman's 2011 £'000	Sunline 2011 £'000	Total 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)
Net finance costs				(121)
Profit before taxation				90
Taxation				—
Profit for the year				90

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

	Segment assets 2012 £'000	Segment assets 2011 £'000	Segment liabilities 2012 £'000	Segment liabilities 2011 £'000	Segment net assets 2012 £'000	Segment net assets 2011 £'000
CEPS Group	646	146	(77)	(74)	569	72
Davies Odell	2,417	2,537	(1,166)	(1,247)	1,251	1,290
Friedman's	2,902	3,077	(1,223)	(1,514)	1,679	1,563
Sunline	2,573	5,090	(2,258)	(2,120)	315	2,970
Total – Group	8,538	10,850	(4,724)	(4,955)	3,814	5,895

#### iii) Non-cash expenses and capital expenditure

Other than as stated above there were no significant non-cash expenses.

	2012 £'000	2011 £'000
Capital expenditure		
Davies Odell	24	25
Friedman's	32	58
Sunline	56	112
Total – Group	112	195

## Notes to the Financial Statements continued

### 5. Operating (loss)/profit

2012  
£'000      2011  
£'000

**(Loss)/profit on ordinary activities before tax is stated  
after charging/(crediting):**

Loss on disposal of property, plant and equipment	7	43
Exchange gain	(40)	(13)
Other operating lease rentals on land and buildings and on plant and machinery:	386	448

**Exceptional costs**

Sunline goodwill impairment (see note 15)	2,500	–
Provision for the redundancy costs of employees	–	48
Provision for other direct costs of restructuring	–	17
	2,500	65

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

**Fees paid to auditors**

Audit fees in respect of the statutory audit of the financial statements of the Company	19	17
Audit fees in respect of the statutory audit of the financial statements of associates of the Company	26	26
	45	43
Taxation compliance services	19	17
Other non-audit services	5	5
<b>Total fees</b>	<b>69</b>	<b>65</b>

**Expenses by nature**

Change in inventories	(36)	85
Purchase of materials for sale	6,976	7,538
Employee benefit expenses	4,697	4,717
Impairment charge	2,500	–
Depreciation and amortisation	231	260
Operating lease payments	386	448
Other expenses	2,581	2,369
	<b>17,335</b>	<b>15,417</b>

## Notes to the Financial Statements continued

### 6. Employees

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

	2012	2011
Management and administration	36	36
Production and sales	<u>142</u>	<u>146</u>
	<u>178</u>	<u>182</u>

The aggregate costs of these persons were:

	2012 £'000	2011 £'000
Wages and salaries	4,171	4,213
Social security costs	387	404
Other pension costs	<u>139</u>	<u>100</u>
	<u>4,697</u>	<u>4,717</u>

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:

	2012 £'000	2011 £'000
Short-term employee benefits	173	168
	<hr/>	<hr/>

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

	Salaries and fees 2012 £'000	2011 £'000
P G Cook	62	62
D A Horner	16	16
V E Langford	53	48
G C Martin	16	16
R T Organ	26	26
	<hr/>	<hr/>
	173	168
	<hr/>	<hr/>

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:

	2012 £'000	2011 £'000
Wages and salaries	363	369
Social security costs	44	43
Other pension costs	43	36
	<hr/>	<hr/>
	450	448
	<hr/>	<hr/>

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

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

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 £142,000 (2011: £125,000). At 31 December 2012 £186,000 (2011: £113,000) of pension contributions remain outstanding.

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 2012 the results of the actuarial valuation at 1 July 2010. The results of the update are as follows:

	2012	2011
Assumptions at 31 December		
Interest rate for discounting liabilities	4.20%	4.80%
Expected return on plan assets	5.50%	5.50%
Retail Price Inflation	2.90%	3.00%
Pensions increase	2.90%	2.90%
Mortality	PCA00	PCA00
Current and future pensioners	year of birth long cohort	year of birth long cohort
Life expectancies (years)		
For a 65 year old male	24.7	23.5
For a 65 year old female	26.5	25.8
For a 65 year old male, currently aged 50	27.0	24.4
For a 65 year old female, currently aged 50	27.9	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:

	2012 £'000	2011 £'000
Amounts recognised in the balance sheet are as follows:		
Fair value of plan assets	2,802	2,566
Present value of defined benefit obligation	(2,726)	(2,531)
Actuarial surplus not recognised	(76)	(35)
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

