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Application has been made for all of the New Ordinary Shares other than the Placing Shares to be readmitted to trading on AIM and for the Placing Shares and the Warrants to be admitted to trading on the AIM. It is expected that Admission will become effective and dealings in the Ordinary Shares other than the Placing Shares will recommence and dealings in the Placing Shares and Warrants will commence on 6 February 2007.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority and the AIM Rules are less demanding than those of the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. It is emphasised that no application has been made or is being made for the admission of such securities to the Official List of the United Kingdom Listing Authority. London Stock Exchange plc has not itself examined or approved the contents of this document.

# CEPS PLC

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 00507461)*

**PROPOSALS FOR THE ACQUISITION OF SUNLINE DIRECT MAIL LIMITED  
PLACING OF 4,750,000 NEW ORDINARY SHARES AT 50p PER SHARE  
APPROVAL OF WAIVER OF OBLIGATIONS UNDER RULE 9 OF THE TAKEOVER CODE  
SHARE CONSOLIDATION  
NOTICE OF EXTRAORDINARY GENERAL MEETING  
AND ADMISSION OF NEW ORDINARY SHARES AND WARRANTS  
TO TRADING ON AIM**

*Nominated Adviser and Broker*  
**City Financial Associates Limited**



THE WHOLE TEXT OF THIS DOCUMENT SHOULD BE READ. YOUR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" SET OUT IN PART IV OF THIS DOCUMENT, WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY BEFORE TAKING ANY ACTION.

City Financial Associates Limited, which is authorised and regulated by The Financial Services Authority and is a member of London Stock Exchange plc, is the Company's nominated adviser and broker for the purposes of the AIM Rules. Its responsibilities as the Company's nominated adviser and broker are owed solely to London Stock Exchange plc and are not owed to the Company or any Director. City Financial Associates Limited is acting for the Company and no one else in connection with the arrangements described in this document and will not be responsible to anyone other than the Company for providing the protections afforded to customers of City Financial Associates Limited or for advising any other person on the arrangements described in this document. City Financial Associates Limited has not authorised the contents of, or any part of, this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by City Financial Associates Limited for the accuracy of any information or opinions contained in this document or for the omission of any material information for which the Company and the Directors are solely responsible and no warranty, express or implied, is made by City Financial Associates Limited as to any of the contents of this document.

Notice of an Extraordinary General Meeting of CEPS PLC to be held at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA on 5 February 2007 is set out on pages 139 and 140 of this document. To be valid, the enclosed Form of Proxy for use at the meeting should be completed in accordance with the instructions thereon, signed and returned so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible but in any event so as to arrive no later than 48 hours before the time fixed for the Extraordinary General Meeting. Completion and return of a Form of Proxy will not preclude shareholders from attending and voting at the Extraordinary General Meeting should they wish to do so.

Notice of a Warrantholder Meeting of CEPS PLC to be held at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA on 5 February 2007 is set out on page 141 of this document. To be valid, the enclosed Warrantholder Proxy for use at the meeting should be completed in accordance with the instructions thereon, signed and returned so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible but in any event so as to arrive no later than 48 hours before the time fixed for the Warrantholder meeting. Completion and return of a Warrantholder Proxy will not preclude shareholders from attending and voting at the Warrantholder Meeting should they wish to do so.

The distribution of this document outside of the UK may be restricted by law. Persons outside the UK who come into possession of this document should inform themselves about and observe any restrictions on the placing of New Ordinary Shares and/or the distribution of this document in their particular jurisdiction. Failure to comply with these restrictions may constitute a violation of these securities laws of such jurisdictions.

This document does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe or buy, ordinary shares in the Company to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, Japan or South Africa. Accordingly, the New Ordinary Shares may not, subject to certain exceptions, be offered directly or indirectly in or into the United States of America, Canada, Australia, Japan or South Africa. The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state of the United States of America, Canada, Australia, Japan or South Africa and they may not be offered or sold directly or indirectly within the United States of America, Canada, Australia, Japan or South Africa or to or for the account or benefit of any national, citizen or resident of the United States of America, Canada, Australia, Japan or South Africa.

Copies of this document will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of City Financial Associates Limited, Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL, from the date of this document and for a period of one month from Admission.

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### Forward-looking Statements

This document contains forward-looking statements. These statements relate to the Enlarged Group's future prospects, developments and business strategies.

Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily contained in the Summary of Key Information section and in Parts I, II, III and IV of this document.

The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. Certain risks to and uncertainties for the Enlarged Group are specifically described in Part IV of this document headed "Risk Factors". If one or more of these risk factors or uncertainties materialises, or if the underlying assumptions prove incorrect, the Enlarged Group's actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements.

These forward-looking statements relate only to the position as at the date of this document. Neither the Directors nor the Company undertake any obligation to update forward-looking statements or risk factors other than as required by the AIM Rules, whether as a result of new information, future events or otherwise.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Richard Thomas Organ, <i>Non-Executive Chairman</i> Geoffrey Charles Martin, <i>Finance Director</i> Peter George Cook, <i>Non-Executive Director</i> David Alistair Horner, <i>Non-Executive Director</i>
	<i>all of:</i>
	11 George Street Bath BA1 2EH
<b>Company Secretary</b>	Geoffrey Charles Martin
<b>Registered Office and telephone number</b>	11 George Street Bath BA1 2EH  01225 483 030
<b>Nominated Adviser and Broker</b>	City Financial Associates Limited Pountney Hill House 6 Laurence Pountney Hill London EC4R 0BL
<b>Auditors and Reporting Accountants to the Company</b>	PricewaterhouseCoopers LLP 31 Great George Street Bristol BS1 5QD
<b>Solicitors to the Company</b>	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA
<b>Solicitors to the Placing</b>	Field Fisher Waterhouse LLP 35 Vine Street London EC3N 2AA
<b>Registrars</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA
<b>Bankers</b>	HSBC Bank plc 79 Regent Street Kingswood Bristol BS15 8LH

## DEFINITIONS

The following terms apply in this document unless the context requires otherwise:

“Acquisition”	the proposed acquisition by SDMH of the entire issued share capital of Sunline Direct Mail Limited
“Act”	the Companies Act 1985, as amended
“Acquisition Agreement”	the agreement dated 11 January 2007 pursuant to which SDMH has agreed to acquire the entire issued share capital of Sunline
“Admission”	admission of the Placing Shares and Warrants to trading on AIM and the readmission of the New Ordinary Shares other than the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange relating to AIM
“Amended and Restated Warrant Instrument”	the deed poll instrument of the Company dated 11 January 2007 amending and restating the Warrant Instrument to be adopted conditional on Admission
“Articles”	the articles of association of the Company from time to time
“Board” or “Directors”	the directors of the Company from time to time
“Business Sale Agreement”	the business sale agreement dated 25 April 2006, under which the Company sold the business and assets of Davies Odell and Davies & Co Kettering to its subsidiary Davies Odell Limited
“Capita Registrars”	a trading name of Capita IRG plc of The Rectory, 34 Beckenham Road, Beckenham, Kent BR3 4TU
“CFA”	City Financial Associates Limited, nominated adviser and broker to the Company
“Chairman”	the Chairman of the Board of the Company from time to time
“Code”	The UK City Code on Takeovers and Mergers
“Combined Code”	The 2006 Combined Code on Corporate Governance published by the Financial Reporting Council
“Company” or “CEPS”	CEPS PLC
“Completion”	completion of the Acquisition
“Concert Party”	the members of the concert party as set out in Part IV of this document
“Credit Facility”	the loan facility provided by HSBC to SDMH, further details of which are set out in paragraph 14.7 of Part IX of this document
“CREST”	the relevant system (as defined in the CREST Regulations) in accordance with which securities may be held or transferred in uncertificated form
“CRESTCo”	CRESTCo Limited, the operator of CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended

“Davies Odell”	Davies Odell Limited, a company registered in England and Wales with registered no. 05649848
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company convened for 5 February 2007, or any adjournment thereof, notice of which is set out on pages 139 and 140 of this document
“Enlarged Group”	the Company and its subsidiaries following Completion
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company following Admission
“Executive Share Option Scheme”	the executive share option scheme adopted by the Company on 10 January 1989
“Existing Issued Share Capital”	the issued ordinary share capital of the Company at the date of this document
“Existing Ordinary Shares”	the existing ordinary shares of 0.1p each in the capital of the Company
“Form of Proxy”	the proxy form for use in connection with the Extraordinary General Meeting or Warranholder meeting as applicable
“Friedman’s”	Friedman’s Limited, a company registered in England and Wales with registered no. 00817040
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000, as amended
“Group”	the Company, its subsidiaries and subsidiary undertakings at the date of this document
“HSBC”	HSBC Bank plc
“Initial Admission”	the original admission of the Ordinary Shares to trading on AIM on 29 July 1998
“Independent Director”	Geoffrey Charles Martin
“ISIN”	International Securities Identification Number
“Independent Shareholders”	Shareholders other than members of the Concert Party
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the new ordinary shares of 5p each in the capital of the Company following the Share Consolidation
“Official List”	the Official List of the UK Listing Authority
“Options”	options over Ordinary Shares further details of which are set out in paragraph 6 of Part IX
“Ordinary Shares”	as the context requires the Existing Ordinary Shares or the New Ordinary Shares
“Panel”	the Panel on Takeovers and Mergers
“Placing”	the conditional placing by CFA of the Placing Shares at the Placing Price
“Placing Agreement”	the conditional agreement dated 11 January 2007 between the Company (1), the Directors (2) and CFA (3) relating to the Placing, details of which are set out in paragraph 12 of Part IX of this document
“Placing Price”	50 pence per Placing Share

“Placing Shares”	the 4,750,000 New Ordinary Shares to be issued by the Company pursuant to the Placing
“Proposals”	the Acquisition, the Placing, the Waiver, the Share Consolidation and amendment to the Warrant Instrument
“Prospectus Rules”	the Prospectus Rules of the FSA made under Section 73A(4) of FSMA
“PwC”	PricewaterhouseCoopers LLP, auditors and tax advisers to the Company
“Record Date”	5.30 p.m. on 5 February 2007
“Registrars”	Capita Registrars
“Resolutions”	the resolutions set out in the notice of Extraordinary General Meeting
“SDMH”	Sunline Direct Mail (Holdings) Limited, a company registered in England and Wales with registered no. 05993856
“SDRT”	Stamp Duty Reserve Tax
“Share Consolidation”	the proposed consolidation of the issued and unissued Existing Ordinary Shares into New Ordinary Shares of 5 pence each, further details of which are set out in the paragraph headed “Share Consolidation” in Part I of this document
“Shareholder”	a holder of Ordinary Shares from time to time
“Sunline”	Sunline Direct Mail Limited, a company registered in England and Wales with registered no. 03341560
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“uncertificated”	an Ordinary Share recorded on the Company’s register as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“Waiver”	the waiver by the Panel of Rule 9 of the Code as described in Part I of this document
“Warrant Instrument”	the deed poll instrument of the Company dated 26 March 2004 constituting the Warrants
“Warrantholder”	a holder of Warrants
“Warrantholder Meeting”	the extraordinary general meeting of the Warrantholders convened for 5 February 2007 or any adjournment thereof, notice of which is set out at page 141 of this document
“Warrantholder Proxy”	a proxy form for use in connection with the Warrantholder Meeting
“Warrants”	warrants exercisable over Ordinary Shares on the terms of the Warrant Instrument or following Admission, the Amended and Restated Warrant Instrument

## PLACING STATISTICS

Placing Price	50p
Number of Existing Ordinary Shares	178,191,426
Number of Placing Shares	4,750,000
Total number of New Ordinary Shares in issue on Admission	8,313,828
Number of Warrants in issue on Admission	1,437,769
Percentage of Enlarged Issued Share Capital the subject of the Placing	57.13 per cent.
Market capitalisation of the Company following Admission at the Placing Price	£4.16 million
Estimated gross proceeds of the Placing	£2.375 million
Estimated net proceeds of the Placing	£1.725 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2007

Latest time and date for receipt of Proxy Forms for Extraordinary General Meeting	11.00 a.m. 3 February
Latest time and date for receipt of Proxy Forms for Warrantholders Meeting	11.30 a.m. 3 February
Extraordinary General Meeting	11.00 a.m. 5 February
Warrantholders Meeting	11.30 a.m. 5 February
Record Date for the Share Consolidation	5.30 p.m. 5 February
Completion of the Acquisition	6 February
Admission to trading on AIM of the New Ordinary Shares and the Warrants	08.00 a.m. 6 February
CREST accounts credited for the Placing Shares	6 February
Despatch of definitive share and warrant certificates for the Placing Shares and Warrants in certificated form	12 February
ISIN – Ordinary Shares	GB00B1L5NM36
ISIN – Warrants	GB00B00L7265

Each of the dates in the above timetable is subject to change.

## SUMMARY OF KEY INFORMATION

**The following summary information is extracted from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document and not rely solely on the following summarised information.**

In April 2004, following a refinancing, CEPS adopted a strategy to invest and acquire majority shareholdings in private industrial services companies with a history of profitability, cash generation and an overall value of up to £5 million. The debt financing of any such acquisition will be secured against the assets of the target's business with no recourse to the Company. In line with this strategy the Board has today announced it has conditionally agreed to acquire Sunline, a private company, operating in the direct mail market for an initial consideration of £3.8 million and a deferred consideration up to a maximum of £500,000.

The Company has also announced today the Placing to raise £2.375 million, before expenses, the Share Consolidation and amendments to the Warrants, all of which are conditional upon Shareholders' approval. Summary details on the existing CEPS Group businesses, the Acquisition, the Placing, the Share Consolidation and the Strategy of the Enlarged Group are set out below.

### **CEPS Group business**

The existing Group comprises remnants of the original Dinkie Heel business, Davies Odell and Friedman's. The Company (previously known as Dinkie Heel plc) was founded in the UK to manufacture footwear components.

#### *Davies Odell*

The Davies Odell business designs, sells and distributes body armour products, matting products and a range of footwear repair products. Body armour products are designed for use in a range of power sports applications and protective underclothing which incorporate the latest advanced materials to meet international impact resistance standards. The main markets are equestrian, motorcycle, ski and snowboarding.

Matting products are designed especially for equestrian use and the dairy industry and give many advantages over traditional straw bedding.

Footwear products mainly consist of heel leather components for specialist quality shoe manufacturers. Shoe repair products are imported from the Far East for sale in the UK and continental Europe.

#### *Friedman's*

Friedman's is a specialist textile importer, converter and distributor of plain and bespoke Lycra based material, primarily to swimwear and dancewear manufacturers within the textile industry.

There are 2 main categories of products; plain and bespoke. Plain materials are dyed to customer specification by the supplier. Material is then held by the supplier until required by Friedman's. Bespoke products are foil printed using on site transfer printing calendar machines. Friedman's has approximately 200 customers, predominantly in the UK, but the Board believes that there are opportunities to export. End users of Friedman's lycra products include, during the last financial year, major high street chains.

In line with the Company's strategy, the first investment was Friedman's which was completed in January 2005 and the Directors believe the proposed acquisition of Sunline is an important development in its strategy.

### **Information on Sunline and Reasons for the Acquisition**

Sunline is a private company, operating in the direct mail market, whose core service is the polythene wrapping of mail packs. The business now operated by Sunline was founded in 1978 as Charnwood Shrink-Wrap Limited ("Charnwood") to provide contract packaging services and over the next ten years progressed to an automated poly wrapping service. In 1989, Charnwood merged its polythene wrapping business with that of Sunline and commenced trading from new premises in Loughborough.

Sunline has two divisions, the Polywrap Division based in Loughborough and the Lettershop Division based in Redditch.

### *Polywrap Division ("Polywrap")*

Polywrap provides collation, personalisation, wrapping and mailing of predominantly paper based direct mail. In addition to its core services, Polywrap offers complementary data processing, enclosing of letter and other insertions and personalisation of printed materials and poly wrap. The division operates from a 36,500 sq.ft., combined head office, production and warehouse facility in Loughborough, Leicestershire. Approximately 25,000 sq. ft. of the facility is warehousing which provides the division's clients significant flexibility enabling them to store printed packs both pre and post poly wrap. This space also provides Polywrap with production flexibility helping to ensure customer deadlines are met and services levels maintained.

### *Lettershop Division ("Lettershop")*

Lettershop was acquired in 2003 in order to broaden the range of services offered by Sunline and to enable cross selling opportunities with Polywrap. This acquisition transformed Sunline into a full direct mail service provider. Lettershop operates from a 14,000 sq. ft. premises in Redditch using continuous and cut sheet laser printers. The division's core service is laser printing with several added value services which include:

- data processing management;
- dynamic inline stitching; and
- guillotine and folding and envelope enclosing.

Sunline differentiates itself from its competitors by having strong customer relationships and providing a quality service, demonstrated by good customer retention. It is price competitive but not the lowest cost offering. It has an established base of sales income, which covers a significant portion of its operating expenses, together with an established 25 year track record.

### **Markets and Competition**

Within the direct mail market there are a large number of small operators and approximately five or six significant companies (including Sunline) within the market. The turnover of these companies is relatively low, due to the low cost per item of polywrapping, but the volumes of direct mail handled are significant. Whilst the barriers to entry to the market are relatively low, the Directors believe that due to the maturity of the market and the low value of the final product, it is unlikely that there will be new entrants to the market which will significantly increase the polythene wrapping capacity.

### **Terms of the Acquisition**

The Company, through Sunline Direct Mail (Holdings) Limited (SDMH), has conditionally agreed to acquire the entire issued share capital of Sunline Direct Mail Limited, for an initial consideration of £3.8 million plus deferred consideration (capped at £500,000) based on future trading performance. The Company will own 80 per cent. of SDMH and the remaining 20 per cent. will be owned by the managing director of Sunline Direct Mail Limited.

Of the initial consideration of £3.45 million will be paid in cash, £150,000 satisfied by the issue of shares in SDMH and £200,000 by the issue of loan notes in SDMH. The initial cash consideration will be funded by £2 million of bank finance and the balance out of the net proceeds of the Placing. Further details on the terms of the acquisition are set out in paragraph 14.4 of Part IX of the document.

### **The Placing and Funding of the Acquisition**

As Sunline has been historically cash generative, the Board considers it appropriate to fund part of the Acquisition using bank finance. Under the terms of the Credit Facility £2 million has been made conditionally available for this purpose.

The Placing will raise a total £2.375 million before expenses, estimated to be approximately £1.725 million net of expenses (excluding VAT). The Placing Shares will represent approximately 57.13 per cent. of the Enlarged Issued Share Capital and will, when issued rank *pari passu* in all respects with the other Ordinary Shares then in issue, including the right to receive dividends and other distributions thereafter declared, made or paid.

The Placing is subject to the satisfaction of conditions in the Placing Agreement, a summary of which is contained in Part IX of this document.

### **Share Consolidation**

The Director's believe that the Share Consolidation is in the best interests of Shareholders to improve the marketability of the Company's Ordinary Shares by increasing the nominal value and consequently the share price. Therefore, the Directors are proposing to consolidate the share capital of the Company on the ratio of 50 Existing Ordinary Shares each for 1 New Ordinary Share further details are contained on page 15 of this document.

### **Warrant Amendments**

It is proposed that the terms of the Warrants are amended conditional on Admission and Warrantholder approval at the Warrantholder Meeting as follows:

- the exercise price be reduced from 2p to 1.25p per Existing Ordinary share, which will correspond to 62.5p per New Ordinary Share following the Share Consolidation;
- the exercise date be extended from 20 April 2007 to 20 April 2010; and
- the Warrants be made freely transferable.

### **Strategy for the Enlarged Group**

The Directors intend that the existing businesses will be managed to develop and invest in new products and markets and where appropriate they intend to consider complementary acquisitions.

The Company is continuing to review acquisition opportunities in private service companies with a history of profitability, cash generation and with an overall value of up to £5 million. The Company is unlikely to consider opportunities unless the management of the relevant opportunity is committed to the business and is prepared to be incentivised by a retained equity interest in the business.

## PART I

### LETTER FROM THE CHAIRMAN OF CEPS PLC

*(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 00507461)*

*Directors:*

Richard Thomas Organ, *Non-Executive Chairman*  
Geoffrey Charles Martin, *Finance Director*  
Peter George Cook, *Non-Executive Director*  
David Alistair Horner, *Non-Executive Director*

*Registered Office:*

11 George Street  
Bath BA1 2EH

11 January 2007

*To the holders of Ordinary Shares and Warrants, and for information purposes only, to the holders of Options*

Dear Shareholder

**PROPOSALS FOR THE ACQUISITION OF SUNLINE DIRECT MAIL LIMITED,  
PLACING OF 4,750,000 NEW ORDINARY SHARES AT 50p PER SHARE,  
APPROVAL OF WAIVER OF OBLIGATIONS UNDER RULE 9 OF THE TAKEOVER CODE,  
SHARE CONSOLIDATION  
NOTICE OF EXTRAORDINARY GENERAL MEETING  
AND ADMISSION OF THE NEW ORDINARY SHARES AND WARRANTS  
TO TRADING ON AIM**

#### **Introduction**

Your Board announced today that the Company has, through Sunline Direct Mail (Holdings) Limited (SDMH), conditionally agreed to acquire the entire issued share capital of Sunline Direct Mail Limited, a supplier of poly wrapping and associated services to the direct mail market, for an initial consideration of £3.8 million. The Company will own 80 per cent. of SDMH and the remaining 20 per cent. will be owned by the managing director of Sunline Direct Mail Limited.

The initial consideration will be satisfied by a cash payment of £3.45 million and the issue of shares and loan notes in SDMH to the value of £350,000. The cash payment will be funded by non-recourse bank finance of £2 million and the balance out of the net proceeds of the Placing. Deferred Consideration of up to a maximum of £500,000 will be payable dependent on the future trading performance of Sunline.

The Acquisition is a “reverse takeover” as defined in Rule 14 of the AIM Rules and is therefore conditional, *inter alia*, upon Shareholders’ approval.

The Board has also today announced a share consolidation on the ratio of 50 Existing Ordinary Shares of 0.1p each for 1 New Ordinary Share of 5p each, the Placing to raise £2.375 million before expenses of £650,000 by the issue of 4,750,000 Placing Shares at 50p per share (equivalent to 1p per share prior to the Share Consolidation) and amendments to the terms of the Warrants.

In order to implement the Placing, the Board is seeking additional authorities from Shareholders to allot the Placing Shares for cash. Certain Directors have agreed to subscribe directly, or through entities associated with them, for a total of 1,110,000 Placing Shares at the Placing Price.

The Directors are proposing the Share Consolidation as they believe that it is in the best interests of Shareholders to improve the marketability of the Company’s Ordinary Shares by increasing their nominal value and consequently the share price. The Directors are therefore proposing to consolidate the share capital of the Company on the ratio of 50 Existing Ordinary Shares of 0.1p each for 1 New Ordinary Share of 5p, further details are contained under the heading Share Consolidation.

The shareholding of the Concert Party in the Company following implementation of the Proposals, would normally require an offer for the balance of the Ordinary Shares to be made under the Code unless a Waiver is approved by Shareholders.

Accordingly an EGM of the Company is being convened for 11.00 a.m. on 5 February 2007 at which approval will be sought for the Proposals. If the Resolutions are passed at the EGM, the Company’s existing trading facility on AIM

will be cancelled and the Company will apply for the New Ordinary Shares, together with the issued Warrants, to be admitted to trading on AIM.

The purpose of this document is to explain the background to and reasons for the Proposals.

Shareholders should read this entire document and your attention is drawn to Parts II to IX of this document which contain important information relating to the Proposals.

### **Background to and Reasons for the Proposals**

The Company (previously known as Dinkie Heel plc) was founded in the UK to manufacture footwear components. The Directors consider that the business has become a recognised supplier of components to the safety footwear industry.

After a period of progressively worsening trading conditions the Company's debt, by early 2004, had reached unsustainable levels and cash flows from the Company's operation at that time were insufficient to enable debts to be serviced or capital repayments maintained. The Company was in urgent need of new funds and in April 2004 an equity fundraising of £958,000 was undertaken and £330,000 of loan notes (where the payment date had already passed) were cancelled. Simultaneously, a number of board changes were implemented and David Horner and Peter Cook joined the Board.

Since then, the Company has adopted a strategy to invest and acquire majority shareholdings in private industrial services companies with a history of profitability, cash generation and with an overall value of up to £5 million. The first investment was Friedman's which was completed in January 2005 and the Directors believe the proposed acquisition of Sunline is an important development in its strategy.

### **Information on CEPS**

The Group comprises of the original Dinkie Heel business, Davies Odell and Friedman's.

#### *Davies Odell*

The Davies Odell business designs, sells and distributes body armour products, matting products and a range of footwear repair products.

Body armour products are designed for use in a range of power sports applications and protective underclothing which incorporate the latest advanced materials to meet international impact resistance standards. The main markets are equestrian, motorcycle, ski and snowboarding.

Matting products are designed especially for equestrian use and the dairy industry and give many advantages over traditional straw bedding.

Footwear products mainly consist of heel leather components for specialist quality shoe manufacturers. Shoe repair products are imported from the Far East for sale in the UK and continental Europe.

The business has benefited from its autonomy and investment that it has made since financial year 2004. In 2004, Davies Odell reported an operating profit of £439,000 and in 2005 made an operating profit of £219,000.

#### *Friedman's*

Friedman's is a specialist textile importer, converter and distributor of plain and bespoke lycra based material, primarily to swimwear and dancewear manufacturers within the textile industry.

There are 2 main categories of products; plain and bespoke. Plain materials are dyed to customer specification by the supplier. Material is then held by the supplier until required by Friedman's. Bespoke products are foil printed using on site transfer printing calendar machines. Friedman's has approximately 200 customers, predominantly in the UK, but the Board believe that there are opportunities to export. End customers of Friedman's lycra products include, during the last financial year, major high street chains.

Friedman's have recently appointed a French agent to open up new markets and accounts and assist with the expansion process into Europe. In addition, the company is looking to appoint agents in other European countries during 2007.

In 2004, Friedman's reported an operating profit of £320,000 and in 2005 made an operating profit of £161,000.

### **Information on Sunline and Reasons for the Acquisition**

Sunline is a private company, operating in the direct mail market, whose core service is the polythene wrapping of mail packs. The business now operated by Sunline was founded in 1978 as Charnwood Shrink-Wrap Limited

("Charnwood") to provide contract packaging services and subsequently developed an automated poly wrapping service. In 1989, Charnwood merged its polythene wrapping business with that of Sunline and commenced trading from new premises in Loughborough.