	2012 £'000	2011 £'000
Pension cost recognised in the Consolidated Statement of Comprehensive Income		
Operating cost:		
Current service cost (cost of sales)	—	—
Finance cost:		
Interest cost	119	124
Expected return on plan assets	(122)	(149)
	(3)	(25)
Total pension credit	(3)	(25)
Consolidated Statement of Comprehensive Income		
Actuarial loss	191	173
Experience gains on assets	(149)	(46)
Movement in net surplus not recognised	41	(30)
	83	97
Movement in balance sheet for the year		
Net pension liability at the start of the year	—	—
Employer's pension cost	3	25
Consolidated Statement of Comprehensive Income	(83)	(97)
Employer contributions	80	72
	—	—
Accrued pension cost at the end of the year	—	—
Reconciliation of the defined benefit obligation		
Defined benefit obligation at the start of the year	2,531	2,282
Current service cost	—	—
Interest cost	119	124
Actuarial loss	191	173
Benefits paid	(115)	(48)
	2,726	2,531
Reconciliation of plan assets		
Fair value of plan assets at the start of the year	2,566	2,347
Expected return on plan assets	122	149
Experience gains on assets	149	46
Employer contributions	80	72
Benefits and expenses paid	(115)	(48)
	2,802	2,566

## Notes to the Financial Statements continued

### 8. Pension costs continued

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Asset categories at the end of the year					
Equities	48%	45%			
Bonds	36%	47%			
Property	12%	7%			
Cash	4%	1%			
Amounts for the current and previous four years are as follows:					
Plan assets	2,802	2,566	2,347	2,129	1,992
Defined benefit obligation	(2,726)	(2,531)	(2,282)	(2,101)	(1,738)
Actuarial surplus not recognised	(76)	(35)	(65)	(28)	(254)
Deficit in scheme	—	—	—	—	—
Actuarial (losses)/gains on liabilities due to assumptions	(191)	(173)	(130)	(325)	523
Experience gains/(losses) on assets	149	46	84	25	(187)
Movement in actuarial surplus not recognised	(41)	30	(37)	226	(254)
Total (losses)/gains recognised for the year	(83)	(97)	(83)	(74)	82
Cumulative amount of gains recognised in the Consolidated Statement of Comprehensive Income	110	193	290	373	447

### 9. Net finance costs

	2012	2011
	£'000	£'000
Interest receivable	—	—
Pension scheme finance income (note 8)	3	25
<b>Total finance income</b>	<b>3</b>	<b>25</b>
Interest payable on bank loans and overdrafts	55	54
Interest payable on other loans	40	40
Finance lease costs	22	32
Preference dividend accrued	20	20
<b>Total finance costs</b>	<b>137</b>	<b>146</b>
<b>Net finance costs</b>	<b>134</b>	<b>121</b>

## Notes to the Financial Statements continued

### 10. Taxation

	2012 £'000	2011 £'000
Analysis of taxation in the year:		
Current tax		
Tax on profits of the year	119	34
Tax in respect of prior periods	(18)	(22)
Total current tax	101	12
Deferred tax		
Origination and reversal of temporary differences	(89)	(69)
Tax in respect of prior periods	57	29
Impact of change in UK tax rate	29	28
Total deferred tax	(3)	(12)
Total tax charge	98	—
Deferred tax charged to the Consolidated Statement of Comprehensive Income	—	—
Factors affecting current taxation:		
(Loss)/profit before taxation	(2,383)	90
(Loss)/profit multiplied by the standard rate of UK tax of 24.5% (2011: 26.5%)	(584)	24
Effects of:		
Small companies tax relief	—	(2)
Permanent differences:		
Impairment charge	613	—
Other	(5)	(23)
Prior year adjustment, current tax	(18)	(22)
Prior year adjustment, deferred tax	57	29
Effect of changes in tax rate	35	32
Deferred tax movements not recognised	—	(38)
Total tax charge	98	—

The tax assessed for the year is higher (2011: lower) than the standard rate of corporation tax in the UK (24.5%) (2011: 26.5%).

Factors affecting current taxation:

(Loss)/profit before taxation	(2,383)	90
(Loss)/profit multiplied by the standard rate of UK tax of 24.5% (2011: 26.5%)	(584)	24
Effects of:		
Small companies tax relief	—	(2)
Permanent differences:		
Impairment charge	613	—
Other	(5)	(23)
Prior year adjustment, current tax	(18)	(22)
Prior year adjustment, deferred tax	57	29
Effect of changes in tax rate	35	32
Deferred tax movements not recognised	—	(38)
Total tax charge	98	—

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 24.5%.

During the year, as a result of the change in the United Kingdom corporation tax rate from 26% to 24% that was substantively enacted on 26 June 2011 and was effective from 1 April 2012, and the further change from 24% to 23% substantively enacted on 3 July 2012 and effective from 1 April 2013, 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 from 23% on 1 April 2013, by 1% to 21% by 1 April 2014 and by a further 1% to 20% by 1 April 2015. 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 (2011: £nil).

### 12. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated on the loss for the year after taxation attributable to equity holders of the Company of £2,054,000 (2011: profit £17,000) and on 10,179,064 (2011: 8,314,310) ordinary shares, being the weighted number in issue during the year.

Diluted (loss)/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 options was below the exercise price. The share options lapsed unexercised on 21 May 2011.

### 13. Loss of the holding company

Of the Group loss for the year a loss of £54,000 prior to consolidation adjustments (2011: loss £46,000) 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	Cost	Leasehold property improvements £'000	Plant, machinery, tools and moulds £'000	Motor vehicles £'000	Total £'000
	at 1 January 2011	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
	Additions at cost	21	91	—	112
	Disposals	—	(31)	—	(31)
	at 31 December 2012	117	<u>3,927</u>	<u>89</u>	<u>4,133</u>
	Accumulated depreciation				
	at 1 January 2011	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
	Charge for the year	13	202	6	221
	Disposals	—	(16)	—	(16)
	at 31 December 2012	60	<u>2,954</u>	<u>71</u>	<u>3,085</u>
	Net book amount				
	at 31 December 2012	57	<u>973</u>	<u>18</u>	<u>1,048</u>
	at 31 December 2011	49	<u>1,099</u>	<u>24</u>	<u>1,172</u>
	at 1 January 2011	19	<u>1,304</u>	<u>53</u>	<u>1,376</u>

At the year end, assets held under hire purchase contracts and capitalised as plant, machinery and tools have a net book value of £478,000 (2011: £560,000) and an accumulated depreciation balance of £392,000 (2011: £356,000).

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

Company

Throughout 2011 and 2012 the Company held no property, plant and equipment.

## Notes to the Financial Statements continued

### 15. Intangible fixed assets

		Goodwill £'000	Other £'000	Total £'000
<b>Group</b>	<b>Cost</b>			
	at 1 January 2011	4,839	50	4,889
	Additions at cost	—	17	17
	<b>at 31 December 2011 and 31 December 2012</b>	<b>4,839</b>	<b>67</b>	<b>4,906</b>
	Accumulated amortisation and impairment			
	at 1 January 2011	121	36	157
	Amortisation charge	—	7	7
	<b>at 31 December 2011</b>	<b>121</b>	<b>43</b>	<b>164</b>
	Amortisation charge	—	10	10
	Impairment charge	2,500	—	2,500
	<b>at 31 December 2012</b>	<b>2,621</b>	<b>53</b>	<b>2,674</b>
	Net book amount			
	<b>at 31 December 2012</b>	<b>2,218</b>	<b>14</b>	<b>2,232</b>
	at 31 December 2011	4,718	24	4,742
	at 1 January 2011	4,718	14	4,732
<b>Company</b>	<b>Cost</b>			
	at 1 January 2011, 31 December 2011 and 31 December 2012	80	17	97
	Accumulated amortisation			
	at 1 January 2011, 31 December 2011 and 31 December 2012	1	17	18
	Net book amount			
	at 1 January 2011, 31 December 2011 and 31 December 2012	79	—	79

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. Impairment charges are included in administration expenses and disclosed as an exceptional cost.

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:

	Friedman's £'000	Sunline £'000	Total £'000
at 1 January 2011 and 31 December 2011	1,529	3,189	4,718
Impairment charge	—	(2,500)	(2,500)
<b>at 31 December 2012</b>	<b>1,529</b>	<b>689</b>	<b>2,218</b>

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. A discount rate of 11.9% (2011: 11.8%), representing the estimated 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	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Friedman's	2.0	2.5	34.0	32.0	2.0	2.5
Sunline	1.0	1.0	37.5	35.4	1.0	1.0

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.