In 1997, Nigel Maybury, the current managing director of Sunline, led a management buy-in-buy-out of Sunline with 3i Group plc and the Bank of Scotland providing the necessary funding. In 2003, to provide an additional platform for growth, Sunline acquired the trade and assets of 20/20 Direct Mail Limited, renamed Sunline Solutions which provides laser printing and enclosing services.

Under Nigel Maybury's leadership Sunline has repaid all the acquisition finance and the business's turnover has grown from £2.4 million in the year ended 31 October 1999 to £6.4 million for the year ended 31 October 2005. During the same period profit before interest and tax has increased to approximately £700,000 and operating cash flow increased to approximately £900,000.

Sunline has two divisions, the Polywrap Division based in Loughborough and the Lettershop Division based in Redditch.

#### *Polywrap Division ("Polywrap")*

Polywrap provides collation, personalisation, wrapping and mailing of predominantly paper based direct mail. In addition to its core services, Polywrap offers complementary data processing, enclosing of letter and other insertions and personalisation of printed materials and polywrap. The division operates from a 36,500 sq.ft., combined head office, production and warehouse facility in Loughborough, Leicestershire. Approximately 25,000 sq. ft. of the facility is warehousing which provides the division's clients significant flexibility enabling them to store printed packs both pre and post Polywrap. This space also provides Polywrap with production flexibility helping to ensure customer deadlines are met and service levels maintained.

The production facility contains one of the largest independent volume enclosing plants within the UK, capable of wrapping up to 700,000 items per day. Polywrap is client and service delivery focused. The final output of Polywrap is sent direct to the addressees and is never seen by the client. Meeting and exceeding customer expectations is essential to its customer retention and new business development and a high proportion of Polywrap's business is from repeat customers.

Polywrap's clients, which include household names, can be broadly split into two categories, mail production (from which the majority of the division's turnover is derived) and news trade. Mail trade production typically includes direct mail, subscription mailings and loyalty magazines. News trade work predominantly includes high street magazines and national newspaper supplements.

#### *Lettershop Division ("Lettershop")*

Lettershop was acquired in 2003 in order to broaden the range of services offered by Sunline and to enable cross selling opportunities with Polywrap. This acquisition transformed Sunline into a full direct mail service provider. Lettershop operates from a 14,000 sq. ft. premises in Redditch. The division's core service is laser printing with several added value services which include:

- data processing management;
- dynamic inline stitching;
- guillotine and folding; and
- envelope enclosing.

Lettershop predominantly undertakes work for clients involved in transactional work, direct mail and niche print work. Within niche print work, Lettershop programs and prints personalised subscription booklets.

Sunline is Quality Mailing Production (QMP) accredited. This accreditation was developed by the Royal Mail and the Direct Marketing Association to ensure the promotion and maintenance of high standards in direct mail production.

#### **Markets and Competition**

Sunline operates in the mature, but fragmented, direct mail market. The powerful databases now being used to ensure that mail is directed to its target market has improved consumer response and has led to more effective returns for the users of direct mail. It was widely felt that other forms of direct marketing would supplant direct mail, notably the internet. However, direct mail has proved to be an effective complement to other forms of direct marketing. Over the last 10 years direct mail expenditure has doubled. Direct marketing expenditure reached £14.1 billion, in 2005 of which direct mail represented £2.5 billion.

Within the direct mail market there are a large number of operators. However, the Directors consider that Sunline only has five or six significant competitors. The turnover of these companies is relatively low, due to the low cost per item of polywrapping, but the volumes of direct mail handled are significant. Whilst the barriers to entry to the market are relatively low, the Directors believe that, given the maturity of the market and the low value of the final product, it is unlikely that there will be new entrants to the market which will significantly increase the polythene wrapping capacity.

Sunline differentiates itself from its competitors by having strong customer relationships and providing a quality service, demonstrated by good customer retention. It has an established base of sales income, which covers a significant portion of its operating expenses.

### Sunline Trading History

Summarised financial information, extracted from the Financial Information on Sunline contained in Part VII of this document, is set out below:

	8 months to 30 June 2006 £'000	Year ended 31 October 2005 £'000	Year ended 31 October 2004 £'000	Year ended 31 October 2003 £'000
Turnover	4,345	6,364	6,149	4,550
Cost of sales	(2,738)	(3,911)	(3,449)	(2,585)
Gross profit	1,607	2,453	2,700	1,965
Net profit before tax	305	520	818	783
<b>Profit after tax</b>	<b>169</b>	<b>319</b>	<b>535</b>	<b>539</b>

### Strategy for the Enlarged Group

The existing businesses will be managed to develop and invest in new products and markets and where appropriate consider complementary acquisitions.

The Company is continuing to review acquisition opportunities in private service companies with a history of profitability, cash generation and with an overall value of up to £5 million. The Company is unlikely to consider opportunities unless the management is committed to the business and is prepared to be incentivised by a retained equity interest in the business.

### Profit Estimate

On 28 September 2006 the Company announced its interim results for the 6 month period ended 30 June 2006. Set out below is an extract from the Chairman's Statement of the interim results.

*"The second half has started encouragingly at Davies Odell with sales levels ahead of both last year and our internal budgets. Margins remain under pressure, but with the steps taken to increase prices and mitigate costs, we expect to see an improvement in profitability during the second half of 2006.*

*At Friedman's the steady turnover growth continues and we expect to see an improving trend in margins as negotiated lycra material price reductions flow through and the mix of business is more heavily orientated to bespoke products. During the second half the new website will be made accessible in five further languages enabling the continued growth of European distribution.*

*Taken together we expect to see a significant improvement in operating profitability in the second half of 2006.*

*With regard to acquisitions, considerable efforts have gone into reviewing suitable investments and the Board is hopeful of bringing an opportunity to shareholders within the year."*

Sunline will have no impact on the current year's results. However, the Directors believe that its continued performance, in line with expectations, should see Sunline become a major contributor to the Enlarged Group's results in the future.

Since the interim results the Group's performance in the second half of the year is expected to be not less than 10 per cent. above the operating profit, before exceptional items, achieved in the first half of the year.

For the year ended 31 December 2006, the Board believes that the Company's operating profit before exceptional items will show an improvement on the previous year.

During the year the Board has reviewed potential acquisition opportunities and in doing so it has accrued professional costs. In the event that the Board decides not to pursue any acquisition opportunities it will give rise to a one-off exceptional charge. The Board believes that current exposure to exceptional charges is less than £100,000.

Letters from PricewaterhouseCoopers LLP and CFA relating to the above profit estimate, including the detailed assumptions supporting it, are set out in Part III of this document.

### **The Placing and Funding of the Acquisition**

As Sunline has been historically cash generative the Board has considered it appropriate to fund part of the Acquisition using bank finance. Under the terms of the Credit Facility £2 million has been made conditionally available for this purpose. The Credit Facility bears an interest rate of 3 per cent. per annum over the Lender's base rate from time to time and subject to a margin ratchet which decreases the margin to 2.3 per cent. and is repayable out of cash flows of the Company. Further details on the Credit Facility are set out in Paragraph 14.7 of Part IX of the document.

CFA has entered into the Placing Agreement with the Company and the Directors, pursuant to which it has agreed to assist the Company to procure subscribers for the Placing Shares at the Placing Price.

The Placing will raise a total of £2.375 million before expenses, estimated to be approximately £650,000 (excluding VAT). The Placing Shares will represent approximately 57.13 per cent. of the Enlarged Issued Share Capital of the Company and will, when issued, rank *pari passu* in all respects with the Ordinary Shares then in issue, including the right to receive dividends and other distributions thereafter declared, made or paid. Of the net proceeds of the Placing, £1.45 million will be used to part fund the initial consideration for the Acquisition and the balance will be used for working capital.

The Placing is subject to satisfaction of the conditions in the Placing Agreement, a summary of which is contained in Part IX of this document.

There are no refinancing arrangements in place in relation to the Acquisition whereby repayment or security is dependent on the Company.

### **Share Consolidation**

The Directors believe that it is in the best interests of Shareholders to improve the marketability of the Company's Ordinary Shares by consolidating the Existing Ordinary Shares and consequently increasing the share price. Therefore, the Directors are proposing the Share Consolidation, the effect of which will be to consolidate every 50 Existing Ordinary Shares of 0.1p into 1 New Ordinary Share of 5p. Fractional entitlements will be aggregated and sold in the market for the benefit of the Company. Shareholders will own the same proportion of the Company's issued share capital after the Share Consolidation as they did previously, subject to fractional entitlements.

The Share Consolidation is subject to Shareholders approving the Resolution numbered 3 to be proposed at the EGM, and will become effective upon Admission. Upon Admission, in respect of Ordinary Shares held in certificated form, certificates for Existing Ordinary Shares will no longer be valid and New Ordinary Share certificates in respect of shares held in certificated form are expected to be issued on or about 12 February 2007. Following this date, the certificates in respect of the Existing Ordinary Shares can be destroyed. Share certificates are despatched to Shareholders at their own risk. Shareholders holding New Ordinary Shares through the CREST system will not receive any share certificates.

### **Placing and Related Party Transaction**

The Placing will raise £2.375 million, before expenses. The Directors, other than Geoff Martin, will participate in the Placing subscribing for, in aggregate, 1,110,000 Placing Shares at the Placing Price.

Immediately following Admission, the Directors will be interested, in aggregate, in 1,843,360 New Ordinary Shares representing 22.17 per cent. of the Enlarged Issued Share Capital.

The Placing is a Related Party Transaction under the AIM Rules. Where a company whose shares are listed on AIM enters into such a transaction, then the requirement is for the Directors of the company, who are independent of the transaction, to consider, after consultation with the nominated adviser, whether the terms of the transaction are fair and reasonable as far as shareholders are concerned. Geoff Martin, the only Director who is not participating in the Placing, having consulted with CFA, considers that the terms of the Placing are fair and reasonable as far as Shareholders are concerned.

## Warrants

On 26 March 2004, the Company issued Warrants to subscribe for 72,253,028 Existing Ordinary Shares at an exercise price of 2p per share, equivalent to an exercise price of 100p per New Ordinary Share following the Share Consolidation. These Warrants are exercisable at any time up to 19 April 2007. It is proposed that the terms of the Warrants are amended conditional on Admission and Warrantholder approval at the Warrantholder Meeting as follows:

- the exercise price be reduced to 1.25p per Existing Ordinary Share, which will correspond to 62.5p per New Ordinary Share following the Share Consolidation;
- the exercise date be extended from 20 April 2007 to 20 April 2010; and
- the Warrants be made freely transferable.

It is also proposed that the Warrants will be admitted to trading on AIM. Details of the terms of the Warrant Instrument and the proposed Amended and Restated Warrant Instrument are contained in paragraph 5 of Part IX of this document.

## Directors

### *Richard Organ, aged 54, Non-Executive Chairman*

Richard has significant experience of manufacturing and marketing in the footwear and clothing industries gained with C&J Clark Ltd and Coats Viyella plc. He is also a non-executive director of Swallowfield plc.

### *Geoff Martin, aged 61, Finance Director*

Geoff is a chartered accountant with experience in the profession, in commerce and overseas. He joined the Company in 1981 and has been Finance Director since 1985. In that time he has assisted the Company with takeovers and disposals as well as being a member of the Board that considered the refinancing and restructuring proposals in March 2004.

### *Peter Cook, aged 54, Non-Executive Director*

Peter is a chartered accountant. He has held senior commercial and financial roles in both public and venture capital financed companies. His recent experience lies in both the UK and overseas in the fields of engineering and construction, manufacturing, hire and leasing and service industries.

### *David Horner, aged 47, Non-Executive Director*

David is a chartered accountant. He qualified with Touche Ross and in 1986 joined 3i Corporate Finance Limited. In 1997, he formed Chelverton Asset Management Limited which specialises in managing portfolios of investments in private companies and small to medium sized 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 the Quoted Companies Alliance.

## Corporate Governance

The Directors recognise the value and importance of effective corporate governance and intend to observe the principal provisions of the Combined Code, to the extent that they consider them to be appropriate for a company of its size.

Audit, Nomination and Remuneration Committees of the Board are in existence with formally delegated duties and responsibilities.

The Audit Committee comprises the non-executive Directors and is chaired by Peter Cook. The 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 responsibilities to ensure the accounting records are adequate and that the financial statements give a true and fair view.

The Nominations Committee comprises the Chairman and the other non-executive Directors. It is responsible for making recommendations to the Board on any appointment to the Board.

The Remuneration Committee comprises the Chairman and the other non-executive Directors. The 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.

The Directors will continue to comply with Rule 21 of the AIM Rules for Directors' dealings as applicable to AIM Companies and will take all reasonable steps to ensure compliance by Directors and relevant employees.

### The Takeover Code

Under Rule 9 of the Code, when any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which he is already interested and in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company which is subject to the Code, that person is normally required to make a general offer to all remaining shareholders to acquire their shares.

Similarly, where any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of the voting rights of the company, a general offer is required if any further interest in shares is acquired by any such person, or any persons acting in concert with him, within the preceding 12 months.

An offer under Rule 9 must be in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares acquired during the 12 months prior to the announcement of the offer.

The current interests of the Concert Party in the voting rights of the Company and their expected maximum interests, assuming the Concert Party exercise all the Warrants and Options in which they are interested and no other Warrants or Options are exercised are set out in Part IV of this document. The Concert Party's interests following the implementation of the Proposals will amount in aggregate to 3,567,803 New Ordinary Shares, representing 42.91 per cent. of the Enlarged Issued Share Capital. Assuming the Concert Party exercise all their Warrants and Options (and no other Warrants or Options are exercised) then the Concert Party's interests would amount to 4,368,341 New Ordinary Shares, representing 47.93 per cent. of the Enlarged Issued Share Capital as further enlarged by the exercise of the Warrants and Options.

The Panel has agreed, subject to the passing of Resolution 2 at the EGM on a poll by Independent Shareholders, to waive the obligation of the Concert Party to make a general offer to Shareholders under Rule 9 of the Code that would otherwise arise as a result of the implementation of the Proposals.

**Following the Proposals and on full exercise of the Warrants and Options by the Concert Party only, the Concert Party will be interested in shares carrying more than 30 per cent. or more of the Company's voting share capital but will not hold shares carrying more than 50 per cent. of the voting rights of the Company. Accordingly, the Concert Party, for so long as its members continue to be treated as acting in concert, will not be able to increase its aggregate interests in Ordinary Shares without incurring any further obligation under Rule 9 to make a general offer.**

No member of the Concert Party has purchased Ordinary Shares in the 12 months preceding the date of this document. The Waiver which the Panel has agreed will be invalid if purchases of Ordinary Shares are made by any member of the Concert Party in the period between the date of this document and the EGM. Each member of the Concert Party has undertaken that he will not make any such purchases.

### Employees

The Directors have confirmed that they are not presently proposing any changes to the employment rights of employees of the Company or changes to the locations of the Company's place of business and that their intention is that the business of the Company should continue to be run in substantially the same manner as at present. The Directors have also confirmed that they have no intention redeploying any of the Company's fixed assets. The Board further confirms that, with respect to the business of Sunline, its intention is that its business should continue to be run in substantially the same manner as at present and that, strategically or otherwise, no changes are or have been proposed regarding its own business.

### Taxation

General information regarding UK taxation with regard to the New Ordinary Shares, the Warrants, the Placing and Admission is summarised in paragraph 13 of Part IX of this document. If you are in any doubt as to your tax position you should immediately consult your own independent financial adviser.

### **Dividend policy**

It is the Directors' intention for the Company to achieve capital growth and the Directors believe it is inappropriate to attempt to predict the likely level or timescale for the declaration and payment of dividends by the Company. However, as soon as it becomes commercially prudent the Directors intend to declare a dividend.

### **CREST**

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by written instrument. In accordance with standard practice, the New Ordinary Shares and Warrants will be eligible for settlement in CREST in accordance with the CREST Regulations.

### **Extraordinary General Meeting of Shareholders**

The Acquisition will be classified as a reverse takeover of the Sunline for the purposes of the AIM Rules and therefore is conditional upon the approval of Shareholders in general meeting. This approval will be sought at the Extraordinary General Meeting to be held at 11.00 a.m. on 5 February 2007 at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA. The notice convening the EGM is set out on pages 139 and 140 of this document.

The Share Consolidation will only take effect from Admission. Consequently, for Ordinary Shares held by Shareholders in certificated form, your existing share certificates will remain valid in respect of the number of Ordinary Shares to which they relate until such time. Please do not return your share certificates. Upon Admission your existing share certificate will cease to be valid and the Registrar will despatch to you a replacement share certificate reflecting the number of New Ordinary Shares held by you. Shareholders who hold their Ordinary Shares through CREST need take no action as their CREST accounts will be credited automatically with the number of New Ordinary Shares held by them upon Admission.

At the EGM, the following Resolutions will be proposed:

- (a) ordinary resolutions to approve:
  - (i) the Acquisition; and
  - (ii) the Waiver
- (b) special resolutions to approve:
  - (i) the Share Consolidation
  - (ii) the increase of the Company's authorised share capital from £330,403.25 (6,608,065 New Ordinary Shares) to £750,000 (15,000,000 New Ordinary Shares);
  - (iii) the authorisation of the Directors to allot pursuant to Section 80 of the Act New Ordinary Shares pursuant to:
    - (a) the Placing;
    - (b) the exercise of the Warrants and Options; and
    - (c) otherwise up to a maximum aggregate nominal amount of £262,007.75.
  - (iv) empower the Directors pursuant to Section 95 of the Act to allot New Ordinary Shares:
    - (a) pursuant to the Placing;
    - (b) pursuant to the exercise of the Warrants and Options;
    - (c) pro rata to the Shareholders; and
    - (d) otherwise up to an aggregate nominal amount of £200,000.

### **Action to be taken by Shareholders**

Shareholders will find enclosed with this document a Form of Proxy for use at the EGM. Whether or not you intend to be present at the EGM, Shareholders are requested to complete, sign and return their Form of Proxy to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event so as to arrive no later than 11.00 a.m. on 3 February 2007. The completion and return of a Form of Proxy will not preclude Shareholders from attending the meeting and voting in person should they wish to do so. Accordingly, whether or not Shareholders intend to attend the EGM, they are urged to complete and return the Form of Proxy as soon as possible.

### **Extraordinary General Meeting of Warranholders**

The amendments to the Warrant are conditional upon the approval of Warranholders in an extraordinary general meeting of the Warranholders. This approval will be sought at the Warranholder Meeting, to be held at 11.30 a.m. on 5 February 2007 at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA. The notice convening the meeting is set out on page 141 of this document. At the meeting, an extraordinary resolution to approve the amendment and restatement of the Warrant Instrument pursuant to the Amended and Restated Warrant Instrument.

### **Action to be taken by Warranholders**

Warranholders will find enclosed with this document a Warranholder Proxy for use at the Warranholder Meeting. Whether or not Warranholders intend to be present at the Warranholder Meeting, Warranholders are requested to complete, sign and return their Warranholder Form of Proxy to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event so as to arrive no later than 11.30 a.m. on 3 February 2007. The completion and return of a Warranholder Proxy will not preclude Warranholders from attending the meeting and voting in person should they wish to do so. Accordingly, whether or not Warranholders intend to attend the meeting, they are urged to complete and return the Warranholder Proxy as soon as possible.

The amendments to the Warrants will only take effect from Admission. Consequently, Warranholders' existing Warrant certificates will remain valid in respect of the number of Warrants to which they relate until such time. Please do not return your Warrant certificates. Upon Admission your existing Warrant certificate will cease to be valid and the Registrar will despatch to you a replacement Warrant certificate reflecting the adjusted number of Warrants held by you. You may wish to have a CREST account credited with the adjusted number of Warrants held by you which will be possible following Admission. For further information on how to credit a CREST account you should contact their stockbroker, bank or other person approved by the FSA.

### **Risk Factors**

Your attention is drawn to the risk factors set out in Part IV and to the section entitled "Forward-looking Statements" on page 2 of this document. Potential investors should, in addition to all the information set out in this document, carefully consider the risks described in those sections before making a decision to invest in the Company.

### **Further Information**

Your attention is drawn to the additional information set out in Parts II to IX of this document.

### **Recommendation**

As Richard Organ, Geoff Martin, Peter Cook and David Horner are members of the Concert Party and Directors of the Company they are precluded by the Code from providing advice in this case to Shareholders on the terms of the Acquisition and the Waiver. Consequently, as there are no independent Directors of the Company, CFA, has (in its letter to the Independent Shareholders set out in Part II of this document) advised the Independent Shareholders of the Company with regard to the terms of the Acquisition and Waiver.

CFA considers that the terms of the Acquisition and the Waiver, comprising a waiver of the obligation on the members of the Concert Party (both individually and collectively) to make a general offer to Shareholders under Rule 9, are fair and reasonable and in the best interests of Independent Shareholders as a whole and recommends Independent Shareholders to vote in favour of Resolution 2 to be proposed at the Extraordinary General Meeting. In giving its advice, CFA has taken into account the Directors' commercial assessments.

In addition, as the Placing is a related party transaction under the AIM Rules, the Independent Director, having consulted with the Company's nominated adviser, CFA, considers the terms of the transaction to be fair and reasonable insofar as the Shareholders are concerned.

All of the Directors believe that Resolutions 1, 3, 4, 5 and 6 are in the best interests of Shareholders and therefore recommend Shareholders to vote in favour of these Resolutions as they intend to do in respect of their own beneficial shareholdings, which amount in aggregate to 36,668,142 Existing Ordinary Shares representing 20.58 per cent. of the Existing Issued Share Capital of the Company.

Yours sincerely

**Richard Organ**  
Chairman

## PART II

### LETTER FROM CITY FINANCIAL ASSOCIATES LIMITED TO THE INDEPENDENT SHAREHOLDERS OF CEPS



Pountney Hill House  
8 Laurence Pountney Hill  
London EC4R 0BL

The Independent Shareholders  
CEPS PLC  
11 George Street  
Bath BA1 2EH

11 January 2007

Dear Sirs

#### ACQUISITION OF SUNLINE AND WAIVER

We have been appointed by the Board of CEPS as Rule 3 adviser to the Independent Shareholders of CEPS in connection with the Acquisition and Waiver. In view of the fact that the Directors are all members of the Concert Party, CEPS's Board is precluded under the Code from giving advice to Independent Shareholders on the Acquisition and Waiver and on an appropriate course of action for them to take in relation to it.

**In consideration whether the Independent Shareholders should vote in favour of Resolution 2 to be proposed at the EGM we draw their attention to the factors set out in the letter from the Chairman of CEPS in Part I of this document and, in particular, the information contained in the paragraphs headed "Background to and reasons for the Proposals", "Information on Sunline and the Reasons for the Acquisition", "The Takeover Code", the information in Part V headed "Risk Factors" and Part VII headed "Accountants' Report and Financial Information on Sunline Direct Mail Limited".**

**Having regard to the factors noted above, CFA considers that the Acquisition and Waiver are fair and reasonable and in the best interests of Independent Shareholders as a whole and recommends that Independent Shareholders vote in favour of Resolution 2 to be proposed at the EGM. In forming our recommendation we have taken into account, *inter alia*, the factors set out in this document and the Directors' commercial assessments.**

**In giving its advice to Independent Shareholders, CFA is acting for the Board of CEPS and no one else in connection with the Acquisition and Waiver and will not be responsible to anyone other than the Board of CEPS for providing the protections afforded to clients of CFA.**

**If Independent Shareholders are in any doubt about the action which they should take, they should immediately consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.**

Yours faithfully

City Financial Associates Limited

**PART III**  
**PROFIT ESTIMATE FOR CEPS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

In the paragraph entitled "Profit Estimate" in Part I of this document, the Directors have made a profit estimate for the year ended 31 December 2006.

The profit estimate, which is based upon the unaudited interim results of CEPS for the 6 month period ended 30 June 2006, unaudited management accounts for the four months ended 31 October 2006 and the Company's estimate for the two months to 31 December 2006, has been made after due and careful enquiry, been prepared using accounting policies consistent with those set out in the Company's statutory financial statements for the year ended 31 December 2005.

Operating profit before exceptional items has been used as opposed to profit before tax since CEPS directors regard operating profit before exceptional items (which include acquisition related costs) as the single most important measure in assessing future profitability.

The following is a letter from PricewaterhouseCoopers LLP. The letter is given for the purpose of complying with Rule 28.3(b) of the City Code on Takeovers and Mergers and for no other purpose.



**PricewaterhouseCoopers LLP**  
31 Great George Street  
Bristol  
BS1 5QD

The Directors  
CEPS PLC  
11 George Street  
Bath  
BA1 2EH

City Financial Associates Limited  
Pountney Hill House  
6 Laurence Pountney Hill  
London  
EC4R 0BL

11 January 2007

Dear Sirs

### **CEPS PLC**

We report on the profit estimate comprising the statement by CEPS PLC (the “**Company**”) and its subsidiaries (together the “**Group**”) for the year ended 31 December 2006 (the “**Profit Estimate**”). The Profit Estimate and the basis on which it is based, is set out on page 14 of Part I and page 21 of Part III respectively of the document issued by CEPS PLC (the “**Company**”) dated 11 January 2007 (the “**Admission Document**”).

This report is required by Rule 28.3(b) of the City Code on Takeovers and Mergers (the “**Code**”) and is given for the purpose of complying with the Code and for no other purpose.

### **Responsibilities**

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Profit Estimate in accordance with the requirements of the Code.

It is our responsibility to form an opinion as required by Rule 28.3(b) of the Code as to the proper compilation of the Profit Estimate and to report that opinion to you.

Save for any responsibility under Rule 28.3(b) of the Code to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 28.4 of the Code, consenting to its inclusion in the Admission Document.

### **Basis of Preparation of the Profit Estimate**

The Profit Estimate has been prepared on the basis stated in Part III of the Admission Document and is based on the unaudited interim financial results for the six months ended 30 June 2006, the unaudited management accounts for the 4 months ended 31 October 2006 and an estimate of 2 months to 31 December 2006. The Profit Estimate is required to be presented on a basis consistent with the accounting policies of the Group.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Estimate has been prepared and considering whether the Profit Estimate has been accurately computed using that information and whether the basis of accounting used is consistent with the accounting policies of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Estimate has been properly compiled on the basis stated.

However, the Profit Estimate has not been audited. The actual results reported, therefore, may be affected by revisions required to accounting estimates due to changes in circumstances, the impact of unforeseen events or the correction of errors in the management accounts. Consequently, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Estimate and differences may be material.

**Opinion**

In our opinion, the Profit Estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PricewaterhouseCoopers LLP  
Chartered Accountants

The Directors  
CEPS PLC  
11 George Street  
Bath BA1 2EH

11 January 2007

Dear Sirs,

We refer to the profit estimate of CEPS PLC for the year ended 31 December 2006 (the “Profit Estimate”). The Profit Estimate and the basis on which it is based is set out on page 14 of Part I and page 21 of Part III respectively of this document (the “**Admission Document**”). Terms used in this letter have the same meanings as in the Admission Document.

We have discussed the Profit Estimate with you and PricewaterhouseCoopers LLP. We have also considered the letter from PricewaterhouseCoopers LLP dated 11 January 2007 addressed to you and us regarding the accounting policies and calculations on which the Profit Estimate is based.

On the bases of these discussions and having regard to the letter from PricewaterhouseCoopers LLP dated 11 January 2007, we consider that the Profit Estimate, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully

For and on behalf of  
City Financial Associates Limited

## PART IV

### INFORMATION ON CONCERT PARTY

<i>Concert Party Member</i>	<i>Address</i>	<i>Relationship</i>
David Horner, Chelverton Asset Management Limited (“CAM”), Colinette Holdings Limited (“Colinette”), David Horner, SIPP, Belas Knapp Trust and Stanton Trust	11 George St., Bath BA1 2EH	David Horner is a director of CEPS and Managing Director of CAM which is owned 100 per cent. by Colinette, which in turn is owed by David and Mary Horner (David Horner’s wife), Stanton Trust – a trust for Harry and Tom Horner (David Horner’s minor and Stanton Trust children) and Belas Knapp Trust – a trust for David and Mary Horner.
Chelverton Growth Trust plc (“CGT”)	23 Cathedral Yard, Exeter, Devon EX1 1HB	CGT is an investment trust managed by CAM. David Horner owns shares representing 4.75 per cent. of the issued share capital of CGT.
Robin Boyle, Robin Boyle Pension Fund	171 Cromwell Tower, Barbican, London EC2Y 8DD	Robin Boyle was, until recently, an investment manager at CAM.
Helen Veale	11 George St., Bath BA1 2EH	Helen Veale is office manager of CAM.
Ian Buckley	54 York Mansions, Prince of Wales Drive, London SW11 4BP	Ian Buckley is a non-executive director of Dowgate Capital plc, the holding company of CFA. CFA acts as nominated adviser and broker to CEPS.
Richard Organ	4 Elsfield Road, Old Marston, Oxford OX3 0PR	Richard Organ is non-executive Chairman of the Company.
Robert Mitchell	15 Denton Road, Horton, Northampton NN7 2BE	Robert Mitchell is the manager of the Odell (Rushden) division of Davies Odell. Until April 2004 he was a director of Dinkie Heel plc but resigned at the time of the refinancing and name change to CEPS. He is not a director of Davies Odell.
Geoff Martin	11 George St., Bath BA1 2EH	Geoff Martin is finance director of the Company.
Chris Ball	Hillside, Upton Cheyney, Bristol BS30 6LY	Chris Ball was the managing director of Dinkie Heel plc until his resignation in December 2004 when he bought the toe cap business (now carried on in the name of Dinkie Limited) from CEPS.
David Abell	Elm House, Elmer Street North, Grantham, Lincs NG31 6RE	David Abell is a shareholder in CGT.
Simon Stephenson	Briars House, 3 Rectory Lane, Edith Weston, Oakham, Rutland LE15 8HE	Simon Stephenson used to own Bishopsgate Amalgamations Limited, a business specialising in mergers and acquisitions, of which David Horner was chairman.

Thomas Sinclair	Orchard House, Weston Road, Edith Weston, Rutland LE15 8HQ	Thomas Sinclair is a former chairman of William Sinclair Holdings plc and the father in law of Simon Stephenson
David Hart	127 London Road West, Bath BA1 7JF	David Hart is a friend of David Horner and has appointed Robin Boyle to manage a small portfolio of shares on his behalf.
David Dunbar	The Hermitage, 193 Lower Road, Bookham, Leatherhead KT23 4AU	Robin Boyle (in the ordinary course of his business as an investment manager) advises David Dunbar and his immediate family on their Stock Exchange investments.
Peter Cook	11 George St., Bath BA1 2EH	Peter Cook is a non-executive director of the Company.
Linda and Hugo Deschampsneufs	86 Coniger Road, London SW6 3TA	Linda Deschampsneufs is the wife of Hugo Deschampsneufs, Chairman of Athelney Trust plc, of which Robin Boyle is the managing director. Robin Boyle also advises Linda and Hugo Deschampsneufs on their Stock Exchange investments.
David Munn	East Wing Blue Lodge Abson Wick South Gloucestershire BS30 5TX	David Munn is a friend of David Horner and David Hart.

The Concert Party's interests following the implementation of the Proposals will amount in aggregate to 3,567,803 New Ordinary Shares, representing 42.91 per cent. of the Enlarged Issued Share Capital. Assuming the Concert Party exercise all their Warrants and Options (and no other Warrants or Options are exercised) then the Concert Party's interests would amount to 4,368,341 New Ordinary Shares, representing 47.93 per cent. of the Enlarged Issued Share Capital as further enlarged by the exercise of the Warrants and Options.

The Panel has agreed, subject to the passing of Resolution 2 at the EGM on a poll by Independent Shareholders, to waive the obligation of the Concert Party to make a general offer to Shareholders under Rule 9 of the Code that would otherwise arise as a result of the implementation of the Proposals.

**Following the Proposals and on full exercise of the Warrants and Options by the Concert Party only, the Concert Party will be interested in shares carrying more than 30 per cent. or more of the Company's voting shares capital but will not hold shares carrying more than 50 per cent. of the voting rights of the Company. Accordingly, the Concert Party, for so long as its members continue to be treated as acting in concert, will not be able to increase its aggregate interests in Ordinary Shares without incurring any further obligation under Rule 9 to make a general offer.**

No member of the Concert Party has purchased Ordinary Shares in the 12 months preceding the date of this document. The Waiver which the Panel has agreed will be invalid if purchases of Ordinary Shares are made by any member of the Concert Party in the period between the date of this document and the EGM. Each member of the Concert Party has undertaken that he will not make any such purchases.

The current interests of the Concert Party in the voting rights of the Company and their expected maximum interests, assuming the Concert Party exercise all the Warrants and Options in which they are interested and no other Warrants or Options are exercised are as follows:

Name	Ordinary Shares	New Ordinary Shares	Placing Shares	Number of New Ordinary Shares following completion of the Proposals	Percentage of Enlarged Share Capital	Maximum Number of New Ordinary Shares following Warrant* and Options** exercise	Percentage of further Enlarged Share Capital assuming maximum Warrant* and Options** exercise
Chelverton Asset Management Ltd	–	–	–	–	–	50,000	0.55
Colinette HL	6,466,667	129,333	460,000	589,333	7.09	649,333	7.12
David Horner SIPP	10,888,889	217,777	400,000	617,777	7.43	667,777	7.33
Belas Knapp Trust	2,000,000	40,000	–	40,000	0.48	60,000	0.66
Stanton Trust	2,000,000	40,000	–	40,000	0.48	60,000	0.66
Chelverton Growth Trust PLC	8,792,823	175,856	450,000	625,856	7.53	691,562	7.59
Robin Boyle	5,000,000	100,000	–	100,000	1.20	150,000	1.65
Robin Boyle Pension Fund	812,743	16,254	–	16,254	0.20	19,179	0.21
Helen Veale	1,500,000	30,000	–	30,000	0.36	45,000	0.49
Ian Buckley	1,000,000	20,000	–	20,000	0.24	30,000	0.33
Richard Organ	5,966,667	119,333	50,000	169,333	2.04	225,333	2.47
Robert Michell	1,101,145	22,022	–	22,022	0.26	33,283	0.37
Geoff Martin	1,012,586	20,251	–	20,251	0.24	30,376	0.33
Chris Ball	5,811,719	116,234	–	116,234	1.40	173,681	1.90
David Abell	11,050,000	221,000	200,000	421,000	5.06	521,000	5.72
Simon Stephenson	5,000,000	100,000	–	100,000	1.20	150,000	1.65
Tom Sinclair	2,500,000	50,000	–	50,000	0.60	75,000	0.82
David Hart	2,500,000	50,000	20,000	70,000	0.84	95,000	1.04
David Dunbar	2,000,000	40,000	–	40,000	0.48	60,000	0.66
David Dunbar Pension Fund	1,347,256	26,945	–	26,945	0.32	30,715	0.34
Peter Cook	8,333,333	166,666	200,000	366,666	4.41	436,666	4.79
Linda/Hugo Deschampneufs	2,888,889	57,777	–	57,777	0.69	77,777	0.85
Hugo Deschampneufs Pension Fund	917,779	18,355	–	18,355	0.22	21,659	0.24
David Munn	500,000	10,000	–	10,000	0.12	15,000	0.16
<b>Total</b>	<b>89,090,496</b>	<b>1,781,803</b>	<b>1,780,000</b>	<b>3,567,803</b>	<b>42.91</b>	<b>4,368,341</b>	<b>47.93</b>

\*Effective from Admission, the Warrants are exercisable at any time prior to 20 April 2010.

\*\*The Options are exercisable at any time from Admission until 31 December 2008.

## PART V

### RISK FACTORS

Prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in the New Ordinary Shares and whether to approve the Resolutions at the EGM. Investment in the Ordinary Shares involves a high degree of risk. The Directors consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Enlarged Group's business.

If any of the following risks actually occur, the Enlarged Group's business, financial condition, capital resources and results or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could fall and investors may lose all or part of the value of their investment.

- In 2004, the Company adopted a strategy to invest and acquire majority shareholdings in private industrial services companies with a history of profitability, cash generation and with an overall value of up to £5 million. Since then one acquisition has been completed and Sunline will be the second acquisition. There can be no assurance that the Company will be able to integrate this business or successfully identify, acquire or integrate further businesses.
- CEPS's continued ability to effectively implement its business plan may depend in part, on its ability to raise additional funds. There can be no assurance that any such equity or debt funding will be available to CEPS on favourable terms or at all. If adequate funds are not available on acceptable terms, CEPS may not be able to take advantage of opportunities as they arise.
- CEPS's financial results could be affected by the performance of the companies in which it has made investments and has majority shareholdings.
- There is no assurance that the historical performance of the companies in which the Company has majority shareholdings is indicative of future operating results.
- The Enlarged Group's future success is substantially dependent on the continued services and performance of its Directors and directors and senior management of its subsidiaries and its ability to continue to attract and retain highly skilled and qualified personnel. Although measures are in place and are under review to reward and retain key individuals and to protect the Enlarged Group from the impact of staff turnover, the Directors cannot give assurances that the directors and members of the senior management team will continue to remain with the Enlarged Group. The loss of these key employees could damage the Enlarged Group's business.
- CEPS maintains an internal risk management process and also follows quality assurance procedures in relation to manufacturing and distribution of the products of subsidiary companies. However, due to the nature of its operations, it is possible that, notwithstanding the procedures in place designed to minimise exposure and risks, claims against CEPS could arise from defects in products supplied by the Enlarged Group.
- Forward-looking statements in this document are no guarantee of future performance and only reflect the views and assumptions as of the date of this document and are subject to risks, uncertainties, markets conditions and other factors, some of which are beyond the control of the Company and difficult to predict.
- The Enlarged Issued Share Capital and Warrants will be admitted to trading on AIM rather than the Official List. The rules of AIM are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. The market for shares in smaller quoted companies is less liquid than for larger companies. Ordinary Shares may be difficult to buy or sell and may be subject to greater fluctuation in price than on the Official List. Investors may therefore lose part or all of their original investments. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Investors should be aware that the price of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment. The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. On any disposal investors may realise less than the original amount invested. Investors should consider carefully whether the investment in the Enlarged Group is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

## **PART VI**

### **FINANCIAL INFORMATION ON CEPS**

The financial information set out below has been extracted, without adjustment, from the published accounts of CEPS for the three years ended 31 December 2005 and the unaudited interim results of CEPS for the six months period ended 30 June 2006.

## 1. Audited consolidated accounts of CEPS for the year ended 31 December 2005

### Independent Auditor's 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 2005 which comprise the Group profit and loss account, the Group and company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the Group's profit and cash flows for the year then ended;

and

- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol

29 June 2006

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2005 £'000	2004 (restated) £'000
<b>Profit and Loss account</b>			
<b>Turnover</b>	2		
continuing operations		4,509	4,676
acquisition		2,410	–
discontinued operations		–	687
		<u>6,919</u>	<u>5,363</u>
Cost of sales		<u>(5,869)</u>	<u>(4,476)</u>
Gross profit		1,050	887
Net operating expenses (excluding exceptional items)	3	<u>(882)</u>	<u>(642)</u>
Operating profit before exceptional items		168	245
Exceptional items: restructuring costs	3	<u>–</u>	<u>(99)</u>
Operating profit		168	146
Analysis of operating profit			
continuing operations, trading		219	439
continuing operations, Group costs		(212)	(170)
acquisition		161	–
discontinued operations		–	(123)
Interest payable	6	<u>(115)</u>	<u>(32)</u>
<b>Profit on ordinary activities before taxation</b>	7	53	114
Taxation	9	<u>(6)</u>	<u>(12)</u>
<b>Profit after taxation</b>		47	102
Minority interests		<u>(7)</u>	<u>–</u>
Profit for the period		40	102
Dividends	11	<u>–</u>	<u>–</u>
Retained profit for the year	23	<u>40</u>	<u>102</u>
Earnings per share	12		
– basic		0.02p	0.10p
– diluted		0.02p	0.09p
<b>Statement of total recognised gains and losses</b>		£'000	£'000
Profit for the year		40	102
Actuarial loss recognised in pension scheme	5,23	(272)	(660)
Movement on deferred tax relating to pension scheme		<u>82</u>	<u>198</u>
Total recognised losses for the year		<u>(150)</u>	<u>(360)</u>
Prior year adjustment	5,23	<u>(318)</u>	
Total recognised losses since last annual report		<u>(468)</u>	

In the opinion of the directors the results on a historical cost basis are not materially different from the results as set out above.

## BALANCE SHEETS

	Note	Group		Company	
		2005	2004 (restated)	2005	2004 (restated)
		£'000	£'000	£'000	£'000
<b>Net assets employed</b>					
<b>Fixed assets</b>					
Intangible	13	1,529	–	1	–
Tangible	14	259	263	217	263
Investments	15	–	–	500	–
		<u>1,788</u>	<u>263</u>	<u>718</u>	<u>263</u>
<b>Current assets</b>					
Stocks	16	1,087	639	564	639
Debtors	17	1,428	813	824	813
Cash at bank and in hand		24	422	–	422
		<u>2,539</u>	<u>1,874</u>	<u>1,388</u>	<u>1,874</u>
<b>Creditors: amounts falling due within one year</b>	18	<u>(2,093)</u>	<u>(1,242)</u>	<u>(801)</u>	<u>(1,242)</u>
<b>Net current assets</b>		<u>446</u>	<u>632</u>	<u>587</u>	<u>632</u>
<b>Total assets less current liabilities</b>		<u>2,234</u>	<u>895</u>	<u>1,305</u>	<u>895</u>
<b>Creditors: amounts falling due after more than one year</b>	19	<u>(878)</u>	<u>(420)</u>	<u>(157)</u>	<u>(420)</u>
<b>Provisions for liabilities and charges</b>	21	<u>(42)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net assets excluding pension liability</b>		<u>1,314</u>	<u>475</u>	<u>1,148</u>	<u>475</u>
<b>Pension liability</b>	5	<u>(471)</u>	<u>(318)</u>	<u>–</u>	<u>(318)</u>
<b>Net assets including pension liability</b>		<u>843</u>	<u>157</u>	<u>1,148</u>	<u>157</u>
<b>Capital and reserves</b>					
Called up share capital	22	178	145	178	145
Share premium	23	676	–	676	–
Special reserve	23	–	304	–	304
Profit and loss account	23	(138)	(292)	294	(292)
<b>Total equity shareholders' funds</b>		<u>716</u>	<u>157</u>	<u>1,148</u>	<u>157</u>
Minority interests		<u>127</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Capital employed</b>		<u>843</u>	<u>157</u>	<u>1,148</u>	<u>157</u>

These accounts were approved by the Board of Directors on 29 June 2006.

R T Organ  
G C Martin  
*Directors*

## CONSOLIDATED CASH FLOW STATEMENT

	Note	2005 £'000	2004 (restated) £'000
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Operating profit		168	146
Depreciation and amortisation charges		170	52
Difference between pension charge and cash contributions		(53)	(40)
Increase in stocks		(63)	(50)
Increase in debtors		(120)	(91)
Increase/(decrease) in creditors		36	(449)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		138	(432)
		<hr/>	<hr/>
<b>Cash Flow Statement</b>			
Net cash inflow/(outflow) from operating activities		138	(432)
Returns on investments and servicing of finance	26	(115)	(32)
Taxation	26	(68)	–
Capital expenditure and financial investment	26	(41)	(43)
Acquisition	26	(1,599)	–
Disposal	26	–	137
		<hr/>	<hr/>
		(1,685)	(370)
Financing	26	1,197	776
		<hr/>	<hr/>
(Decrease)/increase in cash		(488)	406
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash		(488)	406
Cash (increase)/decrease from change in debt		(438)	427
		<hr/>	<hr/>
Change in net debt		(926)	833
Net debt at 1 January		(294)	(1,127)
		<hr/>	<hr/>
Net debt at 31 December	28	(1,220)	(294)
		<hr/>	<hr/>

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

#### (a) Accounting convention:

These accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. Accounting policies have been consistently applied.

#### (b) Changes in accounting policy:

The Group has adopted Financial Reporting Standard 17 'Retirement Benefits' in the financial statements. The adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of the change in accounting policy to adopt FRS17 was to decrease staff costs by £53,000 (2004, £6,000), finance costs by £nil (2004, £34,000) and to increase the tax charge by £nil (2004, £12,000). Profit for the year was increased by £53,000 (2004, £28,000). Actuarial losses recognised were £190,000 (2004, £462,000).

The Group has also reviewed the accounting treatment of its debtor backed working capital facilities and in 2005 has separately disclosed them within creditors. At 31 December 2005 the amount of these facilities was £416,000 (2004, £271,000). These were previously included within bank overdrafts and the comparative figures have been restated.

The directors have also considered the requirements of the other UK Financial Reporting Standards which apply to the Group for the first time in 2005 and have concluded that they do not impact the Group's financial statements.

#### (c) Basis of consolidation:

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2005. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra Group sales and profits are eliminated fully on consolidation.

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

#### (d) Income recognition:

Turnover comprises the invoiced value of goods sold, excluding VAT (which is recognised on despatch).

#### (e) Fixed assets:

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

Plant and machinery, tools and moulds:

between 5 and 10 years, or over the period of the contract

Motor vehicles:

5 years.

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

#### (f) Stocks:

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

#### (g) Deferred taxation:

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

#### (h) Foreign currencies:

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

#### (i) Acquisitions:

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

## 1. Accounting policies *continued*

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

### (j) Pensions:

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

### (k) Operating leases:

The annual costs of operating leases are charged to the profit and loss account as incurred.

### (l) Investments in subsidiaries:

Investments in subsidiaries are held at cost less provisions for impairment.

### (m) Minority interests:

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

## 2. Turnover and segmental analysis

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

Segment of activity	Friedman's	Davies Odell		Dinkie	Group	
	2005	2005	2004	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	(restated) £'000
Turnover	2,410	4,509	4,676	687	6,919	5,363
Segmental profit/(loss) before exceptional items	161	219	439	(24)	380	415
Exceptional items	-	-	-	(99)	-	(99)
Segmental profit/(loss) before Group costs	161	219	439	(123)	380	316
Group costs					(212)	(170)
Profit before interest and taxation					168	146
Interest payable					(115)	(32)
Group profit before taxation					53	114
Net assets/(liabilities)	1,517	1,017	898	(129)	2,534	769
Pension liability					(471)	(318)
Unallocated net liabilities					(1,220)	(294)
Total net assets					843	157

The investment in Friedman's was acquired on 25 January 2005 and accordingly no comparative figures are included above. Friedman's converts and distributes specialist Lycra.

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

The operations comprising the Dinkie segment were sold in December 2004 to a management buy-out company.

## 2. Turnover and segmental analysis *continued*

Geographical analysis of turnover by destination	2005 £'000	2004 £'000
United Kingdom	5,504	3,654
Rest of Europe	1,198	968
The Americas	89	248
Australasia	6	35
Far East	78	443
Africa	44	15
	<hr/>	<hr/>
	6,919	5,363
	<hr/>	<hr/>

## 3. Net operating expenses

	2005 £'000	2004 £'000
Distribution costs	173	205
Administrative expenses, normal	709	437
Restructuring costs	–	99
	<hr/>	<hr/>
	882	741
	<hr/>	<hr/>

## 4. Staff numbers and costs

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

	2005	2004
Management and administration	21	16
Production and sales	38	38
	<hr/>	<hr/>
	59	54
	<hr/>	<hr/>

At 31 December 2005 the total number of persons employed was 54 (2004, 52).

The aggregate payroll costs of these persons were:

	2005 £'000	2004 £'000
Wages and salaries	1,089	962
Social security costs	103	81
Other pension costs	47	68
	<hr/>	<hr/>
	1,239	1,111
	<hr/>	<hr/>

## 5. Pension costs and adoption of FRS17 'Retirement Benefits'

The Group operates two defined contribution schemes. The assets of the schemes are held in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £33,000 (2004, £38,000).

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

In the year the Group has adopted FRS17 'Retirement Benefits' and the balance sheet at 31 December 2004 and the profit and loss account for the year ended 31 December 2004 have been restated. Adoption of FRS17 has reduced the pension charge against operating profit in the year by £53,000 (2004, £6,000), finance costs by £nil (2004, £34,000) and increased the tax charge by £nil (2004, £12,000). Shareholders' funds at 1 January 2005 have been reduced by £318,000, an amount comprised of the pension fund surplus at 1 January 2004 of £116,000 increased in the year ended 31 December 2004 by the lower pension charge of £28,000 and reduced by the recognition of the actuarial loss in the year 2004 of £462,000. The movement in the profit and loss account reserve is shown in note 23 on page 49.

The Group commissioned an independent qualified actuary to update to 31 December 2005 the results of the previous actuarial valuation. The results of the update are as follows:

	31 December 2005	31 December 2004	31 December 2003
Financial assumptions:			
Salary increases	3.5%	3.5%	3.5%
Increases to pensions and deferred pensions	2.75%	2.75%	2.75%
Discount rate	5.0%	5.4%	5.5%
RPI	2.75%	2.75%	2.75%
The assets of the scheme and the expected return on assets were:			
Assets	£1,831,000	£1,748,000	£1,646,000
Return on assets	6.5%	6.9%	7.0%
Financial position:	£'000	£'000	£'000
The assets of the scheme	1,831	1,748	1,646
Actuarial liabilities	(2,504)	(2,202)	(1,480)
(Deficit)/surplus	(673)	(454)	166
Related deferred tax asset/(liability)	202	136	(50)
Net pension (liability)/asset	(471)	(318)	116
Balance sheet net assets/(liabilities)	1,314	475	(802)
Net pension (liability)/asset	(471)	(318)	116
Adjusted balance sheet net assets/(liabilities)	843	157	(686)

## 5. Pension costs and adoption of FRS17 'Retirement Benefits' continued

	31 December 2005	31 December 2004	31 December 2003
Profit and loss reserve excluding pension (liability)/asset	333	26	(2,297)
Net pension (liability)/asset	(471)	(318)	116
Adjusted profit and loss deficit	(138)	(292)	(2,181)
Analysis of the amount charged to operating profit:			
Current service cost	14	30	37
Cost on settlements	–	–	24
Cost on curtailments	–	–	(20)
	14	30	41
Analysis of the amount credited to financing of pension provisions:			
Expected return	120	115	120
Interest on pension liabilities	(120)	(81)	(83)
	–	34	37
Amount recognised in the statement of total recognised gains and losses (STRGL):			
Actual return less expected return on scheme assets	(1)	(24)	(33)
Experience gains and losses	(75)	(486)	53
Change in assumptions underlying present value of scheme liabilities	(196)	(150)	(43)
Actuarial loss in STRGL	(272)	(660)	(23)
Movement in surplus during the year:			
(Deficit)/surplus at the beginning of the year	(454)	166	144
Total operating charge	(14)	(30)	(41)
Company contributions	67	36	49
Net finance return	–	34	37
Actuarial loss in STRGL	(272)	(660)	(23)
(Deficit)/surplus at the end of the year	(673)	(454)	166
Details of experience gains and losses:			
Difference between the expected and actual return on scheme assets amount £'000	(1)	(24)	(33)
% of scheme assets	(0%)	(1%)	(2%)
Experience gains and losses on scheme liabilities amount £'000	(75)	(486)	53
% of the present value of the scheme's liabilities	(3%)	(22%)	4%
Total amount recognised in STRGL amount £'000	(272)	(660)	(23)
% of the present value of the scheme's liabilities	(11%)	(30%)	(2%)

## 6. Interest payable

	2005	2004 (restated)
	£'000	£'000
On bank loans and overdrafts	115	32

## 7. Profit on ordinary activities before taxation

	2005	2004
	£'000	£'000
Is stated after charging:		
Depreciation and amortisation:		
of intangible fixed assets	74	–
of tangible fixed assets	96	52
Auditor's remuneration and expenses:		
for audit	22	18
for non-audit	13	3
Operating leases:		
on land and buildings	108	102
on plant and machinery	22	19

Included in the audit fee for the Group shown above, £18,000 is in respect of the audit of the company (2004, £18,000).

## 8. Directors' emoluments and interests

	2005	2004
	£'000	£'000
The aggregate remuneration of the directors was:		
Fees	15	–
Salaries and benefits	75	166
Termination payments	–	53
Total	90	219

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

	Salaries and fees		Benefits		Total	
	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000
P G Cook	25	–	–	–	25	–
D A Horner	–	–	–	–	–	–
G C Martin	44	59	1	1	45	60
R T Organ	20	20	–	–	20	20
	89	79	1	1	90	80

The remuneration of P G Cook includes a fee of £15,000 related to the successful acquisition of Signature Fabrics Limited that is included within the cost of acquisition of that company.