The impairment charge arose in Sunline, the CGU that is engaged in supplying services to the direct mail market. This market has experienced significant change in the way that businesses target end-users and purchasers of products with a greater emphasis now being placed on electronic methods of communication rather than traditional paper based mailings. As such, the nature of the CGU's business and cash flows has changed to the extent that the carrying value of goodwill can no longer be supported based on current expectations and an impairment charge has been made accordingly. The directors have considered the depreciation policies of the property, plant and equipment utilised by this CGU and estimate that the useful lives are not affected. No class of asset other than goodwill was impaired.

As a result of the impairment charge, there is no headroom between the revised carrying value of the CGU and its value-in-use calculation. The value-in-use calculation is sensitive to changes in the gross margin percentage assumed and the discount rate assumed. A 1% movement in the gross margin percentage results in a change to the value-in-use calculation of £450,000, whilst a 1% movement in the discount rate applied results in a change to the value-in-use calculation of £50,000.

In respect of Friedman's, the value-in-use calculation gives rise to sufficient headroom such that reasonable changes in the key assumptions do not eliminate the headroom.

## Notes to the Financial Statements continued

### 16. Investments

		Investments in associate £'000					
<b>Group</b>	<b>Cost and net book amount</b>						
	at 1 January 2011 and 2012	–					
	Acquisitions	500					
	Share of net profit in associate	18					
	<b>at 31 December 2012</b>	<b>518</b>					
			Shares in Group subsidiaries £'000	Loans to Group subsidiaries £'000	Total investments in subsidiaries £'000	Investments in associate £'000	Total investments £'000
<b>Company</b>	<b>Cost and net book amount</b>						
	at 1 January 2011 and 2012	674	1,879	2,553	–	2,553	2,553
	Acquisitions	–	–	–	500	500	500
	Repayments	–	(132)	(132)	–	–	(132)
	<b>at 31 December 2012</b>	<b>674</b>	<b>1,747</b>	<b>2,421</b>	<b>500</b>	<b>2,921</b>	

Of the loans to Group subsidiaries £276,000 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

### 16. Investments continued

#### Associate

In 2012, the Company acquired an interest in CEM Holdings Limited, an associate company. The results of the Group's associate, and its gross assets and liabilities, are as follows:

Year ended 31 December 2012

Name	Country of Incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profits £'000	% interest held
CEM Holdings Limited	United Kingdom	3,107	(1,081)	3,041	162	21.4

### 17. Inventories

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Raw materials and consumables	389	590	—	—
Work in progress	21	15	—	—
Finished goods and goods for resale	1,534	1,303	—	—
	1,944	1,908	—	—

### 18. Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	2,040	2,164	—	—
less: provision for impairment of trade receivables	(27)	(15)	—	—
Trade receivables – net	2,013	2,149	—	—
Amount due from subsidiary companies	—	—	752	668
Other receivables	1	4	—	—
Prepayments and accrued income	221	189	10	14
	2,235	2,342	762	682

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

As at 31 December 2012, trade receivables of £1,455,000 (2011: £1,484,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2012, trade receivables of £465,000 (2011: £602,000) were past due, but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

## Notes to the Financial Statements continued

### 18. Trade and other receivables continued

At 31 December 2012 trade receivables of £120,000 (2011: £78,000) were impaired. A significant portion of the receivables is expected to be recovered and a provision of £27,000 (2011: £15,000) has been made for non-recovery. The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	2012 £'000	2011 £'000
3 to 6 months	51	78
Over 6 months	69	–
	<hr/>	<hr/>
	120	78
	<hr/>	<hr/>

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

	2012 £'000	2011 £'000
Sterling	2,122	2,260
Euro	91	72
US \$	22	10
	<hr/>	<hr/>
	2,235	2,342
	<hr/>	<hr/>

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

	2012 £'000	2011 £'000
At 1 January	15	16
Provision for receivables impairment	21	15
Receivables written off during the year	–	(11)
Unused amounts reversed	(9)	(5)
	<hr/>	<hr/>
	27	15
	<hr/>	<hr/>

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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	1,494	1,516	—	—
Other tax and social security	489	379	—	—
Other payables	179	125	—	—
Accruals and deferred income	442	260	78	74
	<hr/>	<hr/>	<hr/>	<hr/>
	2,604	2,280	78	74