In 2004 £86,000 was paid to former directors.

Benefits represent the value attributed to medical insurance.

## 8. Directors' emoluments and interests *continued*

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

	£'000 pa
Accrued pension at 31 December 2004	18
Increase in accrued pension during 2005	<u>2</u>
Accrued pension at 31 December 2005	<u>20</u>
	£'000
Transfer value of the increase in accrued pension during 2005	<u>18</u>

Until 30 June 2005 G C Martin was also a member of a Group defined contribution scheme. Contributions on his behalf to the scheme to that date were £2,000 (2004, £3,000).

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

	31 December 2005		31 December 2004	
	shares	warrants	shares	warrants
P G Cook	8,333,333	3,500,000	7,000,000	3,500,000
D A Horner	21,355,556	10,000,000	20,000,000	10,000,000
G C Martin	1,012,586	506,293	1,012,586	506,293
R T Organ	5,966,667	2,650,000	5,300,000	2,650,000

There have been no changes in the interests of any director up to 8 June 2006.

R T Organ has an option expiring on 21 May 2011 to subscribe for 150,000 shares at 6.75p per share the terms of which may be adjusted by the Board to reflect variations of share capital. No options lapsed or were granted or exercised during the year nor have any been granted or exercised up to 8 June 2006. The market price of the shares at 31 December 2005 was 1.625p. The range during 2005 was 3.00p to 1.89p.

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

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

## 9. Taxation

	2005	2004
	£'000	(restated) £'000
Analysis of taxation in the year:		
UK corporation tax on profits of the year	22	–
Tax repaid in respect of prior periods	(14)	–
	<hr/>	<hr/>
Total current tax	8	–
	<hr/>	<hr/>
Deferred tax:		
Origination and reversal of timing differences	(2)	–
Pension charge in excess of pension cost	–	12
	<hr/>	<hr/>
Total deferred tax	(2)	12
	<hr/>	<hr/>
Tax on profit on ordinary activities	6	12
	<hr/>	<hr/>
Factors affecting current taxation:		
Profit before taxation	53	114
Profit multiplied by the standard rate of corporation tax of 30%	16	34
Effects of:		
Small companies tax relief	(13)	–
Pension cost in excess of pension charge	(16)	(12)
Other timing differences	15	11
Capital allowances in excess of depreciation	(1)	(33)
Goodwill amortisation	21	–
Tax repaid in respect of previous periods	(14)	–
	<hr/>	<hr/>
Total current taxation	8	–
	<hr/>	<hr/>

## 10. Profits of holding company

Of the profit for the financial year, a profit of £1,000 (2004 restated, £102,000) is dealt with in the accounts of CEPS PLC. The directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and not presented a profit and loss account for the company alone.

## 11. Dividends

No dividends have been paid or proposed for the year (2004, nil).

## 12. Earnings per share

Basic earnings per share is calculated on the profit on ordinary activities after taxation and minority interests of £40,000 (2004 restated, £102,000) and on 175,344,987 (2004, 106,125,367) ordinary shares, being the weighted number in issue during the year.

Diluted earnings per share is calculated on 183,199,908 (2004, 114,790,505) ordinary shares, being the weighted number in issue adjusted to reflect the potential effect of the exercise of share warrants.

### 13. Intangible fixed assets

2005  
Goodwill  
£'000

#### Group

Cost

at 1 January 2005

Additions (see note 27)

47  
1,603

at 31 December 2005

1,650

Amortisation

at 1 January 2005

Charge for the year

47  
74

at 31 December 2005

121

Net book amount

at 31 December 2005

1,529

at 31 December 2004

—

#### Company

Cost

at 1 January 2005

Additions

47  
2

at 31 December 2005

49

Amortisation

at 1 January 2005

Charge for the year

47  
1

at 31 December 2005

48

Net book amount

at 31 December 2005

1

at 31 December 2004

—

#### 14. Tangible fixed assets

	Leasehold property £'000	Plant, machinery and tools £'000	Motor vehicles £'000	Total £'000
<b>Group</b>				
Cost				
at 1 January 2005	–	673	42	715
Additions at cost	–	41	–	41
Acquisition (see note 27)	21	180	–	201
	<hr/>	<hr/>	<hr/>	<hr/>
at 31 December 2005	21	894	42	957
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
at 1 January 2005	–	412	40	452
Charge for the year	2	92	2	96
Acquisition (see note 27)	15	135	–	150
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2005	17	639	42	698
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount				
at 31 December 2005	4	255	–	259
	<hr/>	<hr/>	<hr/>	<hr/>
at 31 December 2004	–	261	2	263
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Company</b>				
Cost				
at 1 January 2005		673	42	715
Additions at cost		39	–	39
		<hr/>	<hr/>	<hr/>
at 31 December 2005		712	42	754
		<hr/>	<hr/>	<hr/>
Depreciation				
at 1 January 2005		412	40	452
Charge for the year		83	2	85
		<hr/>	<hr/>	<hr/>
at 31 December 2005		495	42	537
		<hr/>	<hr/>	<hr/>
Net Book Amount				
at 31 December 2005		217	–	217
		<hr/>	<hr/>	<hr/>
at 31 December 2004		261	2	263
		<hr/>	<hr/>	<hr/>

## 15. Fixed asset investments

	2005 £'000	2004 £'000
<b>Company</b>		
Shares in Group undertakings at 1 January	–	173
Additions at cost	92	–
Disposal	–	(173)
	<hr/>	<hr/>
at 31 December	92	–
	<hr/>	<hr/>
Loan to Group undertakings at 1 January	–	–
Additions at cost	408	–
	<hr/>	<hr/>
at 31 December	408	–
	<hr/>	<hr/>
Total fixed asset investments	500	–
	<hr/>	<hr/>

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

Investments in subsidiary companies are stated at cost. The directors consider that to give full particulars of subsidiary undertakings would lead to a statement of excessive length. A list of subsidiary undertakings is given below.

Name of undertaking	Incorporated and registered in	Share class	Shares held direct %	Shares held via subsidiaries %
Trading company:				
Davies Odell Limited	England	ordinary	100	
Signature Fabrics Limited	England	'A' ordinary	75	
Friedman's Limited	England	ordinary		75
Non trading:				
Davies & Co (Kettering) Ltd	England	ordinary	100	
Phillips Rubber Ltd	England	ordinary	100	
Farmat Limited	England	ordinary	100	
Davies and Company Limited	England	ordinary	100	
Hot Property Leotards Limited	England	ordinary		75
Nature of business of trading companies:				
Davies Odell Limited	Manufacture and distribution of protection equipment, matting and footwear components			
Signature Fabrics Limited	Holding company for Friedman's			
Friedman's Limited	Conversion and distribution of specialist Lycra			

## 16. Stocks

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Raw materials and consumables	151	231	151	231
Work in progress	2	3	2	3
Finished goods and goods for resale	934	405	411	405
	<u>1,087</u>	<u>639</u>	<u>564</u>	<u>639</u>

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

## 17. Debtors

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade debtors	1,260	723	656	723
Corporation tax	1	–	14	–
Deferred tax	16	–	–	–
Other debtors	151	90	154	90
	<u>1,428</u>	<u>813</u>	<u>824</u>	<u>813</u>

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

## 18. Creditors: Amounts falling due within one year

	Group		Company	
	2005 £'000	2004 (restated) £'000	2005 £'000	2004 (restated) £'000
Bank overdraft	121	31	121	31
Bank loan	245	305	75	305
Debtor backed working capital facilities	416	271	120	271
Trade creditors	920	413	280	413
Tax and social security	165	75	103	75
Other creditors	122	39	18	39
Accruals	104	108	84	108
	<u>2,093</u>	<u>1,242</u>	<u>801</u>	<u>1,242</u>

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

## 19. Creditors: Amounts falling due after one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans repayable:				
between one and two years	245	305	75	305
between two and five years	633	75	82	75
Other creditors	–	40	–	40
	<hr/>	<hr/>	<hr/>	<hr/>
	878	420	157	420
	<hr/>	<hr/>	<hr/>	<hr/>

Bank loans are secured by fixed and floating charges over the assets of the Group. The amount of £245,000 repayable in 2006 is shown in creditors falling due within one year.

## 20. Financial instruments

Financial liabilities	Floating rate £'000	Fixed rate £'000	Fixed rate financial liabilities Weighted average	
			Interest rate %	Period that rate is fixed in years
2005	<u>622</u>	<u>622</u>	<u>8.35</u>	<u>2.07</u>
2004	<u>716</u>	<u>–</u>	<u>–</u>	<u>–</u>

Interest on bank loans totalling £622,000 is at a fixed rate of 8.35% until 24 January 2008 and thereafter at 3.25% above base rate. Interest on other bank facilities is at rates of interest of between 1.5% and 3.25% above base rate.

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

Financial assets at 31 December 2005 comprise cash of £24,000 that was held in a bank account earning interest at a floating rate.

Other short term debtors and creditors have been excluded from the above disclosures. The Group does not operate any financial hedging instruments.

## 21. Provisions for liabilities and charges

At a tax rate of 30% the Group has losses for tax purposes of £754,000 (2004, £755,000) and deferred tax assets of £357,000 (2004, £343,000) in respect of accelerated capital allowances and £nil (2004, £14,000) in respect of short term timing differences for which no asset for deferred tax has been recognised due to the current financial position of the Group.

	Onerous lease provision £'000	Deferred tax provision excluding deferred tax on pension liability £'000	Total £'000
Acquisition in the year (see note 27)	40	4	44
Profit and loss movement during the year	–	(2)	(2)
	<hr/>	<hr/>	<hr/>
at 31 December 2005	40	2	42
	<hr/>	<hr/>	<hr/>
		2005	2004 (restated)
<b>Deferred tax asset</b>		£'000	£'000
Deferred tax excluding that related to pension asset			
Timing differences		14	–
Pension asset (see note 5)		202	136
		<hr/>	<hr/>
Total deferred tax asset		216	136
		<hr/>	<hr/>
Prior year adjustment – FRS17		136	
Acquisition in the year (see note 27)		(4)	
Deferred tax credit in profit and loss account (see note 9)		2	
Deferred tax credited to statement of total recognised gains and losses		82	
		<hr/>	
at 31 December 2005		216	
		<hr/>	

## 22. Share capital

	2005 £'000	2004 £'000
Ordinary shares of 0.1p per share		
Authorised: 330,403,256 (2004, 330,403,256) shares	330	330
Allotted called and fully paid: 178,191,426 (2004, 144,798,097) shares	178	145

On 25 January 2005 the Group placed 33,333,335 new ordinary shares of 0.1p each at a price of 2.25p each raising £750,000 before expenses of £43,000. The proceeds were used to acquire a majority interest in Signature and to strengthen the Group's balance sheet. The investors included members of the concert party detailed in the circular sent to shareholders on 26 March 2004. Further information about Signature is given in note 27.

During the year share warrants to subscribe for 59,994 ordinary shares at a price of 2p per share were exercised. At 31 December 2005 share warrants to subscribe at any time until 20 April 2007 for a further 71,900,993 ordinary shares at a price of 2p per share remain unexercised.

Options granted and remaining unexercised at 31 December 2005 are:

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

The terms of the share options may be adjusted by the Board to reflect variations of share capital.

## 23. Reserves

	Share premium £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
<b>Group</b>				
At 1 January 2005 as previously reported	–	304	26	330
Prior year adjustment – FRS17	–	–	(318)	(318)
At 1 January 2005 restated	–	304	(292)	12
Exercise of share warrants, net of costs	1	–	–	1
Share placing, net of costs	675	–	–	675
Special reserve transferred to profit and loss account	–	(304)	304	–
Actuarial loss on pension scheme	–	–	(272)	(272)
Movement on deferred tax relating to pension scheme	–	–	82	82
Retained profit for the year	–	–	40	40
At 31 December 2005	<b>676</b>	<b>–</b>	<b>(138)</b>	<b>538</b>
<b>Company</b>				
At 1 January 2005 as previously reported	–	304	26	330
Prior year adjustment – FRS17	–	–	(318)	(318)
At 1 January 2005 restated	–	304	(292)	12
Exercise of share warrants, net of costs	1	–	–	1
Share placing, net of costs	675	–	–	675
Special reserve transferred to profit and loss account	–	(304)	304	–
Actuarial loss on pension scheme	–	–	(272)	(272)
Movement on deferred tax relating to pension scheme	–	–	82	82
Pension scheme deficit transferred to subsidiary company	–	–	471	471
Retained profit for the year	–	–	1	1
At 31 December 2005	<b>676</b>	<b>–</b>	<b>294</b>	<b>970</b>

Following the share placing and in accordance with the arrangements confirmed by the High Court of Justice on 13 October 2004 the special reserve has been eliminated and transferred to the profit and loss account.

In December 2005 the defined benefits pension scheme was transferred to a wholly owned subsidiary company, Davies Odell Limited, to which has also been transferred in 2006 the business carried on by the Davies Odell division of CEPS PLC.

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

## 24. Reconciliation of movement in equity shareholders' funds

	Group		Company	
	2005	2004 (restated)	2005	2004 (restated)
	£'000	£'000	£'000	£'000
Shareholders' funds at 1 January 2005 as previously reported	157	(802)	157	(802)
Prior year adjustment – FRS17	–	116	–	116
Shareholders' funds at 1 January 2005 restated	157	(686)	157	(686)
Profit for the financial year	40	102	1	102
Share capital issued, net of expenses	709	1,203	709	1,203
Actuarial loss recognised in pension scheme	(272)	(660)	(272)	(660)
Movement on deferred tax relating to pension scheme	82	198	82	198
Pension scheme deficit transferred to subsidiary company	–	–	471	–
Shareholders' funds at 31 December 2005	716	157	1,148	157

## 25. Commitments

Capital expenditure contracted for at 31 December 2005 and for which no provision has been made in these accounts is **£nil** (2004, £31,000).

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

	Group	
	2005	2004
	£'000	£'000
Land and buildings leases expiring:		
within one year	–	7
within two to five years	91	91
after more than five years	19	–
Other operating leases expiring:		
within one year	3	6
within two to five years	17	20
	<u>130</u>	<u>124</u>

## 26. Gross cash flows

	2005	2004 (restated)
	£'000	£'000
Returns on investment and servicing of finance:		
interest paid	115	32
	<hr/>	<hr/>
Taxation:		
UK corporation tax paid	68	–
	<hr/>	<hr/>
Capital expenditure and financial investment:		
tangible fixed assets bought	41	45
tangible fixed assets sold	–	(2)
	<hr/>	<hr/>
	41	43
	<hr/>	<hr/>
Acquisition:		
investment in Signature	1,599	–
	<hr/>	<hr/>
Disposal:		
of certain assets and agreements	–	(137)
	<hr/>	<hr/>
Financing:		
(increase)/decrease in debt	(438)	427
issue of ordinary share capital	(802)	(1,294)
expenses of share issue	43	91
	<hr/>	<hr/>
	(1,197)	(776)
	<hr/>	<hr/>

## 27. Acquisition

On 25 January 2005 the Group acquired an initial 75% equity holding in the share capital of Signature Fabrics Limited (Signature), a company set up for the purpose of acquiring Friedman's Limited (Friedman's). The acquisition was funded by subscriptions by the Group of £91,666 for equity and £408,333 for loan stock, by an initial 20% equity investment from the management of Signature and the balance by bank finance and the issue of 5% of the share capital of Signature to the sellers. The Group's 75% equity stake will reduce on a ratchet basis to 55% dependent on the speed with which the loan stock in Signature is repaid.

Friedman's imports, converts and distributes Lycra based materials to swimwear and dancewear manufacturers. From the audited accounts for the year ended 31 October 2004, Friedman's turnover was £2,620,000 and the profit before tax £320,000. Net assets at the same date were £470,000. In the period from 1 November 2004 to 24 January 2005 Friedman's loss after taxation was £22,000.

## 27. Acquisition continued

Details of the acquisition of Friedman's by Signature are as follows:

	Book value £'000	Provisional fair value adjustment £'000	Fair value £'000
Tangible fixed assets	51	–	51
Stock	385	–	385
Debtors	478	–	478
Cash	242	–	242
Creditors	(701)	(3)	(704)
Provisions	(4)	(40)	(44)
	<hr/>	<hr/>	<hr/>
Net assets acquired	451	(43)	408
	<hr/>	<hr/>	<hr/>
Purchased goodwill			1,603
			<hr/>
			2,011
			<hr/>
Consideration:			
Cash			1,614
Deferred cash			110
Ordinary shares			8
Preference shares			62
Acquisition expenses			217
			<hr/>
			2,011
			<hr/>

The fair value adjustment represents an under provision in a prior year tax charge and a provision for onerous lease rentals.

## 28. Analysis of changes in net debt

	At 1 Jan 2005 £'000	Cash flows £'000	Acquisition £'000	At 31 Dec 2005 £'000
Cash at bank and in hand	422	(640)	242	24
Overdrafts	(31)	(90)	–	(121)
	<hr/>	<hr/>	<hr/>	<hr/>
	391	(730)	242	(97)
Debt due within one year	(305)	60	–	(245)
Debt due after one year	(380)	(498)	–	(878)
	<hr/>	<hr/>	<hr/>	<hr/>
	(294)	(1,168)	242	(1,220)
	<hr/>	<hr/>	<hr/>	<hr/>

## 2. AUDITED CONSOLIDATED ACCOUNTS OF CEPS FOR THE YEAR ENDED 31 DECEMBER 2004

### Independent Auditors' Report

To the members of Dinkie Heel plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes and the accounting policies set out in the statement of accounting policies.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. The other information comprises only the chairman's report, the directors' report and the corporate governance statement.

#### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol

*16 May 2005*

## PROFIT AND LOSS ACCOUNT

	Note	2004 £'000	2003 £'000
<b>Turnover</b>	2		
continuing operations		4,676	4,494
discontinued operations		687	1,142
		<u>5,363</u>	<u>5,636</u>
Cost of sales		(4,482)	(5,390)
		<u>881</u>	<u>246</u>
Gross profit			
Net operating expenses (including exceptional items)	3	(741)	(1,235)
Operating profit/(loss) before exceptional items		239	(476)
Exceptional items			
Restructuring costs		(99)	(477)
Goodwill impairment provision		–	(36)
Operating profit/(loss)			
continuing operations		263	170
discontinued operations		(123)	(1,159)
		<u>140</u>	<u>(989)</u>
Profit on sale of fixed assets		–	481
Interest payable	6	(66)	(177)
		<u>74</u>	<u>(685)</u>
<b>Profit/(loss) on ordinary activities before taxation</b>	7		
Taxation	9	–	10
		<u>74</u>	<u>(675)</u>
<b>Profit/(loss) for the financial year</b>			
<b>Dividends</b>	10	–	–
		<u>74</u>	<u>(675)</u>
Retained profit/(loss) for the year	22		
Earnings			
Earnings profit/(loss) per share	11		
basic		0.07p	(4.41p)
diluted		0.06p	(4.41p)

The company has no recognised gains or losses other than the profit for the financial year as set out above. In the opinion of the directors the results on a historical cost basis are not materially different from the results as set out above.

## BALANCE SHEET

### Net assets employed

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Intangible assets	12	–	–
Tangible assets	13	263	272
Investment in associate	14	–	–
		<u>263</u>	<u>272</u>
<b>Current assets</b>			
Stocks	15	639	589
Debtors	16	813	859
Cash at bank and in hand		422	–
		<u>1,874</u>	<u>1,448</u>
Creditors: amounts falling due within one year	17	(1,242)	(1,982)
		<u>632</u>	<u>(534)</u>
Net current assets/(liabilities)			
		895	(262)
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	18	(420)	(540)
Provisions for liabilities and charges	20	–	–
		<u>475</u>	<u>(802)</u>
Net assets/(liabilities)	2		
<b>Capital and reserves</b>			
Called up share capital	21	145	785
Share premium	22	–	710
Special reserve	22	304	–
Profit and loss account	22	26	(2,297)
		<u>475</u>	<u>(802)</u>
Total equity shareholders' funds	23		

These accounts were approved by the Board of Directors on 16 May 2005.

R T Organ  
G C Martin  
*Directors*

## CASH FLOW STATEMENT

	Note	2004 £'000	2003 £'000
<b>Reconciliation of operating profit/(loss) to net cash outflow from operating activities</b>			
Operating profit/(loss)		140	(989)
Depreciation and amortisation charges		52	121
Impairment provisions		–	36
(Increase)/decrease in stocks		(50)	259
(Increase)/decrease in debtors		(91)	180
Decrease in creditors		(188)	(6)
		<hr/>	<hr/>
Net cash outflow from operating activities		(137)	(399)
		<hr/>	<hr/>
<b>Cash Flow Statement</b>			
Net cash outflow from operating activities		(137)	(399)
Returns on investments and servicing of finance	26	(66)	(177)
Taxation	26	–	10
Capital expenditure and financial investment	26	(43)	1,518
Disposal	26	137	–
		<hr/>	<hr/>
		(109)	952
Financing	26	776	231
		<hr/>	<hr/>
Increase in cash		667	1,183
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the period		667	1,183
Cash increase from change in debt		427	(189)
		<hr/>	<hr/>
Change in net debt		1,094	994
Net debt at 1 January 2004		(1,659)	(2,653)
		<hr/>	<hr/>
Net debt at 31 December 2004	27	(565)	(1,659)
		<hr/>	<hr/>

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

#### (a) Accounting convention:

These accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. Accounting policies have been consistently applied.

#### (b) Income recognition:

Turnover comprises the invoiced value of goods sold, excluding VAT (which is recognised on despatch).

#### (c) Fixed assets:

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

Plant and machinery	Between 5 and 10 years
Motor vehicles	5 years
Tools and moulds	7 years or over the period of the contract

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

#### (d) Stocks:

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

#### (e) Deferred taxation:

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

#### (f) Foreign currencies:

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

#### (g) Acquisitions:

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

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

#### (h) Pensions:

Pension costs charged against profits for the defined contribution scheme are the amount of contributions payable to the pension scheme in respect of the accounting period. For the defined benefit scheme the charge is the amount derived by spreading the cost of pensions over the estimated remaining service lives of employees. Further details of the scheme are given in note 5.

#### (i) Operating leases:

The annual costs of operating leases are charged to the profit and loss account as incurred.

## 2. Turnover and segmental analysis

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

Segment of activity	Dinkie		Davies Odell		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Turnover	687	1,142	4,676	4,494	5,363	5,636
Segmental (loss)/profit before exceptional items	(24)	(682)	439	386	415	(296)
Exceptional items	(99)	(477)	–	(36)	(99)	(513)
Profit on sale of fixed assets	–	403	–	78	–	481
Segmental (loss)/profit before Group costs	(123)	(756)	439	428	316	(328)
Group costs					(176)	(180)
Profit/(loss) before interest and taxation					140	(508)
Interest payable					(66)	(177)
Profit/(loss) before taxation					74	(685)
Net (liabilities)/assets	(129)	(275)	1,169	1,132	1,040	857
Unallocated net debt					(565)	(1,659)
Total net assets/(liabilities)					475	(802)

As set out in note 26 the company disposed of certain assets and agreements relating to the Dinkie segment.

Geographical analysis of turnover	2004 £'000	2003 £'000
United Kingdom	3,654	3,872
Rest of Europe	968	774
The Americas	248	304
Australasia	35	49
Far East	443	557
Africa	15	80
	5,363	5,636

### 3. Net operating expenses

	2004 £'000	2003 £'000
Distribution costs	205	262
Administrative expenses, normal	437	460
Administrative expenses, exceptional		
Restructuring costs	99	477
Goodwill impairment provision	–	36
	<hr/>	<hr/>
	741	1,235
	<hr/>	<hr/>

Restructuring costs of £99,000 include termination payments to employees £53,000 and other costs and professional fees £46,000.

The profit and loss account and the total figures include the following amounts relating to the discontinued operations: cost of sales £523,000 (2003, £1,100,000), distribution costs £102,000 (2003, £154,000), administrative expenses normal £86,000 (2003, £167,000), administrative expenses exceptional £99,000 (2003, £477,000).

### 4. Staff numbers and costs

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

	2004	2003
Management and administration	16	18
Production and sales	38	56
	<hr/>	<hr/>
	54	74
	<hr/>	<hr/>

At 31 December 2004 the total number of persons employed was 52 (2003, 59).

The aggregate payroll costs of these persons were:

	2004 £'000	2003 £'000
Wages and salaries	962	1,228
Social security costs	81	114
Other pension costs	68	104
	<hr/>	<hr/>
	1,111	1,446
	<hr/>	<hr/>

## 5. Pension costs

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to **£38,000** (2003, £53,000).

The company also operates a defined benefits scheme. The scheme was closed to new employees in 1988. The assets of the scheme are held separately from those of the company in a deposit administration contract underwritten by an insurance company. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent actuarial valuation was at 1 July 2004 and the main actuarial assumptions were investment returns of 7.0% before retirement, 5.0% after retirement and a rate of salary increase of 5.0%. The valuation showed that the market value of the scheme assets was £1,777,000 and that the level of funding on an ongoing basis is 89%. The company and scheme trustees are in discussion to determine the funding rate necessary to restore the funding level to 100%. The pension charge for the year was **£30,000** (2003, £51,000).

To comply with the transitional provisions of FRS17 'Retirement Benefits' the company commissioned an independent qualified actuary to update to 31 December 2004 the results of the previous valuation. The results of the update are as follows:

	31 December 2004	31 December 2003	31 December 2002
Financial assumptions:			
Salary increases	3.5%	3.5%	3.5%
Increases to pensions and deferred pensions	2.75%	2.75%	2.5%
Discount rate	5.4%	5.5%	5.5%
RPI	2.75%	2.75%	2.5%
The assets of the scheme and the expected return on assets were:			
Assets	<b>£1,748,000</b>	£1,646,000	£1,784,000
Return on assets	<b>6.9%</b>	7.0%	7.0%
Financial position:	£'000	£'000	£'000
The assets of the scheme	<b>1,748</b>	1,646	1,784
Actuarial liabilities	<b>(2,202)</b>	(1,480)	(1,640)
(Deficit)/surplus	<b>(454)</b>	166	144
Related deferred tax asset	<b>136</b>	–	–
Net pension (liability)/asset	<b>(318)</b>	166	144
Balance sheet net assets/(liabilities)	<b>475</b>	(802)	(169)
Net pension (liability)/asset	<b>(318)</b>	166	144
Adjusted balance sheet net assets/(liabilities)	<b>157</b>	(636)	(25)
Profit and loss reserve excluding pension (liability)/asset	<b>26</b>	(2,297)	(2,135)
Net pension (liability)/asset	<b>(318)</b>	166	144
Adjusted profit and loss deficit	<b>(292)</b>	(2,131)	(1,991)
Analysis of the amount charged to operating profit:			
Current service cost	<b>30</b>	37	65
Cost on settlements	–	24	–
Cost on curtailments	–	(20)	–
	<b>30</b>	41	65

## 5. Pension costs continued

	31 December 2004 £'000	31 December 2003 £'000	31 December 2002 £'000
Analysis of the amount credited to financing of pension provisions:			
Expected return	115	120	127
Interest on pension liabilities	<u>(81)</u>	<u>(83)</u>	<u>(99)</u>
Net finance return	<u>34</u>	<u>37</u>	<u>28</u>
Amount recognised in the statement of total recognised gains and losses (STRGL):			
Actual return less expected return on scheme assets	(24)	(33)	(166)
Experience gains and losses	(486)	53	284
Change in assumptions underlying present value of plan liabilities	<u>(150)</u>	<u>(43)</u>	<u>(153)</u>
Actuarial loss in STRGL	<u>(660)</u>	<u>(23)</u>	<u>(35)</u>
Movement in surplus during the year:			
Surplus at the beginning of the year	166	144	156
Total operating charge	(30)	(41)	(65)
Company contributions	36	49	60
Net finance return	34	37	28
Actuarial loss in STRGL	<u>(660)</u>	<u>(23)</u>	<u>(35)</u>
(Deficit)/surplus at the end of the year	<u>(454)</u>	<u>166</u>	<u>144</u>
Details of experience gains and losses:			
Difference between the expected and actual return on scheme assets			
amount £'000	(24)	(33)	(166)
% of scheme assets	(1%)	(2%)	(9%)
Experience gains and losses on scheme liabilities			
amount £'000	(486)	53	284
% of the present value of the scheme's liabilities	(22%)	4%	17%
Total amount recognised in statement of recognised gains and losses			
amount £'000	(660)	(23)	(35)
% of the present value of the scheme's liabilities	(30%)	(2%)	(2%)

## 6. Interest payable

	2004 £'000	2003 £'000
On bank loans and overdrafts and all other loans	<u>66</u>	<u>177</u>

## 7. Profit/(loss) on ordinary activities before taxation

	2004 £'000	2003 £'000
is stated after charging:		
Depreciation and amortisation:		
of intangible fixed assets	–	3
of tangible fixed assets	52	118
Impairment provision:		
of intangible fixed assets	–	36
Auditors' remuneration and expenses:		
for audit	18	19
for non-audit	3	16
Operating leases:		
on land and buildings	102	85
on plant and machinery	19	8
and after crediting:		
profit on sale of fixed assets arising from sale of freehold property in Bristol and Kettering	–	481

## 8. Directors' emoluments and interests

	2004 £'000	2003 £'000
The aggregate remuneration of the directors was:		
Fees	–	15
Salaries and benefits	166	293
Termination payments	53	49
	<hr/>	<hr/>
Total	219	357

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

	Salaries and fees			Benefits		Total	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000	
C R Ball, resigned 3 December 2004	61	66	11	15	72	81	
P G Cook, appointed 19 April 2004	–	–	–	–	–	–	
D A Horner, appointed 19 April 2004	–	–	–	–	–	–	
G C Martin	59	54	1	1	60	55	
R J Mitchell, resigned 19 April 2004	12	39	2	7	14	46	
R T Organ	20	35	–	–	20	35	
A J Stowey, resigned 19 April 2004	–	33	–	8	–	41	
M J Stowey, resigned 19 April 2004	–	39	–	1	–	40	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
	152	266	14	32	166	298	

Benefits represent the value attributed to company cars, fuel and medical insurance. In addition to the above a payment of £53,000 was made to C R Ball for termination of his executive duties.

## 8. Directors' emoluments and interests *continued*

Directors' pensions are secured in the company defined benefits and defined contribution schemes. Details are shown below:

Defined benefits scheme	Accrued	Increase in accrued pension during 2004	Accrued	Transfer value of the increase in accrued pension during 2004
	pension at 31 December 2003		pension at 31 December 2004 or date of resignation	
	£'000 pa	£'000 pa	£'000 pa	£'000
C R Ball, resigned 3 December 2004	24	—	24	4
G C Martin	15	1	16	3
A J Stowey, resigned 19 April 2004	11	—	11	—
M J Stowey, resigned 19 April 2004	14	—	14	—
	—	—	—	—
	64	1	65	7
	—	—	—	—

The increase in accrued pension during the year excludes any increase for inflation.

Defined contribution scheme	Company contributions	
	2004	2003
	£'000	£'000
C R Ball, resigned 3 December 2004	4	4
G C Martin	3	3
R J Mitchell, resigned 19 April 2004	1	3
A J Stowey, resigned 19 April 2004	—	2
M J Stowey, resigned 19 April 2004	—	2
	—	—
	8	14
	—	—

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

Director	20 April 2005		31 December 2004	
	shares	warrants	shares	warrants
P G Cook	8,333,333	3,500,000	7,000,000	3,500,000
D A Horner	21,355,556	10,000,000	20,000,000	10,000,000
G C Martin	1,012,586	506,293	1,012,586	506,293
R T Organ	5,966,667	2,650,000	5,300,000	2,650,000

At 31 December 2003 the directors' beneficial share interests were G C Martin 12,586 and R T Organ 300,000. The beneficial interests of P G Cook and D A Horner at 31 December 2004 were acquired by them on 19 April 2004, their date of appointment.

On 19 April 2004 shareholders approved arrangements for the restructuring and refinancing of the business. At that date directors subscribed for new shares and all shareholders were issued with warrants to subscribe, at any time until 20 April 2007, for ordinary shares at a price of 2p per share. P G Cook and D A Horner were appointed to the Board on 19 April 2004 and their beneficial interests were unchanged between that date and 31 December 2004.

R T Organ has an option to subscribe for 150,000 shares at 6.75p per share, exercisable from 22 May 2004 and that expires on 21 May 2011, the terms of which may be adjusted by the Board to reflect variations of share capital. No options lapsed or were granted or exercised during the year nor have any been granted or exercised up to 20 April 2005. The market price of the shares at 31 December 2004 was 2.75p. The range during 2004 was 5.67p to 1.87p.

D A Horner is a director of CFA Capital Group plc, the parent company of City Financial Associates Limited (CFA). During 2004 CFA received fees of £17,000 in connection with its duties as nominated adviser and broker and £35,000 for its professional services in connection with the restructuring and refinancing of the company.

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

## 9. Taxation

	2004 £'000	2003 £'000
a) Analysis of taxation in the year:		
UK corporation tax on profits of the period	–	–
Tax repaid in respect of previous periods	–	10
	<u>–</u>	<u>10</u>
	–	10
	<u>–</u>	<u>10</u>
b) Factors affecting current taxation:		
Profit/(loss) before taxation	74	(685)
Profit/(loss) multiplied by the standard rate of UK tax of 30% (30%)	22	(205)
Effects of:		
Expenses not deductible for tax purposes	11	46
Accelerated capital allowances and other timing differences	(33)	217
Profit on disposal of buildings not taxed	–	(58)
Tax repaid in respect of previous periods	–	10
	<u>–</u>	<u>10</u>
Total current taxation	–	10
	<u>–</u>	<u>10</u>

## 10. Dividends

No dividends have been paid or proposed for the year (2003, nil).

## 11. Earnings per share

Basic earnings per share is calculated on the profit on ordinary activities before taxation of £74,000 (2003, loss £675,000) and on 106,125,367 (2003, 15,290,075) ordinary shares, being the weighted number in issue during the year.

Diluted earnings per share is calculated on 114,790,505 ordinary shares, being the weighted average number in issue adjusted to reflect the potential effect of the exercise of share warrants. As a loss was incurred in 2003 diluted and basic earnings per share were the same.

## 12. Intangible fixed assets

	Goodwill £'000
Cost	
1 January 2004	521
Disposal	(474)
	<u>47</u>
31 December 2004	47
	<u>47</u>
Amortisation	
1 January 2004	521
Disposal	(474)
	<u>47</u>
31 December 2004	47
	<u>47</u>
Net book amount	
31 December 2004	–
	<u>–</u>
31 December 2003	–
	<u>–</u>

### 13. Tangible fixed assets

	Machinery £'000	Plant & Moulds £'000	Tools & Vehicles £'000	Motor Total £'000
Cost				
1 January 2004	1,613	1,724	109	3,446
Additions	45	–	–	45
Disposals	(1,003)	(1,706)	(67)	(2,776)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2004	655	18	42	715
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
1 January 2004	1,350	1,721	103	3,174
Charge for the year	48	2	2	52
Disposals	(1,003)	(1,706)	(65)	(2,774)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2004	395	17	40	452
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Amount				
31 December 2004	260	1	2	263
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2003	263	3	6	272
	<hr/>	<hr/>	<hr/>	<hr/>

### 14. Investment in associate

Until its disposal (see note 26) the company held a one third shareholding in Universal Dinkie (Proprietary) Limited (UD), a company registered in Botswana. The company did not have control of the board of UD nor of its day-to-day operations. During the year goods valued at £422,000 were purchased from UD and no goods were sold to UD. At the date of sale no balances were outstanding. In 2004 to the date of sale UD incurred a trading loss.

	2004 £'000	2003 £'000
Cost of investment		
at 1 January	173	173
Disposal	(173)	–
	<hr/>	<hr/>
at 31 December	–	173
	<hr/>	<hr/>
Provision for share of costs of establishment		
at 1 January	173	173
Disposal	(173)	–
	<hr/>	<hr/>
at 31 December	–	173
	<hr/>	<hr/>
Net book amount at 31 December	–	–
	<hr/>	<hr/>

## 15. Stocks

	2004 £'000	2003 £'000
Raw materials and consumables	231	203
Work in progress	3	4
Finished goods and goods for resale	405	382
	<hr/>	<hr/>
	639	589
	<hr/>	<hr/>

## 16. Debtors

	2004 £'000	2003 £'000
Trade debtors	723	827
Prepayments	90	32
	<hr/>	<hr/>
	813	859
	<hr/>	<hr/>

## 17. Creditors:

### Amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdraft	302	547
Bank loan	305	219
Loan Notes 2003	–	400
Trade creditors	413	365
Tax and social security	75	263
Other creditors	39	18
Accruals	108	170
	<hr/>	<hr/>
	1,242	1,982
	<hr/>	<hr/>

The bank loan and overdraft are secured by a Debenture over all property and by fixed and floating charges over the other assets of the company.

## 18. Creditors:

### Amounts falling due after more than one year

	2004 £'000	2003 £'000
Bank loans repayable:		
between one and two years	305	219
between two and five years	75	274
Other creditors	40	47
	<hr/>	<hr/>
	420	540
	<hr/>	<hr/>

The bank loan is secured by a Debenture over all property and by fixed and floating charges over the other assets of the company. The amount of £305,000 repayable in 2005 is shown in creditors falling due within one year.

## 19. Financial instruments

Financial liabilities	Floating rate £'000	Fixed rate £'000	Fixed rate financial liabilities	
			Weighted average Interest rate %	Period that rate is fixed in years
2004	987	–	–	–
2003	1,259	400	12.0	0.0

All loans, overdrafts and working capital facilities of the company are denominated in sterling and have floating rates of interest at 1.25% or 1.75% over Base Rate. At 31 December 2004 the company had no undrawn overdraft facilities. The market value of the loans approximates to their fair values.

Financial assets at 31 December 2004 comprise cash of £422,000, that was held in a bank account earning interest at a floating rate.

The bank loan of £685,000 was repaid in January 2005. In its place the company took a new bank loan of £300,000 repayable over four years and an overdraft facility of £100,000 both with floating rates of interest at 2% over Base Rate, together with working capital facilities with a floating rate of interest at 1.5% over Base Rate.

Other short term debtors and creditors have been excluded from the above disclosures. The company does not operate any financial hedging instruments.

## 20. Provisions for liabilities and charges

At a tax rate of 30% the company has losses for tax purposes of £755,000 (2003, £753,000) and deferred tax assets of £343,000 (2003, £236,000) in respect of accelerated capital allowances and £14,000 (2003, £nil) in respect of short term timing differences. No asset for deferred taxation has been recognised due to the current financial position of the company.

## 21. Share capital

The authorised share capital of the company at 31 December 2004 was £330,403 divided into 330,403,256 ordinary shares of 0.1p each. At 31 December 2003 the authorised share capital was £1,000,000 divided into 20,000,000 ordinary shares of 5p each.

On 19 April 2004 each of the ordinary shares of 5p was sub-divided into and reclassified as one ordinary share of 0.1p and one deferred share of 4.9p. On the same date the company approved a placing at a price of 1p per share of 95,800,000 new ordinary shares of 0.1p, the cancellation of Loan Notes in consideration for the issue at a price of 1p per share of 33,000,000 ordinary shares of 0.1p per share, the issue of 72,253,028 share warrants to subscribe for one ordinary share at a price of 2p per share and a capital re-organisation.

Allotted called and fully paid:	Ordinary shares		Deferred shares	
	number	£'000	number	£'000
At 1 January 2004	15,706,056	785	–	–
Subdivision of ordinary shares	–	(770)	15,706,056	770
Share placing	95,800,000	96	–	–
Shares issued in consideration for the cancellation of Loan Notes	33,000,000	33	–	–
Exercise of share warrants	292,041	1	–	–
Deferred shares cancelled on capital re-organisation	–	–	(15,706,056)	(770)
At 31 December 2004	144,798,097	145	–	–

## 21. Share capital continued

The aggregate consideration for ordinary shares issued during the year was £1,203,000 net of expenses. The issues assisted in financing the company's re-organisation requirements.

On 25 January 2005 the company placed 33,333,335 new ordinary shares of 0.1p each at a price of 2.25p each raising £750,000 before expenses. The proceeds were used to acquire a majority interest in Friedman's and to strengthen the company's balance sheet. Further information is given in note 25.

At 31 December 2004 share warrants to subscribe at any time until 20 April 2007 for 71,960,987 ordinary shares at a price of 2p per share remained unexercised.

Options granted and remaining unexercised at 31 December 2004 are:

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

The terms of the share options may be adjusted by the Board to reflect variations of share capital.

## 22. Reserves

	Share Premium £'000	Special Reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2004	710	–	(2,297)	(1,587)
Share placing and shares issued in consideration for the cancellation of Loan Notes, net of costs	1,068	–	–	1,068
Exercise of share warrants, net of costs	5	–	–	5
Transfer to Special Reserve	(1,783)	(466)	2,249	–
Deferred shares cancelled	–	770	–	770
Profit for the year	–	–	74	74
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	–	304	26	330

At an extraordinary general meeting on 19 April 2004 shareholders approved a capital re-organisation and reduction. The arrangements were confirmed by the High Court of Justice on 13 October 2004 and the company's deferred shares were cancelled and its share premium account reduced. The profit and loss account deficit at 13 October 2004 of £2,249,000 was eliminated and an undistributable special reserve of £304,000, representing the excess of the deferred shares and share premium account reduction over the profit and loss account deficit, created.

The company may reduce the amount of special reserve by the amount of new consideration for shares and may also use it for the same purposes it may use the share premium account.

In January 2005 (see note 25), the company issued further shares with a consideration net of costs of £708,000.

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

## 23. Reconciliation of movement in equity shareholders' funds

	2004 £'000	2003 £'000
Profit/(loss) for the financial year	74	(675)
Share capital issued, net of expenses	1,203	42
Shareholders' funds at 1 January 2004	(802)	(169)
	<hr/>	<hr/>
Shareholders' funds at 31 December 2004	475	(802)

## 24. Commitments

Capital expenditure contracted for at 31 December 2004 and for which no provision has been made in these accounts is £31,000 (2003, £nil).

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

	2004 £'000	2003 £'000
Land and buildings leases expiring:		
within one year	7	–
within two to five years	91	91
Other operating leases expiring:		
within one year	6	–
within two to five years	20	8
	<hr/>	<hr/>
	124	99
	<hr/>	<hr/>

## 25. Post balance sheet events

On 25 January 2005 the company acquired a majority interest in Friedman's Limited (Friedman's). Turnover of Friedman's for the year ended 31 October 2004 was £2,620,000 and profit before tax was £320,000. Net assets at the same date were £470,000.

The entire issued share capital of Friedman's was acquired by Signature Fabrics Limited (Signature), a company set up for this purpose. Signature is funded by bank finance of £1,221,000, a subscription of £408,333 by the company for loan stock, a subscription of £91,666 by the company for equity and the balance by an initial 20% equity investment from the management of Signature. The company will initially hold a 75% equity stake in Signature which will reduce on a ratchet basis to 55% dependent on the speed with which the company's loan stock in Signature is repaid.

The company also placed 33,333,335 new ordinary shares of 0.1p each at a price of 2.25p each raising £750,000 before expenses. The investors included members of the concert party detailed in the circular sent to shareholders of the company on 26 March 2004. The placing proceeds were in the main utilised to finance the acquisition of Friedman's with the balance providing additional working capital for the company.

## 26. Gross cash flows

	2004 £'000	2003 £'000
Returns on investments and servicing of finance: interest paid	66	177
Taxation: UK corporation tax repaid	–	(10)
Capital expenditure and financial investment: tangible fixed assets bought tangible fixed assets sold	45 (2)	59 (1,577)
	43	(1,518)
Disposal: of certain assets and agreements	(137)	–
Financing: decrease/(increase) in debt issue of ordinary share capital expenses of share issue	427 (1,294) 91	(189) (47) 5
	(776)	(231)

On 3 December 2004 the company disposed of certain assets and agreements related to its toe cap assets worldwide and its Phillips rubber activities in South Africa to a management buy-out company led by C R Ball.

The consideration for the transaction was £145,409, being the debtor book less an allowance for bad debts, and was satisfied by a payment of £137,138 in cash and an interest free loan for £8,271 payable on 2 December 2006. The loan is not guaranteed. Other assets, including the investment in Universal Dinkie (Pty) Ltd (see note 14), with a book value of £nil, were also disposed of.

## 27. Analysis of changes in net debt

	at 1 Jan 2004 £'000	cash flows £'000	other non-cash changes £'000	at 31 Dec 2004 £'000
Cash at bank and in hand	–	422	–	422
Overdrafts	(547)	245	–	(302)
	(547)	667	–	120
Debt due within one year	(619)	427	(113)	(305)
Debt due after one year	(493)	–	113	(380)
	(1,659)	1,094	–	(565)

## 28. Subsidiary undertakings

All subsidiary undertakings are non trading, wholly owned and incorporated in the UK. A complete list of subsidiary undertakings is included with the annual return. Consolidated accounts are not required in accordance with Companies Act 1985 Section 229(2).

### 3. AUDITED CONSOLIDATED ACCOUNTS OF CEPS FOR THE YEAR ENDED 31 DECEMBER 2003

#### Independent Auditors' Report

To the members of Dinkie Heel plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes and the accounting policies set out in the statement of accounting policies.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed. We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. The other information comprises only the chairman's report, the directors' report and the corporate governance statement.

#### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol

*10 June 2004*

## PROFIT AND LOSS ACCOUNT

	Note	2003 £'000	2002 £'000
<b>Turnover</b> from continuing operations	2	5,636	6,909
Cost of sales		(5,390)	(7,024)
Gross profit/(loss)		246	(115)
Net operating expenses (including exceptional items)	3	(1,235)	(1,457)
Operating loss before exceptional items		(476)	(881)
Exceptional items			
Restructuring costs		(477)	(618)
Goodwill impairment provision		(36)	–
Plant & Machinery impairment provision		–	(647)
Profit on sale of property held for resale		–	574
Operating loss from continuing operations		(989)	(1,572)
Profit on sale of fixed assets		481	–
Interest payable	6	(177)	(178)
<b>Loss on ordinary activities before taxation</b>	7	(685)	(1,750)
Taxation	9	10	10
<b>Loss for the financial year</b>		(675)	(1,740)
<b>Dividends</b>	10	–	–
Loss for the year set against reserves	22	(675)	(1,740)
<b>Earnings</b>			
Loss per share – basic and diluted	11	(4.41p)	(11.78p)

The company has no recognised gains or losses other than the loss for the financial year as set out above. In the opinion of the directors the results on a historical cost basis are not materially different from the results as set out above.

## BALANCE SHEET

### Net assets employed

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Intangible assets	12	–	39
Tangible assets	13	272	1,427
Investment in associate	14	–	–
		<u>272</u>	<u>1,466</u>
<b>Current assets</b>			
Stocks	15	589	848
Debtors	16	859	1,039
Cash at bank and in hand		–	17
		<u>1,448</u>	<u>1,904</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(1,982)</u>	<u>(2,775)</u>
<b>Net current liabilities</b>		<u>(534)</u>	<u>(871)</u>
<b>Total assets less current liabilities</b>		(262)	595
<b>Creditors: amounts falling due after more than one year</b>	18	(540)	(764)
<b>Provisions for liabilities and charges</b>	20	<u>–</u>	<u>–</u>
<b>Net liabilities</b>	2	<u>(802)</u>	<u>(169)</u>
<b>Capital and reserves</b>			
Called up share capital	21	785	738
Share premium	22	710	715
Revaluation reserve	22	–	513
Profit and loss account	22	(2,297)	(2,135)
		<u>(802)</u>	<u>(169)</u>
<b>Total equity shareholders' funds</b>	23	<u>(802)</u>	<u>(169)</u>

These accounts were approved by the Board of Directors on 10 June 2004.

R T Organ  
G C Martin  
*Directors*

## CASH FLOW STATEMENT

	Note	2003 £'000	2002 £'000
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss		(989)	(1,572)
Depreciation and amortisation charges		121	330
Profit on sale of property held for resale		–	(574)
Impairment provisions		36	647
Associate, provision for costs of establishment		–	148
Decrease in stocks		259	370
Decrease in debtors		180	613
Decrease in creditors		(6)	(191)
		<hr/>	<hr/>
Net cash outflow from operating activities		(399)	(229)
		<hr/>	<hr/>
<b>Cash Flow Statement</b>			
Net cash outflow from operating activities		(399)	(229)
Returns on investments and servicing of finance	26	(177)	(178)
Taxation	26	10	10
Capital expenditure and financial investment	26	1,518	582
Acquisitions	26	–	(74)
		<hr/>	<hr/>
		952	111
Financing	26	231	98
		<hr/>	<hr/>
Increase in cash		1,183	209
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the period		1,183	209
Cash increase from change in debt		(189)	(98)
		<hr/>	<hr/>
Change in net debt		994	111
Net debt at 1 January 2003		(2,653)	(2,764)
		<hr/>	<hr/>
Net debt at 31 December 2003	27	(1,659)	(2,653)
		<hr/>	<hr/>

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

#### (a) Accounting convention:

These accounts have been prepared under the historical cost convention modified by the revaluation of land and buildings and in accordance with applicable United Kingdom accounting standards. Accounting policies have been consistently applied.

#### (b) Income recognition:

Turnover comprises the invoiced value of goods sold, excluding VAT (which is recognised on despatch).

#### (c) Fixed assets:

Where the carrying value of its tangible fixed assets reflects previous valuations the company has adopted the transitional provisions of FRS15 and retained the current book amounts.

No depreciation is provided on freehold land. Other fixed assets are depreciated on a straight line basis over the following periods:

Freehold and leasehold buildings	50 years or, if shorter, the life of the lease
Plant and machinery	Between 5 and 10 years
Motor vehicles	5 years
Tools and moulds	7 years or over the period of the contract

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

#### (d) Stocks:

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

#### (e) Deferred taxation:

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

#### (f) Foreign currencies:

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

#### (g) Acquisitions:

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

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

#### (h) Pensions:

Pension costs charged against profits for the defined contribution scheme are the amount of contributions payable to the pension scheme in respect of the accounting period. For the defined benefit scheme the charge is the amount derived by spreading the cost of pensions over the estimated remaining service lives of employees. Further details of the scheme are given in note 5.

#### (i) Operating leases:

The annual costs of operating leases are charged to the profit and loss account.

## 2. Turnover and segmental analysis

The United Kingdom is the source of turnover and operating profit and the principal location of the net assets of the company. The directors consider that the company operates in two business segments serving various markets. Turnover, loss on ordinary activities before taxation and net assets are analysed as follows:

Segment of activity	Dinkie		Davies Odell		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Turnover	1,142	2,592	4,494	4,317	5,636	6,909
Segmental (loss)/profit before exceptional items	(682)	(928)	386	244	(296)	(684)
Exceptional items	(477)	(691)	(36)	–	(513)	(691)
Profit on sale of fixed assets	403	–	78	–	481	–
Segmental (loss)/profit before Group costs	(756)	(1,619)	428	244	(328)	(1,375)
Group costs					(180)	(197)
Loss before interest and taxation					(508)	(1,572)
Interest payable					(177)	(178)
Loss before taxation					(685)	(1,750)
Net (liabilities)/assets	(275)	1,401	1,132	1,083	857	2,484
Unallocated net debt					(1,659)	(2,653)
Total net liabilities					(802)	(169)
Geographical analysis of turnover					2003 £'000	2002 £'000
United Kingdom					3,872	4,534
Rest of Europe					774	773
The Americas					304	443
Australasia					49	46
Far East					557	800
Africa					80	313
					5,636	6,909

### 3. Net operating expenses

	2003 £'000	2002 £'000
Distribution costs	262	214
Administrative expenses, normal	460	552
Administrative expenses, exceptional		
Restructuring costs	477	618
Goodwill impairment provision	36	–
Plant & machinery impairment	–	647
Profit on sale of property held for resale	–	(574)
	<hr/>	<hr/>
	1,235	1,457
	<hr/>	<hr/>

Restructuring costs of £477,000 include termination payments to employees £258,000, costs of removal of production overseas £141,000 and consultants' and other related professional fees £78,000.

### 4. Staff numbers and costs

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

	2003	2002
Management and administration	18	19
Production and sales	56	81
	<hr/>	<hr/>
	74	100
	<hr/>	<hr/>

At 31 December 2003 the total number of persons employed was 59 (2002, 84).

The aggregate payroll costs of these persons were:

	2003 £'000	2002 £'000
Wages and salaries	1,228	1,829
Social security costs	114	156
Other pension costs	104	121
	<hr/>	<hr/>
	1,446	2,106
	<hr/>	<hr/>

## 5. Pension costs

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to **£53,000** (2002, £68,000).