### 20. Borrowings

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non-current:				
Other loans	396	396	—	—
Hire purchase obligations	39	128	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	435	524	—	—
Current:				
Bank overdraft	365	474	—	—
Trade receivables backed working capital facilities	931	1,151	—	—
Hire purchase obligations	137	214	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	1,433	1,839	—	—
Total borrowings	<hr/>	<hr/>	<hr/>	<hr/>
	1,868	2,363	—	—

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 2012 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	—	358	358
Sunline	—	108	108
Davies Odell and CEPS PLC	365	465	830
	<hr/>	<hr/>	<hr/>
	365	931	1,296

## Notes to the Financial Statements continued

### 20. Borrowings continued

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

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

	2012		2011	
	Bank £'000	Hire purchase £'000	Bank £'000	Hire purchase £'000
Within one year	1,296	137	1,625	214
Between one and two years	—	28	—	117
Between two and five years	—	11	—	11
	1,296	176	1,625	342

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 finance lease obligations are £39,000 (2011: £128,000) and their fair values £29,000 (2011: £118,000).

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 2014. 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:

	2012 £'000	2011 £'000
Not more than one year	148	230
Between one and two years	28	124
Between two and five years	11	12
	187	366
Finance charge	(11)	(24)
Present value of hire purchase obligations	176	342

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 2012	Loans and receivables £'000
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	2,014	
Cash and cash equivalents	56	
<b>Total</b>	<b>2,070</b>	
Liabilities at amortised cost as per balance sheet		Other financial liabilities £'000
Bank borrowings (excluding hire purchase obligations)	1,296	
Hire purchase obligations	176	
Trade and other payables (excluding statutory liabilities)	2,115	
Other loans	396	
<b>Total</b>	<b>3,983</b>	
Group		
31 December 2011		
Assets as per balance sheet		Loans and receivables £'000
Trade and other receivables	2,153	
Cash and cash equivalents	157	
<b>Total</b>	<b>2,310</b>	
Liabilities at amortised cost as per balance sheet		Other financial liabilities £'000
Bank borrowings (excluding hire purchase obligations)	1,625	
Hire purchase obligations	342	
Trade and other payables (excluding statutory liabilities)	1,901	
Other loans	396	
<b>Total</b>	<b>4,264</b>	

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	2012 £'000	2011 £'000
Davies Odell	307	504
Friedman's	371	334
Sunline	777	646
	<hr/>	<hr/>
	1,455	1,484

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 £56,000 (2011: £157,000) which is on account with differing financial institutions and is readily available. The external credit rating as assessed by Standard & Poor's for short-term funds for each of the institutions is A-1+.

### 22. Deferred tax

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

	Losses £'000	Other timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2011, asset/(liability)	482	100	(171)	411
Credit/(debit) to the Consolidated Statement of Comprehensive Income	7	(60)	65	12
	<hr/>	<hr/>	<hr/>	<hr/>
at 31 December 2011, asset/(liability)	489	40	(106)	423
(Debit)/credit to the Consolidated Statement of Comprehensive Income	(38)	14	26	2
	<hr/>	<hr/>	<hr/>	<hr/>
at 31 December 2012, asset/(liability)	451	54	(80)	425

Deferred income tax assets and liabilities are recognised at 23% (2011: 25%) 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 £34,000 (2011: £80,000) of the asset and £nil (2011: £nil) 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 £139,000 (2011: £161,000) in respect of depreciation charges in excess of capital allowances in Davies Odell. These assets have not been recognised as it is uncertain they will reverse in the foreseeable future, especially given the level of losses already recognised in respect of Davies Odell.

The Company has recognised in 2012 a deferred tax asset of £1,000 (2011: £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 2011	55	302	–	357
Amounts provided for in the year	–	–	65	65
Amounts utilised for in year	–	(228)	–	(228)
	—	—	—	—
At 31 December 2011	55	74	65	194
Amounts provided for in year	–	–	–	–
Amounts utilised for in year	–	(58)	(65)	(123)
	—	—	—	—
<b>At 31 December 2012</b>	<b>55</b>	<b>16</b>	<b>–</b>	<b>71</b>
These amounts are expected to be settled as follows:				
Current	–	16	–	16
Non-current	55	–	–	55
	—	—	—	—
<b>55</b>	<b>16</b>	<b>–</b>	<b>71</b>	

#### 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 2022.

#### 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 2013 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 were defrayed in 2012.