The company also operates a defined benefits scheme. The scheme was closed to new employees in 1988. The assets of the scheme are held separately from those of the company in a deposit administration contract underwritten by an insurance company. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent actuarial valuation was at 1 July 2001 and the main actuarial assumptions were a rate of interest of 8.0% before retirement, 6.0% after retirement and a rate of salary increase of 6.0%. The valuation showed that the market value of the scheme assets was £1,684,000 and that the level of funding on an ongoing basis is 109%. The company funding rate of 12.5% is intended to restore a 100% funding level over nine years, the average future working lifetime of the active membership. The pension charge for the year was **£51,000** (2002, £53,000).

To comply with the transitional provisions of FRS17 'Retirement Benefits' the company commissioned an independent qualified actuary to update to 31 December 2003 the results of the previous valuation. The results of the update are as follows:

	31 December 2003	31 December 2002
Financial assumptions:		
Salary increases	3.5%	3.5%
Increases to pensions and deferred pensions	2.75%	2.5%
Discount rate	5.5%	5.5%
RPI	2.75%	2.5%
The assets of the scheme and the expected return on assets were:		
Assets	<b>£1,646,000</b>	<b>£1,784,000</b>
Return on assets	7.0%	7.0%
Financial position:	£'000	£'000
The assets of the scheme	1,646	1,784
Actuarial liabilities	(1,480)	(1,640)
Surplus	166	144
Related deferred tax liability	-	-
Net pension asset	<b>166</b>	<b>144</b>
Balance sheet net liabilities	(802)	(169)
Pension asset	166	144
Adjusted balance sheet net liabilities	<b>(636)</b>	<b>(25)</b>
Profit and loss deficit excluding pension asset	(2,297)	(2,135)
Pension asset	166	144
Adjusted profit and loss deficit	<b>(2,131)</b>	<b>(1,991)</b>

## 5. Pension costs continued

	31 December 2003 £'000	31 December 2002 £'000
Analysis of the amount charged to operating profit:		
Current service cost	37	65
Cost on settlements	24	–
Cost on curtailments	(20)	–
	<u>41</u>	<u>65</u>
Analysis of the amount credited to financing of pension provisions:		
Expected return	120	127
Interest on pension liabilities	(83)	(99)
Net finance return	<u>37</u>	<u>28</u>
Amount recognised in the statement of total recognised gains and losses (STRGL):		
Actual return less expected return on scheme assets	(33)	(166)
Experience gains and losses	53	284
Change in assumptions underlying present value of plan liabilities	(43)	(153)
Actuarial loss in STRGL	<u>(23)</u>	<u>(35)</u>
Movement in surplus during the year:		
Surplus at the beginning of the year	144	156
Total operating charge	(41)	(65)
Company contributions	49	60
Net finance return	37	28
Actuarial loss in STRGL	(23)	(35)
Surplus at the end of the year	<u>166</u>	<u>144</u>

## 6. Interest payable

	2003 £'000	2002 £'000
On bank loans and overdrafts and all other loans	<u>177</u>	<u>178</u>

## 7. Loss on ordinary activities before taxation

	2003 £'000	2002 £'000
is stated after charging:		
Depreciation and amortisation:		
of intangible fixed assets	3	2
of tangible fixed assets	118	328
Impairment provisions:		
of intangible fixed assets	36	–
of tangible fixed assets	–	647
Auditors' remuneration and expenses:		
for audit	19	23
for non-audit	16	6
Operating leases:		
on land and buildings	85	75
on plant and machinery	8	5
and after crediting:		
profit on sale of fixed assets arising from sale of freehold property in Bristol and Kettering	481	–

## 8. Directors' emoluments and interests

	2003 £'000	2002 £'000
The aggregate remuneration of the directors was:		
Fees	15	15
Salaries and benefits	293	309
	<hr/>	<hr/>
Total	308	324
	<hr/>	<hr/>

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

	Salaries and fees			Benefits		Total
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Executive						
C R Ball	66	66	15	13	81	79
G C Martin	54	54	1	11	55	65
R J Mitchell	39	39	7	6	46	45
A J Stowey	33	35	8	9	41	44
M J Stowey	39	43	1	1	40	44
Non-executive						
R T Organ	35	35	–	–	35	35
D A S Burn	10	12	–	–	10	12
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	276	284	32	40	308	324
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Benefits represent the value attributed to company cars, fuel and medical insurance.

## 8. Directors' emoluments and interests *continued*

Directors' pensions are secured in the company defined benefits and defined contribution schemes. Details are shown below:

Defined benefits scheme	Accrued	Increase in accrued pension during 2003 £'000 pa	Accrued	Transfer value of the increase in accrued pension during 2003 £'000
	pension at 31 December 2002 £'000 pa		pension at 31 December 2003 £'000 pa	
C R Ball	23	1	24	3
G C Martin	14	1	15	3
A J Stowey	11	–	11	–
M J Stowey	14	–	14	–
	—	—	—	—
	62	2	64	6
	—	—	—	—

The increase in accrued pension during the year excludes any increase for inflation.

Defined contribution scheme	Company contributions	
	2003 £'000	2002 £'000
C R Ball	4	4
G C Martin	3	3
R J Mitchell	3	3
A J Stowey	2	2
M J Stowey	2	3
	—	—
	14	15
	—	—

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

	31 December 2003		31 December 2002	
	shares	options	shares	options
Executive				
C R Ball	744,719	–	744,719	–
G C Martin	12,586	–	12,586	–
R J Mitchell	126,145	–	126,145	–
A J Stowey	1,278,689	–	1,278,689	–
M J Stowey	1,285,899	–	1,285,899	–
Non-executive				
R T Organ	300,000	150,000	100,000	150,000

In connection with the restructuring and refinancing of the business, directors subscribed for new shares and cancelled and converted Loan Notes 2003 into shares on 19 April 2004 as follows:

	New shares subscribed for	Loan Notes 2003 cancelled and converted into shares
	R T Organ	3,000,000
C R Ball	–	5,000,000
G C Martin	–	1,000,000
R J Mitchell	–	1,000,000
D A Horner	20,000,000	–
P G Cook	7,000,000	–

There have been no other changes in the interests of any director up to 20 May 2004.

## 8. Directors' emoluments and interests *continued*

R T Organ has an option to subscribe for 150,000 shares at 6.75p per share, exercisable from 22 May 2004 and that expires on 21 May 2011, the terms of which may be adjusted by the Board to reflect variations of share capital. No options lapsed or were granted or exercised during the year nor have any been granted or exercised up to 20 May 2004. The market price of the shares at 31 December 2003 was 6.0p and the range during 2003 was 6.50p to 3.25p.

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

Directors' holdings at 31 December 2003 of Loan Notes 2003 (see notes 19 and 25) were C R Ball £50,000, G C Martin £10,000, R J Mitchell £10,000 and R T Organ £20,000.

## 9. Taxation

	2003 £'000	2002 £'000
a) Analysis of tax credit in the year:		
UK corporation tax on profits of the period	–	–
Tax repaid in respect of previous periods	10	10
	<hr/>	<hr/>
	10	10
	<hr/>	<hr/>
b) Factors affecting current tax credit:		
Loss before taxation	(685)	(1,750)
Loss multiplied by the standard rate of UK tax of 30% (30%)	(205)	(525)
Effects of:		
Expenses not deductible for tax purposes	46	43
Accelerated capital allowances and other timing differences	217	482
Profit on disposal of buildings not taxed	(58)	–
Tax repaid in respect of previous periods	10	10
	<hr/>	<hr/>
Total current tax credit	10	10
	<hr/>	<hr/>

## 10. Dividends

No dividends have been paid or proposed for the year (2002, nil).

## 11. Loss per share

The basic loss per share is calculated on losses of £675,000 (2002, £1,740,000) and on 15,290,075 (2002, 14,770,000) ordinary shares, being the weighted number in issue during the period.

As losses have been incurred in each year the exercise of share options would not have been dilutive and accordingly basic and diluted earnings per share are the same.

## 12. Intangible fixed assets

Goodwill  
£'000

Cost	
1 January 2003 and 31 December 2003	521
Amortisation	
1 January 2003	482
Charge for the year	3
Impairment provision	36
31 December 2003	521
Net book amount	
31 December 2003	–
31 December 2002	39

## 13. Tangible fixed assets

	Buildings £'000	Land & Machinery £'000	Plant & Moulds £'000	Tools & Vehicles £'000	Motor Total £'000
Cost or Valuation					
1 January 2003	1,329	3,476	1,724	173	6,702
Additions	–	59	–	–	59
Disposals	(1,329)	(1,922)	–	(64)	(3,315)
31 December 2003	–	1,613	1,724	109	3,446
Depreciation					
1 January 2003	278	3,125	1,720	152	5,275
Charge for the year	16	87	1	14	118
Disposals	(294)	(1,862)	–	(63)	(2,219)
31 December 2003	–	1,350	1,721	103	3,174
Net Book Amount					
31 December 2003	–	263	3	6	272
31 December 2002	1,051	351	4	21	1,427

#### 14. Investment in associate

The company has a one third shareholding in Universal Dinkie (Proprietary) Limited (UD), a company registered in Botswana. The company does not have control of the board of UD nor of its day-to-day operations. During the year goods valued at £76,000 were sold to UD and at 31 December 2003 the balance outstanding was £nil. In 2003 UD incurred a trading loss and the cost of investment has been reduced by a provision for the costs of establishment incurred.

	2003 £'000	2002 £'000
Cost of investment at 1 January	173	99
Additions	—	74
	<hr/>	<hr/>
at 31 December	173	173
	<hr/>	<hr/>
Provision for share of costs of establishment at 1 January	173	25
Additions	—	148
	<hr/>	<hr/>
at 31 December	173	173
	<hr/>	<hr/>
Net book amount at 31 December	—	—
	<hr/>	<hr/>

#### 15. Stocks

	2003 £'000	2002 £'000
Raw materials and consumables	203	278
Work in progress	4	18
Finished goods and goods for resale	382	552
	<hr/>	<hr/>
	589	848
	<hr/>	<hr/>

#### 16. Debtors

	2003 £'000	2002 £'000
Trade debtors	827	964
Prepayments	32	75
	<hr/>	<hr/>
	859	1,039
	<hr/>	<hr/>

**17. Creditors:**  
**Amounts falling due within one year**

	2003 £'000	2002 £'000
Bank overdraft	547	1,747
Bank loan	219	104
Loan Notes 2003	400	105
Trade creditors	365	490
Tax and social security	263	109
Other creditors	18	19
Accruals	170	201
	<u>1,982</u>	<u>2,775</u>

The bank loan and overdraft are secured by a Debenture over all property and by fixed and floating charges over the other assets of the company. The Loan Notes 2003, of which further details are given in notes 19 and 25, were at 31 December 2003 secured by a second floating charge over the assets of the company and details of Loan Notes held by directors are shown in note 8 on page 81.

Following the EGM on 19 April 2004 all Loan Notes have either been cancelled and exchanged for shares or repaid. Details of the arrangements agreed at the EGM are given in note 25 on page 87.

**18. Creditors:**  
**Amounts falling due after more than one year**

	2003 £'000	2002 £'000
Bank loans repayable:		
between one and two years	219	212
between two and five years	274	502
Other creditors	47	50
	<u>540</u>	<u>764</u>

The bank loan is secured by a Debenture over all property and by fixed and floating charges over the other assets of the company. The amount of £219,000 repayable in 2004 is shown in creditors falling due within one year.

**19. Financial instruments**

Financial liabilities	Floating rate £'000	Fixed rate £'000	Fixed rate financial liabilities Weighted average	
			Interest rate %	Period that rate is fixed in years
2003	<u>1,259</u>	<u>400</u>	<u>12.0</u>	<u>0.0</u>
2002	<u>1,747</u>	<u>923</u>	<u>8.3</u>	<u>0.8</u>

All loans, overdrafts and working capital facilities of the company are denominated in sterling and have floating rates of interest at 1.25% or 1.75% over Base Rate. Loan Notes 2003 have a fixed rate of interest of 12%. At 31 December 2003 the company had no undrawn overdraft facilities. The market value of the loans approximates to their fair values.

Other short term debtors and creditors have been excluded from the above disclosures. The company does not operate any financial hedging instruments.

At the EGM on 19 April 2004 the company arranged a financial restructuring of which details are given in the post balance sheet events note 25 on page 87.

## 20. Provisions for liabilities and charges

At a tax rate of 30% the company has losses for tax purposes of £753,000 (2002, £549,000) and deferred tax assets of £236,000 (2002, £171,000) in respect of accelerated capital allowances. No asset for deferred taxation has been recognised due to the current financial position of the company.

## 21. Share capital

	2003 £'000	2002 £'000
Ordinary shares of 5p per share		
Authorised:		
20,000,000 (2002, 17,000,000) shares	1,000	850
Allotted, called and fully paid:		
15,706,056 (2002, 14,770,000) shares	785	738

In June 2003 the company issued 936,056 ordinary shares for cash at 5p each, realising £42,000 net of expenses. The issue assisted in financing the company's reorganisation requirements.

Options granted and remaining unexercised at 31 December 2003 are as follows:

No of shares	Period during which the right is exercisable	Price per share to be paid
250,000	until 31 December 2008	6.75p
150,000	between 22 May 2004 and 21 May 2011	6.75p

The terms of the share options may be adjusted by the Board to reflect variations of share capital.

The post balance sheet events note 25 on page 87 contains details of changes to the share capital agreed by shareholders at the EGM on 19 April 2004.

## 22. Reserves

	Share Premium £'000	Revaluation Reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	715	513	(2,135)	(907)
Revaluation surplus released	–	(513)	513	–
Loss for the year	–	–	(675)	(675)
Expenses of share issue	(5)	–	–	(5)
At 31 December 2003	710	–	(2,297)	(1,587)

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

## 23. Reconciliation of movement in equity shareholders' funds

	2003 £'000	2002 £'000
Loss for the financial year	(675)	(1,740)
Share capital issued, net of expenses	42	–
Shareholders' funds at 1 January 2003	(169)	1,571
Shareholders' funds at 31 December 2003	(802)	(169)

## 24. Commitments

Capital expenditure contracted for at 31 December 2003 and for which no provision has been made in these accounts is **£nil** (2002, £nil).

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

	2003 £'000	2002 £'000
Land and buildings leases expiring:		
within two to five years	91	15
after five years	–	76
Other operating leases expiring:		
within one year	–	1
within two to five years	8	7
	<hr/>	<hr/>
	99	99
	<hr/>	<hr/>

## 25. Post balance sheet events

At the EGM on 19 April 2004 shareholders agreed to a placing of 95,800,000 shares at 1p each and the issue of warrants to all shareholders, on the basis of one warrant for every two ordinary shares held, giving the right to subscribe for ordinary shares at 2p per share. At that date the company had outstanding Loan Notes to the value of £400,000 and, as a part of the arrangements, holders of £330,000 of Loan Notes agreed to cancel their Loan Notes in exchange for ordinary shares at 1p each. The remaining £70,000 of Loan Notes were repaid from the proceeds of the placing. The company has also paid a VAT liability of £223,000 largely arising from the sale of its freehold premises in October 2003.

Shareholders also sanctioned at the EGM a capital re-organisation and reconstruction. Each of the existing ordinary shares of 5p each was sub-divided into and reclassified as one new ordinary share of 0.1p and one deferred share of 4.9p. The Board was also authorised in due course to apply to the Court for sanction of a reduction of capital to eliminate the profit and loss account deficit. In giving its sanction the Court may wish to ensure that creditors will not be prejudiced and may require the company to provide protection for creditors.

Full details of the share placing, issue of warrants and capital re-organisation were given in a document dated 26 March 2004 circulated to all shareholders.

## 26. Gross cash flows

	2003 £'000	2002 £'000
Returns on investments and servicing of finance:		
interest paid	177	178
	<hr/>	<hr/>
Taxation:		
UK corporation tax repaid	(10)	(10)
	<hr/>	<hr/>
Capital expenditure and financial investment:		
tangible fixed assets bought	59	112
tangible fixed assets sold	(1,577)	(20)
sale of property held for resale	–	(674)
	<hr/>	<hr/>
	(1,518)	(582)
	<hr/>	<hr/>
Acquisitions:		
investment in associate	–	74
	<hr/>	<hr/>
Financing:		
increase in debt	(189)	(98)
issue of ordinary share capital	(47)	–
expenses of share issue	5	–
	<hr/>	<hr/>
	(231)	(98)
	<hr/>	<hr/>

## 27. Analysis of changes in net debt

	at 1 Jan 2003 £'000	cash flows £'000	other non-cash changes £'000	at 31 Dec 2003 £'000
Cash at bank and in hand	17	(17)	–	–
Overdrafts	(1,747)	1,200	–	(547)
	<hr/>	<hr/>	<hr/>	<hr/>
	(1,730)	1,183	–	(547)
Debt due within one year	(209)	(189)	(221)	(619)
Debt due after one year	(714)	–	221	(493)
	<hr/>	<hr/>	<hr/>	<hr/>
	(2,653)	994	–	(1,659)
	<hr/>	<hr/>	<hr/>	<hr/>

## 28. Subsidiary undertakings

All subsidiary undertakings are non trading, wholly owned and incorporated in the UK. A complete list of subsidiary undertakings is included with the annual return. Consolidated accounts are not required in accordance with Companies Act 1985 Section 229(2).

#### 4. INTERIM RESULTS OF CEPS FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2006

##### CONSOLIDATED PROFIT AND LOSS ACCOUNT

	6 months to 30 June 2006 (Unaudited) £'000	6 months to 30 June 2005 (Unaudited) £'000	12 months to 31 December 2005 (Audited) £'000
<b>Turnover</b>			
Continuing operations	3,526	3,230	6,919
Operating profit	113	131	168
Analysis of operating profit			
Continuing operations, trading	210	218	380
Continuing operations, Group costs	(97)	(87)	(212)
Interest payable	(52)	(59)	(115)
<b>Profit on ordinary activities before taxation</b>	61	72	53
Taxation	(6)	–	(6)
<b>Profit after taxation</b>	55	72	47
Minority interests	(7)	(20)	(7)
<b>Profit for the period</b>	48	52	40
<b>Dividends</b>	–	–	–
Retained profit for the period	48	52	40
Earnings per share			
– basic	0.03p	0.03p	0.02p
– diluted	0.03p	0.03p	0.02p

##### Statement of Total Recognised Gains and Losses

	£'000	£'000	£'000
Profit for the period	48	52	40
Actuarial loss recognised in pension scheme	–	–	(272)
Movement on deferred tax relating to pension scheme	–	–	82
Total recognised gains/(losses) for the period	48	52	(150)
Prior year adjustment	–	(454)	(318)
Total recognised profit/(losses) since last annual report	48	(402)	(468)

## CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	As at 30 June 2006 (Unaudited) £'000	As at 30 June 2005 (Unaudited) £'000	As at 31 December 2005 (Audited) £'000
<b>Net assets employed</b>			
<b>Fixed Assets</b>			
Intangible	1,489	1,502	1,529
Tangible	288	303	259
	<u>1,777</u>	<u>1,805</u>	<u>1,788</u>
<b>Current assets :</b>			
Stocks	1,154	1,171	1,087
Debtors	1,304	1,267	1,428
Cash at bank and in hand	39	33	24
	<u>2,497</u>	<u>2,471</u>	<u>2,539</u>
<b>Creditors: amounts falling due within one year</b>	(2,161)	(1,951)	(2,093)
Net current assets	<u>336</u>	<u>520</u>	<u>446</u>
Total assets less current liabilities	2,113	2,325	2,234
<b>Creditors : amounts falling due after more than one year</b>	(745)	(997)	(878)
<b>Provisions for liabilities and charges</b>	(36)	(4)	(42)
<b>Net assets excluding pension liability</b>	1,332	1,324	1,314
<b>Pension liability</b>	(435)	(433)	(471)
<b>Net assets including pension liability</b>	<u>897</u>	<u>891</u>	<u>843</u>
<b>Capital and reserves</b>			
Called up share capital	178	178	178
Share premium	676	645	676
Profit and loss account	(90)	(72)	(138)
<b>Total equity shareholders' funds</b>	<u>764</u>	<u>751</u>	<u>716</u>
Minority interests	133	140	127
<b>Capital employed</b>	<u>897</u>	<u>891</u>	<u>843</u>

## CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2006

	6 months to 30 June 2006 (Unaudited) £'000	6 months to 30 June 2005 (Unaudited) £'000	12 months to 31 December 2005 (Audited) £'000
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Operating profit	113	131	168
Depreciation and amortisation charges	91	78	170
Difference between pension charge and cash contributions	(36)	–	(53)
Increase in stocks	(67)	(147)	(63)
Decrease/(increase) in debtors	124	24	(120)
Increase/(decrease) in creditors	185	(86)	36
Net cash inflow from operating activities	<u>410</u>	<u>–</u>	<u>138</u>
<b>Cash Flow Statement</b>			
Net cash inflow from operating activities	410	–	138
Returns on investments and servicing of finance	(52)	(59)	(115)
Taxation	–	–	(68)
Capital expenditure and financial investment	(80)	(35)	(41)
Acquisition	–	(1,563)	(1,599)
	<u>278</u>	<u>(1,657)</u>	<u>(1,685)</u>
Financing	(133)	1,288	1,197
Increase/(decrease) in cash	<u>145</u>	<u>(369)</u>	<u>(488)</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase/(decrease) in cash in the period	145	(369)	(488)
Cash decrease/(increase) from change in debt	133	(560)	(438)
Change in net debt	<u>278</u>	<u>(929)</u>	<u>(926)</u>
Net debt at 1 January	(1,220)	(294)	(294)
Net debt at period end	<u>(942)</u>	<u>(1,223)</u>	<u>(1,220)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Segmental analysis

Unaudited 6 months to 30 June	Friedman's		Davies Odell		Group	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Turnover	<u>1,374</u>	<u>1,184</u>	<u>2,152</u>	<u>2,046</u>	<u>3,526</u>	<u>3,230</u>
Segmental profit/(loss) before Group costs	<u>92</u>	<u>132</u>	<u>118</u>	<u>86</u>	210	218
Group costs					(97)	(87)
Profit before interest and taxation					113	131
Interest payable					(52)	(59)
Group profit before taxation					<u>61</u>	<u>72</u>
Net assets	<u>1,432</u>	<u>1,633</u>	<u>842</u>	<u>914</u>	2,274	2,547
Pension liability					(435)	(433)
Unallocated net liabilities					(942)	(1,223)
Total net assets					<u>897</u>	<u>891</u>
Audited Year ended 31 December 2005		Friedman's £'000		Davies Odell £'000		Group £'000
Turnover		<u>2,410</u>		<u>4,509</u>		<u>6,919</u>
Segmental profit before Group costs		<u>161</u>		<u>219</u>		380
Group costs						(212)
Profit before interest and taxation						168
Interest payable						(115)
Group profit before taxation						<u>53</u>
Net assets		<u>1,517</u>		<u>1,017</u>		2,534
Pension liability						(471)
Unallocated net liabilities						(1,220)
Total net assets						<u>843</u>

Friedman's converts and distributes specialist Lycra. The investment in Friedman's was acquired on 25 January 2005. Davies Odell manufactures and distributes protection equipment, matting and footwear components.

### 2. Earnings per share

Basic earnings per share is calculated on the profit on ordinary activities after taxation and minority interests of £48,000 (2005, £52,000) and on 178,191,426 (2005, 172,451,369) ordinary shares, being the weighted number in issue during the period.

Diluted earnings per share is calculated on the weighted number of ordinary shares in issue adjusted to reflect the potential effect of the exercise of share warrants. In 2005 diluted earnings per share is calculated on 190,299,165 ordinary shares but in 2006 no adjustment is required because the fair value of warrants was below the exercise price.

**3. Reclassification of debtor backed working capital facilities**

In 2005 the Group reviewed the accounting treatment of its debtor backed working capital facilities and included them within creditors. The amount of these facilities at 31 December 2005 was £416,000, at 30 June 2005 £410,000 and at 31 December 2004 £271,000. These were previously included within bank overdrafts and comparative figures have been restated.

**4. Status of the financial information**

The financial information has been prepared under the historical cost convention and in accordance with the accounting policies disclosed in the 2005 Report and Accounts. The information does not constitute full accounts within the meaning of the Companies Act 1985. The results for the half year to 30 June 2006 are unaudited. The abridged profit and loss account, balance sheet and cash flow statement for the year ended 31 December 2005 were extracted from the published accounts which received an unqualified audit report and which have been delivered to the Registrar of Companies.

## PART VII

### ACCOUNTANTS' REPORT AND FINANCIAL INFORMATION ON SUNLINE DIRECT MAIL LIMITED

#### (a) Accountants' report on financial information



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The Directors  
CEPS PLC  
11 George Street  
Bath  
BA1 2EH

City Financial Associates Limited  
Pountney Hill House  
6 Laurence Pountney Hill  
London  
EC4R 0BL

11 January 2007

Dear Sirs

#### **Sunline Direct Mail Limited**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 11 January 2007 (the "**Document**") of CEPS PLC (the "**Company**") on the basis of the accounting policies set out on page 99. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

#### **Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in the accounting policies to the financial information as outlined above and in accordance with the applicable financial reporting framework.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided and, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex 1 to the AIM Rules, consenting to its inclusion in the document.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the document dated 11 January 2007, a true and fair view of the state of affairs of the Company as at the dates stated and of its profits and cash flows for the periods then ended in accordance with the basis of preparation and the applicable financial reporting framework as described under “Accounting Policies – Basis of accounting” behind.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**

## (b) Financial information on Sunline Direct Mail Limited

### PROFIT AND LOSS ACCOUNT

		Year to 31 October	Year to 31 October	Year to 31 October	8 months to 30 June
	Note	2003 £'000	2004 £'000	2005 £'000	2006 £'000
<b>Turnover</b>	1	4,550	6,149	6,364	4,345
Cost of sales		(2,585)	(3,449)	(3,911)	(2,738)
<b>Gross profit</b>		1,965	2,700	2,453	1,607
Net operating expenses	2	(1,076)	(1,752)	(1,770)	(1,208)
<b>Operating profit</b>	6	889	948	683	399
Net interest (payable)/receivable	5	(106)	(130)	(163)	(94)
<b>Profit on ordinary activities before taxation</b>		783	818	520	305
Tax on profit on ordinary activities	8	(244)	(283)	(201)	(136)
<b>Profit on ordinary activities after taxation</b>		539	535	319	169
Dividends	9	(46)	(102)	(153)	(102)
<b>Retained profit for the year</b>	20	493	433	166	67

All of the company's activities are continuing.

The company has no recognised gains and losses other than as reported above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year/period stated above and their historical cost equivalents.

## BALANCE SHEET

		As at 31 October Note	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
<b>Fixed assets</b>					
Intangible assets	10	617	573	529	500
Tangible assets	11	1,006	1,129	1,156	1,078
		<u>1,623</u>	<u>1,702</u>	<u>1,685</u>	<u>1,578</u>
<b>Current assets</b>					
Stocks	12	53	50	79	55
Debtors	13	1,410	1,734	1,771	1,651
Cash at bank and in hand		168	349	394	793
		<u>1,631</u>	<u>2,133</u>	<u>2,244</u>	<u>2,499</u>
<b>Creditors: amounts falling due &lt; 1yr</b>	14	(1,153)	(1,443)	(1,317)	(1,423)
<b>Net current assets</b>		<u>478</u>	<u>690</u>	<u>927</u>	<u>1,076</u>
<b>Total assets less current liabilities</b>		<u>2,101</u>	<u>2,392</u>	<u>2,612</u>	<u>2,654</u>
<b>Creditors : amounts falling due &gt; 1yr</b>	15	(402)	(243)	(278)	(241)
<b>Provisions for liabilities and charges</b>	17	(161)	(178)	(197)	(209)
<b>Net assets</b>		<u>1,538</u>	<u>1,971</u>	<u>2,137</u>	<u>2,204</u>
<b>Capital and reserves</b>					
Called up share capital	19	60	60	60	60
Capital redemption reserve	20	80	80	80	80
Profit and loss reserve	20	1,398	1,831	1,997	2,064
<b>Shareholders' funds</b>	21	<u>1,538</u>	<u>1,971</u>	<u>2,137</u>	<u>2,204</u>

## CASH FLOW STATEMENT

		Year to 31 October Note	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
<b>Net cash inflow from operating activities</b>	23	819	1,063	920	551
<b>Returns on investments and servicing of finance</b>					
Interest received		12	12	20	17
Interest paid		(50)	(23)	(19)	–
Interest element of finance leases and HP payments		(21)	(13)	(17)	(13)
Dividends paid on 'A' ordinary Shares		(46)	(101)	(152)	–
<b>Net cash outflow from returns on investments and servicing of finance</b>		(105)	(125)	(168)	4
<b>Taxation paid</b>		(182)	(225)	(266)	–
<b>Capital expenditure</b>					
Payments to acquire tangible fixed assets		(262)	(154)	(98)	(52)
Receipts from the sale of tangible fixed assets		70	3	120	3
<b>Net cash outflow from capital expenditure</b>		(192)	(151)	22	(49)
<b>Dividends paid</b>		(46)	(102)	(153)	(3)
<b>Cash inflow before financing</b>		294	460	355	503
<b>Financing</b>					
Repayment of term loans		(101)	(101)	(101)	–
Repayment of bank loans		(168)	–	–	–
Capital element of finance leases and HP		(156)	(110)	(147)	(90)
Repayment of directors' long-term loans		(52)	(67)	(62)	(14)
<b>Net cash outflow from financing</b>		(477)	(278)	(310)	(104)
<b>(Decrease)/Increase in cash</b>	24	(183)	182	45	399

## ACCOUNTING POLICIES

### **Basis of accounting**

These accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985. Accounting policies have been consistently applied, including reflecting the requirements of Financial Reporting Standard 21 and Financial Reporting Standard 25 for the current and previous periods.

### **Revenue recognition**

Turnover comprises the invoiced value of goods sold, excluding VAT (which is recognised upon fulfilment of the Company's obligations as defined by the Company's standard terms and conditions of sale).

### **Intangible fixed assets**

The purchased goodwill is in respect of the trade of Sunline Limited which was acquired on 24 November 1997 and which is now carried on by this Company.

The goodwill is being amortised over a period of 20 years on a straight line basis, which, in the directors' opinion, represents its useful economic life.

### **Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, over their estimated economic lives as follows:

Leasehold improvements	25% on reducing balance basis
Plant & machinery	15% on reducing balance basis
Fixtures & fittings	15% on reducing balance basis
Motor vehicles	25% on reducing balance basis
Equipment	25% on reducing balance basis

Tangible fixed assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### **Stocks**

Raw materials are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

Work-in-progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity, with no element of profit included in the valuation. Provision is made for any foreseeable where appropriate.

### **Deferred taxation**

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

### **Pensions**

The Company operates a defined contribution scheme for employees. The assets of the scheme are held separately from those of the Company. Company contributions to the scheme are charged to the profit and loss account as incurred.

### **Finance leases**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term and their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

### **Operating leases**

The annual costs of operating leases are charged to the profit and loss account as incurred.

## NOTES TO THE PRIMARY STATEMENTS

### 1. Turnover and segmental analysis

The United Kingdom is the source of turnover and operating profit and the principal location of the net assets of the Company. The directors consider that the Company operates a single principal activity, being the provision of direct mail services, and an analysis of turnover by destination is given below:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	<b>8 months to 30 June 2006 £'000</b>
United Kingdom	<u>4,550</u>	<u>6,149</u>	<u>6,364</u>	<u>4,345</u>

### 2. Net operating expenses

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	<b>8 months to 30 June 2006 £'000</b>
Production and administration	<u>1,076</u>	<u>1,752</u>	<u>1,770</u>	<u>1,208</u>
	<u>1,076</u>	<u>1,752</u>	<u>1,770</u>	<u>1,208</u>

### 3. Staff numbers and costs

The average number of persons employed by the Company, including the directors, is analysed below:

	Year to 31 October 2003 Number	Year to 31 October 2004 Number	Year to 31 October 2005 Number	<b>8 months to 30 June 2006 Number</b>
Production and administration	<u>109</u>	<u>132</u>	<u>137</u>	<u>140</u>
	<u>109</u>	<u>132</u>	<u>137</u>	<u>140</u>

The aggregate payroll costs of the above were as follows:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	<b>8 months to 30 June 2006 £'000</b>
Wages and salaries	1,869	2,436	2,547	<b>1,730</b>
Social security costs	176	236	249	<b>167</b>
Other pension costs	9	16	10	<b>10</b>
	<u>2,054</u>	<u>2,688</u>	<u>2,806</u>	<u>1,907</u>

### 4. Pension costs

The Company operates a defined contribution scheme for employees. The assets of the scheme are held separately from those of the Company. As noted on page 99, the annual Company contributions to the scheme are charged to the profit and loss account as incurred.

## 5. Net interest (payable)/receivable

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
Bank interest receivable	12	12	20	17
Hire purchase and finance lease interest	(22)	(13)	(17)	(12)
Prior year final dividend paid – 'A' ordinary shares	(41)	(96)	(147)	(96)
'A' ordinary shares final dividend paid of 8.5p per annum	(5)	(5)	(5)	(3)
Other similar charges payable	(50)	(28)	(14)	–
	<u>(106)</u>	<u>(130)</u>	<u>(163)</u>	<u>(94)</u>

## 6. Operating profit

Operating profit is stated after charging/(crediting):

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
Goodwill amortisation	44	44	44	29
Depreciation of owned fixed assets	89	114	136	83
Depreciation of assets held under finance leases and HP agreements	71	66	67	46
(Profit)/loss on disposal of fixed assets	(3)	(1)	(52)	26
Auditors remuneration : audit fees	7	7	7	7
Operating lease rentals – land and buildings	187	187	187	125
	<u>491</u>	<u>518</u>	<u>593</u>	<u>396</u>

## 7. Directors' emoluments and interests

The aggregate remuneration of the directors was as follows:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
Salaries and benefits	200	205	214	140
Contributions to money purchase pension schemes	7	8	9	7
	<u>207</u>	<u>213</u>	<u>223</u>	<u>147</u>

The highest paid director was remunerated as shown below:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
Salaries and benefits	68	70	71	45
Contributions to money purchase pension schemes	5	5	5	4
	<u>73</u>	<u>75</u>	<u>76</u>	<u>49</u>

The number of directors accruing benefits under money purchase pension schemes was as shown below:

	As at 31 October 2003 No.	As at 31 October 2004 No.	As at 31 October 2005 No.	As at 30 June 2006 No.
Money purchase schemes	2	2	2	2

The directors' beneficial interests in the Ordinary £1 shares of the Company were as follows:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
N Maybury	30	30	30	30
KM Brown	30	30	30	30

In 2005, Mr PR Chappelow surrendered a number of options held in the shares of the Company in return for the right to a £200,000 bonus payable upon the sale of the business.

## 8. Taxation

The charge for the period is analysed as follows:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
<b>Current taxation</b>				
UK corporation tax at 30%	226	266	182	124
Adjustments in respect of previous periods	–	(1)	–	–
Total current taxation	226	265	182	124
<b>Deferred taxation</b>				
Origination and reversal of timing differences	18	18	19	12
Total deferred taxation	18	18	19	12
<b>Tax on profit on ordinary activities</b>	244	283	201	136

The current taxation assessed on the profit on ordinary activities for the period has been impacted by the following factors:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
<b>Profit on ordinary activities before taxation</b>	783	818	520	305
Profit on ordinary activities multiplied by rate of tax, 30%	235	245	156	92
Expenses not deductible for tax purposes	17	41	58	55
Capital allowances less than depreciation	(20)	(17)	(22)	(16)
Goodwill amortisation	13	13	13	9
Marginal relief	(19)	(15)	(23)	(16)
Adjustments in respect of previous periods	–	(1)	–	–
<b>Total current taxation</b>	226	266	182	124

There are no other known factors that are expected to significantly impact the tax charge in future periods.

## 9. Dividends

The dividends recognised in the profit and loss account during the period can be analysed as follows:

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
Prior year final dividend paid – Ordinary shares	<u>46</u>	<u>102</u>	<u>153</u>	<u>102</u>

The dividends shown above are made up of the 'A' Ordinary shares at 170p (2004 255p, 2003 170p, 2002 76.2p) and the Ordinary shares at 170p (2004 255p, 2003 170p, 2002 77p).

The dividends paid on the 'A' ordinary shares have been included within interest charges, see note 5.

The final dividends in respect of the year to 31 October 2005 have been declared and approved during the period to 30 June 2006 and paid during July 2006.

## 10. Intangible fixed assets

	Purchased goodwill £'000
<b>Cost</b>	
At 1 November 2002	880
At 1 November 2003	880
At 1 November 2004	880
At 1 November 2005	880
<b>At 30 June 2006</b>	<b><u>880</u></b>
<b>Amortisation</b>	
At 1 November 2002	219
Charge for the year to 31 October 2003	44
At 1 November 2003	263
Charge for the year to 31 October 2004	44
At 1 November 2004	307
Charge for the year to 31 October 2005	44
At 1 November 2005	351
Charge for the period to 30 June 2006	29
<b>At 30 June 2006</b>	<b><u>380</u></b>
<b>Net book value</b>	
At 1 November 2002	661
At 1 November 2003	617
At 1 November 2004	573
At 1 November 2005	529
<b>At 30 June 2006</b>	<b><u>500</u></b>

The purchased goodwill is in respect of the trade of Sunline Limited which was acquired on 24 November 1997 and which is now carried on by this Company.

At each of the financial year-ends shown above the capital and reserves of Sunline Limited were £40, representing its ordinary share capital.

## 11. Tangible fixed assets

	Leasehold property improvements £'000	Plant and machinery £'000	Fixtures and Fittings £'000	Computer Equipment £'000	Motor vehicles £'000	<b>Total £'000</b>
<b>Cost</b>						
At 1 November 2002	–	1,654	21	24	100	<b>1,799</b>
Additions	5	260	1	14	11	<b>292</b>
Disposals	–	(38)	–	–	(70)	<b>(108)</b>
At 1 November 2003	5	1,877	22	38	40	<b>1,983</b>
Additions	–	233	2	56	14	<b>305</b>
Disposals	–	(2)	–	–	–	<b>(2)</b>
At 1 November 2004	5	2,109	24	94	55	<b>2,286</b>
Additions	–	292	2	4	–	<b>298</b>
Disposals	–	(254)	–	–	–	<b>(254)</b>
At 1 November 2005	5	2,147	26	98	55	<b>2,331</b>
Additions	–	42	–	2	42	<b>87</b>
Disposals	–	–	–	–	(16)	<b>(16)</b>
<b>At 30 June 2006</b>	<b>5</b>	<b>2,189</b>	<b>26</b>	<b>100</b>	<b>81</b>	<b>2,401</b>
<b>Depreciation</b>						
At 1 November 2002	–	790	13	13	42	<b>857</b>
Charge for the year	1	141	1	5	11	<b>160</b>
Disposals	–	(3)	–	–	(37)	<b>(40)</b>
At 1 November 2003	1	927	14	18	16	<b>976</b>
Charge for the year	1	152	2	16	10	<b>180</b>
Disposals	–	–	–	–	–	<b>–</b>
At 1 November 2004	2	1,079	16	35	25	<b>1,157</b>
Charge for the year	1	173	1	21	7	<b>203</b>
Disposals	–	(186)	–	–	–	<b>(186)</b>
At 1 November 2005	3	1,066	17	55	33	<b>1,174</b>
Charge for the period	–	142	1	10	8	<b>161</b>
Disposals	–	–	–	–	(12)	<b>(12)</b>
<b>At 30 June 2006</b>	<b>3</b>	<b>1,208</b>	<b>18</b>	<b>65</b>	<b>28</b>	<b>1,323</b>
<b>Net book value</b>						
At 1 November 2002	–	864	8	11	58	942
At 1 November 2003	4	950	8	20	25	1,007
At 1 November 2004	3	1,030	8	60	29	1,130
At 1 November 2005	2	1,081	9	43	22	1,156
<b>At 30 June 2006</b>	<b>2</b>	<b>981</b>	<b>8</b>	<b>35</b>	<b>52</b>	<b>1,078</b>

Included within the net book values are the following amounts relating to assets held under finance leases and hire purchase agreements:

	Net book value £'000	Depreciation for year £'000
At 1 November 2002	589	81
At 1 November 2003	435	71
At 1 November 2004	515	66
At 1 November 2005	461	67
<b>At 30 June 2006</b>	<b>413</b>	<b>46</b>

**12. Stocks**

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Raw materials	33	46	49	31
Work-in-progress	20	4	30	24
	<u>53</u>	<u>50</u>	<u>79</u>	<u>55</u>

**13. Debtors**

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Trade debtors	1,365	1,660	1,705	1,537
Prepayments and accrued income	45	74	66	114
	<u>1,410</u>	<u>1,734</u>	<u>1,771</u>	<u>1,651</u>

**14. Creditors : amounts falling due < 1yr**

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Term loans	101	101	–	–
Trade creditors	304	531	613	543
Corporation tax	226	266	182	306
Other taxation and social security	242	266	278	187
Amounts due under finance leases and HP agreements	110	131	126	107
Proposed dividends	–	–	–	198
Other creditors	14	12	9	–
Former Directors loans	52	52	14	–
Accruals and deferred income	104	84	95	82
	<u>1,153</u>	<u>1,443</u>	<u>1,317</u>	<u>1,423</u>

**15. Creditors : amounts falling due > 1yr**

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Term loans (repayable in 1-2 years)	101	–	–	–
59,601 'A' ordinary shares of £1 each	60	60	60	60
Amounts due under finance leases and HP agreements	150	159	218	181
Directors' loan accounts	91	24	–	–
	<u>402</u>	<u>243</u>	<u>278</u>	<u>241</u>

The loan from directors related to a former director, Mr P A Whiteman, was repayable at £13,000 per quarter and was unsecured. Repayment of the term loan started in 2001 was repayable annually on 31 October at £101,080 per annum.

## 15. Creditors : amounts falling due > 1yr (continued)

The 'A' ordinary shares carry the following dividend rights:

- a fixed amount of 8.5p per share per annum;
- an additional sum which when added to the 8.5p per share is equal to 6.4% of the profit of the company;
- a potential further amount limited to any 'excess benefits' received by the directors; and
- potential further dividends equal to any excess dividends paid on the ordinary shares.

## 16. Commitments under finance leases and hire purchase agreements

The Company has the following commitments under finance leases and hire purchase agreements:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Amounts payable with 1 year	110	131	126	107
Amounts payable between 1 and 2 years	101	79	89	99
Amounts payable between 3 and 5 years	49	80	129	82
	<u>260</u>	<u>290</u>	<u>344</u>	<u>288</u>

## 17. Provisions for liabilities and charges

The movement in the deferred taxation provision for the period can be analysed as follows:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Provision at start of the period	143	160	178	197
Amount debited to the profit and loss account	18	18	19	12
Provision at the end of the period	<u>161</u>	<u>178</u>	<u>197</u>	<u>209</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of :

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Excess of taxation allowances over depreciation	<u>161</u>	<u>178</u>	<u>197</u>	<u>209</u>

## 18. Financial instruments

The principal financial risks faced by the Company are credit risk, cash flow risk and interest rate risk.

Credit risk is managed through detailed review of potential customers and ongoing monitoring of existing customers and their outstanding balances. Cash flow risk is addressed through the preparation of regular cash flow forecasts and interest rate risk is managed through the use of fixed-rate finance lease and hire purchase agreements.

The Company's only external long-term debt instruments at 30 June 2006 are the UK-Sterling denominated commitments under finance leases and hire purchase agreements disclosed in note 16. These facilities, which all have 48-month terms and attract fixed rates of interest ranging from 5.3% to 6.5%, have been used to fund recent plant and machinery purchases.

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

Other short-term debtors and creditors have been excluded from the above disclosures.

The Company does not operate any financial hedging instruments.

## 19. Share capital

The Company's authorised share capital can be analysed as follows:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
59,601 'A' Ordinary shares of £1 each	60	60	60	60
139,734 Ordinary shares of £1 each	140	140	140	140
	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

The following shares in the Company have been allotted, called-up and fully paid:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
59,601 'A' Ordinary shares of £1 each	60	60	60	60
60,000 Ordinary shares of £1 each	60	60	60	60
	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>

The 'A' ordinary shares have been included with creditors payable in more than one year, see note 15.

## 20. Reserves

	Capital redemption reserve £'000	Profit and loss account £'000
At 1 November 2002	80	905
Retained profit for the year	–	493
At 1 November 2003	80	1,398
Retained profit for the year	–	433
At 1 November 2004	80	1,831
Retained profit for the year	–	166
At 1 November 2005	80	1,997
Retained profit for the period	–	67
<b>At 30 June 2006</b>	<b><u>80</u></b>	<b><u>2,064</u></b>

## 21. Reconciliation of movement in shareholders' funds

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
<b>Shareholders' funds at start of period</b>	1,045	1,538	1,971	2,137
Profit for the financial year	539	535	319	169
Dividends	(46)	(102)	(153)	(102)
<b>Net increase in shareholders' funds</b>	<u>493</u>	<u>433</u>	<u>166</u>	<u>67</u>
<b>Shareholders' funds at end of period</b>	<u>1,538</u>	<u>1,971</u>	<u>2,137</u>	<u>2,204</u>

## 22. Commitments

The Company has the following annual commitments under non-cancellable operating leases at the end of the period:

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	As at 30 June 2006 £'000
Operating leases which expire:				
Within 1 year	–	53	–	–
Within 2 to 5 years	89	36	36	36
After more than 5 years	98	98	98	98
	<u>187</u>	<u>187</u>	<u>134</u>	<u>134</u>

The Company had not contracted for capital expenditure for which it had not provided at each of the period-ends shown above.

## 23. Reconciliation of operating profit to net cash inflow from operating activities

	As at 31 October 2003 £'000	As at 31 October 2004 £'000	As at 31 October 2005 £'000	8 months to 30 June 2006 £'000
Operating profit	890	948	684	459
Goodwill amortisation	44	44	44	29
Depreciation	160	180	203	129
(Profit)/Loss on disposal of fixed assets	(3)	(1)	(52)	2
Decrease/(Increase) in stocks	23	3	(29)	(5)
(Increase)/Decrease in debtors	(329)	(323)	(37)	120
Increase/(Decrease) in creditors	34	212	107	(183)
<b>Net cash inflow from operating activities</b>	<u>819</u>	<u>1,063</u>	<u>920</u>	<u>551</u>

## 24. Reconciliation of net cash flow to movement in net (debt)/funds

	Year to 31 October 2003 £'000	Year to 31 October 2004 £'000	Year to 31 October 2005 £'000	8 months to 30 June 2006 £'000
(Decrease)/Increase in cash in the period	(183)	182	45	399
Net cash outflow from debenture loans	101	101	101	–
Net cash outflow from bank loans	168	–	–	–
Cash outflow in respect of finance leases and HP	156	110	146	103
Cash outflow from directors' long-term loans	52	67	62	14
Change in net debt resulting from cash flows	294	460	354	516
New finance leases	(30)	(140)	(200)	(47)
<b>Movement in net debt in the period</b>	<u>264</u>	<u>320</u>	<u>154</u>	<u>469</u>
Net debt at beginning of period	(701)	(438)	(118)	36
<b>Net (debt)/funds at end of period</b>	<u>(438)</u>	<u>(118)</u>	<u>36</u>	<u>505</u>

25. Analysis of changes in net (debt)/funds

	As at 1 November 2002 £'000	Cash flows £'000	Other changes £'000	As at 30 October 2003 £'000
Cash at bank and in hand	351	(183)	–	168
Debt due within one 1 year	(319)	166	–	(153)
Debt due after 1 year	(347)	154	–	(193)
Finance lease and HP agreements	(386)	156	(30)	(260)
Total debt	(1,052)	476	(30)	(606)
<b>Net debt</b>	<b>(701)</b>	<b>293</b>	<b>(30)</b>	<b>(438)</b>

	As at 1 November 2003 £'000	Cash flows £'000	Other changes £'000	As at 30 October 2004 £'000
Cash at bank and in hand	168	182	–	349
Debt due within one 1 year	(153)	(4)	–	(153)
Debt due after 1 year	(192)	168	–	(24)
Finance lease and HP agreements	(260)	110	(140)	(290)
Total debt	(605)	278	(140)	(467)
<b>Net debt</b>	<b>(437)</b>	<b>460</b>	<b>(140)</b>	<b>(117)</b>

	As at 1 November 2004 £'000	Cash flows £'000	Other changes £'000	As at 30 October 2005 £'000
Cash at bank and in hand	349	45	–	394
Debt due within one 1 year	(153)	139	–	(14)
Debt due after 1 year	(24)	24	–	–
Finance lease and HP agreements	(290)	146	(200)	(344)
Total debt	(467)	309	(200)	(358)
<b>Net (debt)/funds</b>	<b>(118)</b>	<b>354</b>	<b>(200)</b>	<b>36</b>

	As at 1 November 2005 £'000	Cash flows £'000	Other changes £'000	As at 30 June 2006 £'000
Cash at bank and in hand	394	399	–	793
Debt due within one 1 year	(14)	14	–	–
Debt due after 1 year	–	–	–	–
Finance lease and HP agreements	(344)	103	(47)	(288)
Total debt	(358)	117	(47)	(288)
<b>Net funds</b>	<b>36</b>	<b>516</b>	<b>(47)</b>	<b>505</b>

## PART VIII

### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

#### Introduction

The following unaudited pro forma statement of net assets of the Group has been prepared to illustrate the effect on CEPS PLC of the proposed acquisition of Sunline if it had taken place on 30 June 2006. The information, which is produced for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the actual financial position of the Group.

The unaudited pro forma statement of net assets is compiled on the basis set out below from the unaudited balance sheet of the CEPS PLC Group at 30 June 2006 and the unaudited balance sheet of Sunline at 30 June 2006 (as disclosed in Parts VI and VII respectively).

#### Unaudited pro-forma statement of net assets

##### Balance Sheet

	Adjustments					Pro forma net assets £'000s
	CEPS PLC As at 30 June 2006 (note 2) £'000s	Sunline As at 30 June 2006 (note 3) £'000s	Transaction and associated costs (note 4) £'000s	Bank borrowings (note 5) £'000s	Share Issue proceeds net of expenses (note 6) £'000s	
<b>Fixed assets</b>						
Intangible assets	1,489	500	2,739	–	–	4,728
Tangible assets	288	1,078	–	–	–	1,366
	<u>1,777</u>	<u>1,578</u>	<u>2,739</u>	<u>–</u>	<u>–</u>	<u>6,094</u>
<b>Current assets</b>						
Stocks	1,154	55	–	–	–	1,209
Debtors	1,304	1,651	–	–	–	2,955
Cash at bank and in hand	39	793	(4,593)	2,000	2,225	464
	<u>2,497</u>	<u>2,499</u>	<u>(4,593)</u>	<u>2,000</u>	<u>2,225</u>	<u>4,628</u>
<b>Creditors : amounts falling due &lt; 1yr</b>	(2,161)	(1,423)	–	–	–	(3,584)
<b>Net current assets</b>	<u>336</u>	<u>1,076</u>	<u>(4,593)</u>	<u>2,000</u>	<u>2,225</u>	<u>1,044</u>
<b>Total assets less current liabilities</b>	2,113	2,654	(1,854)	2,000	2,225	7,138
<b>Creditors : amounts falling due &gt; 1yr</b>	(745)	(241)	(350)	(2,000)	–	(3,336)
<b>Provisions for liabilities and charges</b>	(36)	(209)	–	–	–	(245)
<b>Net assets excluding pension liability</b>	<u>1,332</u>	<u>2,204</u>	<u>(2,204)</u>	<u>–</u>	<u>2,225</u>	<u>3,557</u>
<b>Pension liability</b>	(435)	–	–	–	–	(435)
<b>Net assets</b>	<u>897</u>	<u>2,204</u>	<u>(2,204)</u>	<u>–</u>	<u>2,225</u>	<u>3,122</u>

## Notes to the unaudited Pro forma statement of net assets

### 1 Basis of preparation

The unaudited pro forma statement of net assets shows the aggregation of the net asset statements of the two companies in Sterling based on information extracted from their respective balance sheets as at 30 June 2006 as set out in CEPS PLC's unaudited interim results for the 6 months to 30 June 2006 and as set out in Sunline's balance sheet as at 30 June 2006 set out in Part V of this document, together with certain adjustments expected to arise on the completion of the acquisition as outlined below. It does not reflect any fair value adjustments that may ultimately be required to be accounted for in the published financial statements of the Enlarged Group. It does not reflect the costs or benefits of any merger synergies.