### 24. Share capital

	2012 £'000	2011 £'000
Ordinary shares		
Authorised:		
15,000,000 (2011: 15,000,000) shares of 5.0p per share	750	750
Allotted called and fully paid:		
10,814,310 (2011: 8,314,310) shares of 5.0p per share	541	416

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 C.E.M. 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.

## 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:

	2012 £'000	2011 £'000
Land and buildings leases expiring:		
within one year	91	338
within two to five years	384	276
after more than five years	276	–
	<hr/>	<hr/>
	751	614
	<hr/>	<hr/>

### 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			
– 2012	–	78	–
– 2011	–	78	–
Receipt of loan note interest			
– 2012	–	127	34
– 2011	–	127	37
Receipt of management charge income			
– 2012	–	15	12
– 2011	–	15	12
Amount owed to the Company			
– 31 December 2012	105	645	2
– 31 December 2011	125	440	103

### 27. Cash and cash equivalents

	Group 2012 £'000	2011 £'000	Company 2012 £'000	2011 £'000
Cash at bank and in hand	56	157	39	54
Bank overdrafts repayable on demand	(365)	(474)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	(309)	(317)	39	54

### 28. Contingent liability

HMRC has indicated its intent to make an assessment for a repayment of some VAT previously recovered, but has not yet specified the amounts involved. The Company is rigorously defending its position previously taken and, due to the uncertainty over the final outcome, no provision has been made.

## 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 Monday 10 June 2013 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 to 8 as special resolutions.

- 1 To receive, consider and adopt the Company's annual accounts for the financial year ended 31 December 2012 together with the directors' report and auditors' report on those accounts.
- 2 To re-elect G C Martin as a director.
- 3 To re-elect V E Langford as a director.
- 4 To re-appoint PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which the accounts are to be laid.
- 5 To authorise the directors to agree the auditors' remuneration.
- 6 THAT, in substitution for any existing authority subsisting at the date of this resolution to the extent unused, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £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 24 April 2013*

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, Share Registrars at Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL 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 6 June 2013 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.

## Group Information

### Directors

P G Cook, Group Managing  
 D A Horner, Non-executive  
 V E Langford, Group Finance  
 G C Martin, Non-executive  
 R T Organ, Non-executive Chairman

### Secretary and registered office

V E Langford  
 12b George Street, Bath BA1 2EH  
 Company number 507461  
[www.cepsplc.com](http://www.cepsplc.com)

### Operating locations

Davies Odell Limited  
 Portland Road, Rushden, Northants NN10 0DJ  
 telephone 01933 410818, fax 01933 315976  
 email [info@daviesodell.co.uk](mailto:info@daviesodell.co.uk); [www.forcefieldbodyarmour.com](http://www.forcefieldbodyarmour.com)  
 and  
 Beatrice Road, Kettering, Northants NN16 9QS  
 telephone 01536 513456, fax 01536 310080  
 email [info@davieskett.co.uk](mailto:info@davieskett.co.uk); [www.equimat.co.uk](http://www.equimat.co.uk)

Friedman's Limited  
 Sunaco House, Unit 2, Bletchley Road, Stockport SK4 3EF  
 telephone 0161 975 9002, fax 0161 975 9003  
 email [sales@friedmans.co.uk](mailto:sales@friedmans.co.uk); [www.friedmans.co.uk](http://www.friedmans.co.uk); [www.funkifabrics.com](http://www.funkifabrics.com)

Sunline Direct Mail Limited  
 Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ  
 telephone 01509 263434, fax 01509 264225  
 email [enquiries@sunlinedirect.co.uk](mailto:enquiries@sunlinedirect.co.uk); [www.sunlinesolutions.com](http://www.sunlinesolutions.com)

### Registrars and share transfer office

Share Registrars Limited  
 Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL  
 telephone 01252 821390, lines are open 9.00am 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](http://www.londonstockexchange.com) (code CEPS)

### Independent auditors

PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors  
 31 Great George Street, Bristol BS1 5QD

### Solicitors

Berwin Leighton Paisner LLP  
 Adelaide House, London Bridge, London EC4R 9HA

### Nominated adviser and broker

Cairn Financial Advisers LLP  
 61 Cheapside, London EC2V 6AX