### 2 CEPS PLC net assets as at 30 June 2006

The net asset information in respect of CEPS PLC has been extracted without material adjustment from its unaudited 30 June 2006 interim statements.

### 3 Sunline net assets as at 30 June 2006

The net asset information in respect of Sunline has been extracted without material adjustment from Sunline's unaudited 30 June 2006 balance sheet included in Part VI of this document.

### 4 Transaction and associated costs

This represents the purchase consideration comprising the initial consideration of £3,450,000, the loan notes in SDMH of £200,000, £150,000 of preference shares and acquisition related expenses of £500,000. The goodwill recognised represents the purchase consideration less the fair value of the net assets of Sunline at 30 June 2006 plus the estimated consideration adjustment relating to existing Sunline cash of £643,000 which leaves £150,000 of cash in Sunline.

### 5 Bank borrowings

£2,000,000 of bank finance is to be provided by the Bank of Scotland.

### 6 Share issue proceeds net of expenses

This represents gross proceeds of £2,375,000 less estimated costs of £150,000. The total expenses of the Proposals are therefore £650,000 excluding V.A.T.

## PART IX

### ADDITIONAL INFORMATION

#### 1. Responsibility statements

- 1.1 The Directors (whose names appear on page 3 of this document) accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules (other than the information on the Concert Party). To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 Each of the members of the Concert Party (whose details are set out in Part IV) of this document accepts responsibility for the information contained in this document relating to themselves. To the best of the knowledge and belief of the members of the Concert Party (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.3 In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

#### 2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 30 April 1952 under the Companies Act 1948 with registered no 00507461 as a private company limited by shares with the name Dinkie Heel (Holdings) Limited. On 31 December 1954 the Company changed its name to The Dinkie Heel Company Limited. On 4 February 1982 the Company re-registered as a public company and changed its name to The Dinkie Heel plc. On 19 August 1982 the Company changed its name to Dinkie Heel plc. On 27 June 2005 the Company changed its name to CEPS PLC.
- 2.2 The Company's legal and commercial name is CEPS PLC.
- 2.3 The registered and head office of the Company is at 11 George Street, Bath BA1 2EH England and its telephone number is 01225 483030.
- 2.4 The principal legislation under which the Company operates is the Act.

#### 3. Directors

- 3.1 The Directors are:

<i>Name</i>	<i>Function</i>	<i>Age</i>
Richard Thomas Organ	Non-Executive Chairman	54
Geoffrey Charles Martin	Finance Director	61
Peter George Cook	Non- Executive Director	54
David Alistair Horner	Non-Executive Director	47

- 3.2 The business address of all of the Directors is at 11 George Street, Bath BA1 2EH.
- 3.3 Further details regarding the Directors are disclosed in paragraph 8 of this Part IX.

#### 4. Share and loan capital

- 4.1 On Initial Admission, the issued share capital of the Company was 12,770,000 ordinary shares of 5 pence each.

4.2 The following changes have been made to the authorised and issued share capital of the Company between 1 January 2002 and 10 January 2007 (being the most recent practicable date before the publication of this document):

- 4.2.1 on 1 January 2002, the authorised share capital of the Company was 15,525,000 shares of 5 pence each and the issued share capital was 14,770,000 shares of 5 pence each;
- 4.2.2 on 6 June 2003, 736,056 ordinary shares of 5 pence each were issued at a price of 5 pence each;
- 4.2.3 on 25 June 2003, 200,000 ordinary shares of 5 pence each were issued at a price of 5 pence each;
- 4.2.4 on 11 July 2003, the authorised share capital of £776,250 was increased to £1,000,000 by the creation of 4,475,000 ordinary shares of 5 pence each;
- 4.2.5 on 19 April 2004, each of the 15,706,056 issued ordinary shares of 5 pence each were sub-divided into one new ordinary share of 0.1 pence each and one deferred share of 4.9 pence and the 4,293,944 existing unissued ordinary shares of 5 pence each were divided into 50 new ordinary shares of 0.1 pence each;
- 4.2.6 on 19 April 2004, the authorised share capital of £1,000,000 was increased by £100,000 by the creation of 100,000,000 ordinary shares of 0.1 pence each;
- 4.2.7 on 19 April 2004, 33,000,000 ordinary shares of 0.1 pence each were issued at a price of 1p each;
- 4.2.8 by special resolution passed on 19 April 2004, it was resolved to reduce the capital of the Company by cancelling the deferred shares. By sanction of an Order of the High Court of Justice dated 13 October 2004 the authorised share capital of the Company was reduced to £330,403,256 divided into 330,403,256 ordinary shares of 0.1 pence each;
- 4.2.9 Since Initial Admission, the Company has issued (for cash) the following Ordinary Shares:

<i>Date</i>	<i>Ordinary Shares issued</i>	<i>Price</i>
20 May 2004	42,073	2 pence
30 July 2004	28,004	2 pence
27 August 2004	50,530	2 pence
5 October 2004	4,850	2 pence
4 November 2004	66,584	2 pence
4 January 2005	22,695	2 pence
1 February 2005	33,333,335	2.25 pence
9 February 2005	4,490	2 pence
2 March 2005	6,875	2 pence
5 April 2005	2,222	2 pence
17 June 2005	23,715	2 pence

4.3 The Placing Shares will be created by and issued, conditional on Admission, in accordance with the following resolutions to be proposed at the EGM:

- 4.3.1 a resolution to effect the Share Consolidation;
- 4.3.2 a resolution to increase the authorised share capital of the Company from £330,403.25 to £750,000.00 by the creation of an additional 8,391,935 New Ordinary Shares;
- 4.3.3 a resolution to authorise the Directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of the section 80(2) of the Act):
  - 4.3.3.1 up to £237,500 comprising 4,750,000 New Ordinary Shares pursuant to the Placing;
  - 4.3.3.2 up to £72,300.85 comprising 1,446,017 New Ordinary Shares pursuant to the exercise of the Warrants and Options; and

4.3.3.3 in respect of other relevant securities up to an aggregate nominal amount of £262,007.75 being 5,240,155 New Ordinary Shares

such authority to expire on at the conclusion of the next annual general meeting of the Company, but so as to enable the Company before that date to make an offer or agreement which would or might require relevant securities to be allotted after that date and to enable the Directors to allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the resolution had not expired;

4.3.4 a resolution to empower the Directors, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 4.3.3 as if section 89(1) of the Act did not apply to any such allotment, such power to be limited to:

4.3.4.1 up to £237,500 comprising 4,750,000 New Ordinary Shares pursuant to the Placing;

4.3.4.2 up to £71,900.85 comprising 1,438,017 New Ordinary Shares pursuant to the exercise of the Warrants;

4.3.4.3 equity securities for cash in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in the issue or offering where the equity securities respectively attributable to the interests of those holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of the allotment, subject only to exclusions or other arrangements as the Directors deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and

4.3.4.4 (other than pursuant to the power referred to in sub-paragraphs 4.3.4.1, 4.3.4.2 and 4.3.4.3) equity securities up to an aggregate nominal amount of £200,000.00 being 4,000,000 New Ordinary Shares representing 48.11 per cent. of the issued share capital on Admission

and shall expire on at the conclusion of the next annual general meeting of the Company save that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

4.4 At the date of this document the authorised and issued fully paid share capital of the Company is:

Authorised		Issued (fully paid)	
£	No.	£	No.
330,403.26	330,403,256	178,191.43	178,191,426

*Ordinary Shares of £0.001*

4.5 The following table shows the issued share capital of the Company as at the beginning of its current financial year and the end of the period covered by the audited accounts contained in Part VI:

Authorised		Issued (fully paid)	
£	No.	£	No.
330,403.26	330,403,256	144,798.10	144,798,097

*Ordinary Shares of £0.001*

None of the capital of the Company has been paid for with assets other than cash within the period covered by the historical financial information.

4.6 The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

Authorised		Issued (fully paid)	
£	No.	£	No.
750,000	15,000,000	415,691.40	8,313,828

*New Ordinary Shares of £0.05*

4.7 The authorised but unissued share capital of the Company immediately following Admission will be £334,308.60 representing approximately 44.57 per cent. of the authorised share capital.

- 4.8 Other than the issue of New Ordinary Shares pursuant to the Placing, the Company has no present intention to issue any of the authorised but unissued share capital of the Company.
- 4.9 The Company does not have in issue any securities not representing share capital.
- 4.10 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and, on Admission, will apply to the authorised but unissued share capital of the Company except to the extent disapplied by the Resolutions. Subject to certain limited exceptions, unless the approval of Shareholders in a general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to holders of Ordinary Shares on a pro rata basis.
- 4.11 No shares in the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- 4.12 Save as disclosed in this paragraph 4, there has been no issue of share or loan capital of the Company or any other member of the Group (other than intra-group issues by wholly owned subsidiaries) in the three years immediately preceding the date of this document and (other than pursuant to the Placing) no such issues are proposed.
- 4.13 Save as disclosed in paragraphs 12 and 15 of this Part IX, no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.
- 4.14 Save as disclosed in paragraphs 5 and 6 of this Part IX on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be put under option.
- 4.15 Other than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to AIM.
- 4.16 The New Ordinary Shares will be in registered form. No temporary documents of title will be issued and prior to the issue of definitive certificates, transfers will be certified against the register.

## **5. Details of the Warrants**

- 5.1 By a deed poll executed on 26 March 2004 the Company adopted the Warrant Instrument creating 72,253,028 Warrants to subscribe for Existing Ordinary Shares at a price of 2 pence per share. The Company issued to its Shareholders on the register at that time one Warrant for every two Ordinary Shares in issue as at 20 April 2004. No application was made for the Warrants to be admitted to trading on AIM. The principal terms of the Warrant Instrument are as follows:
- 5.1.1 each Warrant will entitle the holder thereof to subscribe for one new ordinary share at 2 pence per share which may be exercised at any time up to three years from 20 April 2004;
- 5.1.2 new ordinary shares issued on the exercise of the Warrants will rank for dividends or other distributions declared, made or paid after the date of exercise, but not on or before such date and otherwise *pari passu* in all respects with the new ordinary shares in issue on the date of such exercise;
- 5.1.3 the Warrant Instrument contains provisions for appropriate adjustment of the number of Ordinary Shares issued on the exercise of the Warrants and the subscription price upon a capitalisation of profit or reserves, a bonus or rights issue or on a sub-division or consolidation of share capital;
- 5.1.4 the rights and privileges of the holders of the Warrants may be altered or abrogated with the sanction of an extraordinary resolution of the Warrant holders;
- 5.1.5 the Warrants, which will be registered, will not be transferable, save with the consent of the Company;
- 5.1.6 so long as any of the subscription rights under the Warrants remain exercisable, the Company will not:
- 5.1.6.1 issue any securities by way of capitalisation of reserves, or profits other than new ordinary shares issued to holders of new ordinary shares credited as fully paid up;

- 5.1.6.2 make any distribution out of capital profits or capital reserves otherwise than by way of capitalisation of such profits or reserves in the form of fully paid new ordinary shares;
  - 5.1.6.3 issue or create any new class of shares which, as regards rights to voting, dividends or capital, have more favourable rights than those attached to the new ordinary shares;
  - 5.1.6.4 modify the rights attached to the Ordinary Shares or to any other class of shares so that they have more favourable rights than those attached to the Ordinary Shares;
  - 5.1.6.5 issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves if as a result the Company would, on any subsequent exercise of the Warrants, be obliged to issue Ordinary Shares at a discount to nominal value; or
  - 5.1.6.6 reduce its share capital (except in certain limited circumstances and except with the sanction of an extraordinary resolution of the Warrantheolders) or any uncalled or unpaid liability in respect of any of its share capital or (except as authorised by the Act) any share premium account or capital redemption reserve or purchase any of its own share capital;
  - 5.1.6.7 full exercise of the subscription rights under the Warrants will result in the issue of up to 72,253,028 Existing Ordinary Shares; and
- 5.1.7 if a takeover offer is made to all holders of new Ordinary Shares, the Company shall use reasonable endeavours to procure a comparable offer for Warrant holders.
- 5.2 Conditional on Warrantheolder approval at the Warrantheolder Meeting and Admission, it is proposed that the Warrant Instrument will be amended and restated. The Amended and Restated Warrant Instrument will vary the Warrant Instrument as follows:
- 5.2.1 the Amended and Restated Warrant Instrument will constitute 1,445,060 warrants to subscribe for New Ordinary Shares at 62.5 pence per New Ordinary Share;
  - 5.2.2 each Warrant will entitle the holder thereof to subscribe for one New Ordinary Share;
  - 5.2.3 each Warrant may be exercised at any time up to 20 April 2010;
  - 5.2.4 full exercise of the subscription rights under the Warrants will result in the issue of up to 1,445,060 New Ordinary Shares.
  - 5.2.5 each Warrant will be freely transferable in multiples of one Ordinary Share; and
  - 5.2.6 the Directors are empowered to take all actions to enable the Warrants to be transferred into uncertificated form and traded in CREST.

## **6. Details of Share Options**

### **6.1 Summary of the principal terms of the Executive Share Option Scheme**

#### **Executive Share Option Scheme**

The Executive Share Option Scheme has been approved by HM Revenue & Customs under the provisions of the Income and Corporation Taxes Act 1988. The principal terms of the Executive Share Option Scheme are as follows:

#### *Eligibility*

The Board may select full time employees and directors of the Company of its subsidiaries who are not within three years of their normal retirement date to whom options may be granted over Ordinary Shares.

#### *Option exercise price*

The option exercise price per Ordinary Share will not be less than the market value (as agreed with HM Revenue & Customs) of an Ordinary Share on the date on which the option is offered or the nominal value of the Ordinary Share if higher.

#### *Offer of options*

Options may only be offered within 28 days after the announcement by the Company of its interim or final results each year.

### *Individual limit*

So as to comply with HM Revenue & Customs requirements, an individual's participation is restricted by limiting the value (as at the date the option is granted) of Ordinary Shares under subsisting options to £30,000 or such other amount as is from time to time specified by legislation.

Benefits under the Scheme are not pensionable.

### *Exercise of options*

In normal circumstances, an option may only be exercised after three years and within ten years from its grant.

An option will normally lapse if the participant ceases to be an employee of the group. Where, however, a participant ceases to be an employee by reason of injury, disability, redundancy or retirement, he will have 12 months from the date of leaving or, if longer, 42 months from the date of grant, within which to exercise his options. If a participant dies, his options may be exercised within twelve months after his death. The Board may allow a participant to exercise his option on cessation of employment in other circumstances.

In the event of a takeover, reconstruction, amalgamation or voluntary winding-up of the Company, options may within the specified period after the relevant event, be exercised, or in certain circumstances exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

### *Terms of options and issue of Ordinary Shares*

Options are neither transferable nor assignable. Within 28 days after the exercise of an option, the appropriate number of Ordinary Shares will be allotted and issued to the participant. The Ordinary Shares allotted will rank *pari passu* with all other issued Ordinary Shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to the date of allotment.

- 6.2 On 22 May 2001, the Company granted Mr R Organ an option to subscribe for 150,000 ordinary shares of 0.1 pence each in the capital of the Company at a price of 6.75 pence per share. The terms on which the option was granted are as follows:
- 6.2.1 the option is exercisable at any time between the third and tenth anniversary of the date of grant;
  - 6.2.2 the option will lapse on the first to occur of the following:
    - 6.2.2.1 12 months after Mr Organ ceases to be an employee or director by reason of injury, disability, redundancy or retirement (or reaching pensionable age or any other age at which he is bound to retire in accordance with the terms of his contract);
    - 6.2.2.2 the date Mr Organ ceases to be employed within the Group for any other reason;
    - 6.2.2.3 the expiry of 12 months after the date of death of Mr Organ;
  - 6.2.3 on exercise of the Option, if the Company is obliged to account through PAYE for any income tax or national insurance contributions (both employee and employer), Mr Organ is required to reimburse the Company;
  - 6.2.4 in the event of a variation of share capital by way of capitalisation or rights issue or sub-division consolidation or reduction of capital of the Company, the board of directors of the Company shall, subject to the approval of Mr Organ, adjust the number and option price of shares subject to the Option in such manner as the auditors of the Company confirm is in their opinion fair and reasonable;
  - 6.2.5 the terms of the Options shall not be amended without the prior consent in writing of the Company and Mr Organ.
- 6.3 On 22 May 2001, the Company granted HSBC an option to subscribe for 250,000 Existing Ordinary Shares at a price of 6.75 pence per share. The terms on which the option was granted are as follows:
- 6.3.1 the option may be exercised at any time from 1 January 2003 to 31 December 2008;
  - 6.3.2 in the event of a variation of share capital by way of capitalisation or rights issue or subdivision consolidation or reduction of capital of the Company the board of directors of the Company shall, subject to the approval of HSBC, adjust the number and option price of shares subject to the option in such manner as the auditors of the Company confirm is in their opinion fair and reasonable;

6.3.3 the terms of the option shall not be amended without the prior consent in writing of the Company and HSBC.

6.4 The options outlined in paragraphs 6.2 and 6.3 above have issued pursuant to letters dated 22 May 2001 and in conjunction with the Dinkie Heel PLC Executive Share Option Scheme rules dated 10 January 1989.

## 7. Memorandum and articles of association

The memorandum of association of the Company provides that the Company's principal object is to carry on business as a general trading company. The objects of the Company are set out in full in clause 4 of its memorandum of association.

The Articles contain, inter alia, the following provisions:

### 7.1 *Voting rights*

Subject to the rights or restrictions referred to in paragraph 7.2 and subject to any special rights or restrictions as to voting attached to shares, on a show of hands every holder of Ordinary Shares who is present in person or being a corporation is present by a duly authorised representative, not being himself a member, shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each Ordinary Share held by him. A corporate member may, by resolution of its Directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate member could exercise if it were an individual member.

### 7.2 *Restrictions on voting*

A member of the Company is not entitled, either in person or by proxy, in respect of any share held by him, to be entitled to vote at any general meeting of the Company or at any separate meeting of the holder of any class of shares unless all calls or other sums presently due and payable by him in respect of that share whether alone or jointly with any other person have been paid.

A member of the Company shall not, if the Directors determine, be entitled to attend general meetings and vote or to exercise rights of membership if he or another person appearing to be interested in the relevant shares has failed to comply with a notice given under section 212 of the Act within 14 days. The restrictions will continue until the information required by the notice is supplied to the Company or until the shares in question are transferred in the circumstances set out in the Articles.

### 7.3 *Dividends*

The Company may, by ordinary resolution, declare a dividend to be paid to the members, according to their respective rights and interests in the profit (up to the amount recommended by the Board). The Directors may pay such interim dividends as appear to the Board to be justified by the profits of the Company available for distribution. No dividends payable in respect of an Ordinary Share shall bear interest. The Directors may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid instead of cash in respect of all or part of a dividend ("a scrip dividend") in accordance with the Articles. The Directors may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets and, in particular, of paid up shares or debentures of any other company, or in any one or more of such ways ("distribution in specie"). The Directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other sums payable in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice.

The Company or its Directors may fix a date as the record date for a dividend provided that the date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared. A dividend unclaimed for a period of 12 years from the date when it became due for payment shall be forfeited and cease to remain owing by to the Company.

### 7.4 *Return of capital*

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as

between the members or different classes of members. The liquidator may with the same sanction, vest the whole or any part of the whole of the assets in trustees on trusts for the benefit of the members as he with the same sanction thinks fit, but no member shall be compelled to accept any assets on which there is a liability.

#### 7.5 ***Variation of rights***

Any rights attaching to a class of shares in the Company may be varied or abrogated with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class. The quorum for the separate general meeting shall be two persons holding, or represented by proxy, not less than one-third in nominal value of the issued shares of the relevant class.

#### 7.6 ***Transfer of shares***

Subject to the restriction set out in this paragraph, any member may transfer all or any of his shares in any manner which the Directors approve. A transfer of a certificated share shall be in writing in the usual common form or in any other form permitted by the Act or which the Directors approve. The transferor is deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of those shares. All transfers of uncertificated shares shall be made by means of the relevant system or in any other manner from time to time approved.

The Directors have a discretion to refuse to register a transfer of a share which is not fully paid (provided that this does not prevent dealings in the shares from taking place on an open and proper basis) without giving a reason. The Directors must provide the transferee with a notice of the refusal within two months from the date on which the transfer was lodged. The Directors may also decline to register a transfer of shares unless (i) the instrument of transfer is delivered to the office of the Company or at another place which the Directors determine, accompanied by the certificate for the shares to which it relates and other evidence which the Directors reasonably require to prove the title of the transferor; (ii) the instrument of transfer is in respect of only one class of share; (iii) the number of joint holders to whom the share is to be transferred does not exceed four.

Save as aforesaid, the Articles contain no restrictions as to the free transferability of fully paid shares.

#### 7.7 ***Alteration of capital and purchase of own shares***

The Company may alter its share capital as follows:

7.7.1 by ordinary resolution, it may increase its share capital, consolidate or divide all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person;

7.7.2 by special resolution and subject to the provisions of the Statutes, it may reduce its share capital, any capital redemption reserve or any share premium account or other undistributable reserves in any manner; and

7.7.3 subject to the provisions of the Act the Company may purchase all or any of its shares of any class, including redeemable shares.

#### 7.8 ***General meetings***

##### *Annual general meetings*

The Board shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Act.

##### *Extraordinary general meetings*

All general meetings other than annual general meetings shall be called extraordinary general meetings.

##### *Convening of extraordinary general meetings*

The Board may convene an extraordinary general meeting whenever it thinks fit. An extraordinary general meeting shall also be convened by the Board on the requisition of members pursuant to the provisions of the Act or, in default, may be convened by such requisitions, as provided by the Act. The Board shall comply with the provisions of the Act regarding the giving and the circulation, on the requisition of members, of notices of

resolutions and of statements with respect to matters relating to any resolution to be proposed or business to be dealt with at any general meeting of the Company.

#### *Notice of general meetings*

An annual general meeting and an extraordinary general meeting called for the passing of a special resolution or a resolution appointing a person as a director shall be called by not less than 21 clear days' notice. All other extraordinary general meetings shall be called by not less than 14 clear days' notice.

The notice shall specify the place, day and time of the meeting and the general nature of the business to be transacted.

Notice of every general meeting shall be given to all members other than any who, under the provisions of the Articles or the terms of issue of the shares which they hold, are not entitled to receive such notices from the company, and also to the auditors (or, if more than one, each of them) and to each director.

Every notice of meeting shall state with reasonable prominence that a member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote at that meeting instead of him and that a proxy need not be a member of the Company.

#### *Quorum*

No business, other than the appointment of a Chairman, shall be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business.

Except as otherwise provided by the Articles, two members present in person or by proxy shall be a quorum. If within ten minutes (or such longer interval as the Chairman in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, it shall stand adjourned to the same day in the next week (or, if that day is not a business day, to the next business day) and at the same time and place, as the original meeting, or to such other day, and at such other time and place, as the Chairman (or, in default, the Board) may decide and in the latter case not less than seven clear days' notice of the adjourned meeting shall be given in any manner in which notice of a meeting may lawfully be given for the time being. If at an adjourned meeting a quorum is not present within five minutes from the time fixed for holding the meeting, any one member who is present in person or by proxy and entitled to vote on a poll shall be a quorum.

#### *Chairman*

At each general meeting, the Chairman of the Board or, if he is absent or unwilling, the deputy chairman (if any) of the Board or (if more than one deputy chairman is present and willing) the deputy chairman who has been longest in such office or, if no deputy chairman is present and willing, then one of the other Directors who is appointed for the purpose by the Board or (failing appointment by the Board), by the members present, shall preside as Chairman of the meeting, but if no Director is present within five minutes after the time fixed for holding the meeting, the members present and entitled to vote shall choose one of their number to preside as Chairman of the meeting.

#### *Directors entitled to attend and speak*

Whether or not he is a member, a Director shall be entitled to attend and speak at any general meeting of the Company and at any separate general meeting of the holders of any class of shares of the Company.

#### *Adjournment*

With the consent of any meeting at which a quorum is present the Chairman of the meeting may (and if so directed by the meeting may) adjourn the meeting from time to time or indefinitely and from place to place.

In addition, the Chairman of the meeting may at any time without the consent of the meeting adjourn the meeting to another time and/or place or for an indefinite period if, in his opinion, it has become necessary to do so in order to secure the proper and orderly conduct of the business of the meeting or to give all persons entitled to do so a reasonable opportunity of attending, speaking and voting at the meeting or to ensure that the business of the meeting is disposed of properly.

#### *Method of voting and demand for poll*

At a general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or immediately after the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the Chairman of the meeting; or
- (b) at least five members present in person or by proxy having the right to vote on the resolution; or
- (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) a member or members present in person or by proxy holding shares conferring the right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

#### *Taking a poll*

If a poll is demanded (and the demand is not withdrawn), it shall be taken at such time (either at the meeting at which the poll is demanded or within 30 days after the meeting), at such place and in such manner as the Chairman of the meeting shall direct and he may appoint scrutineers (who need not be members).

#### *Chairman's casting vote*

In the case of an equality of votes, either on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place, or at which the poll is demanded shall be entitled to a further or casting vote in addition to any other vote to which he may be entitled.

#### *Representation of corporations*

Any corporation which is a member of the Company may, by resolution of its Directors or other governing body, authorise any person to act as its representative at any meeting of the Company or of any class of members of the Company.

#### *Proxies*

A proxy need not be a member of the Company and a member may appoint more than one proxy to attend on the same occasion.

#### *Form of proxy*

An instrument appointing a proxy shall be:

- (a) be in writing in any common form or in any other form which the Board may approve, signed by the appointor, or his attorney duly authorised in writing, or, if the appointor is a corporation under the hand of some officer or attorney or other person duly authorised in that behalf;
- (b) be deemed (subject to any contrary direction) to confer authority to demand or join in demanding a poll and to vote on any resolution or amendment of a resolution put to the meeting for which it is given, as the proxy thinks fit, but shall not confer any further right to speak at the meeting, except with the permission of the Chairman (or as otherwise determined by the Board where the relevant shares are held by a depositary);
- (c) unless the contrary is stated therein, be valid as well for adjournment of the meeting as for the meeting to which it relates; and
- (d) where it is stated to apply to more than one meeting, be valid for all such meetings as well as for any adjournment of any such meetings.

#### *Deposit of proxy*

The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified by a solicitor or in some other way approved by the Board, shall:

- (a) be deposited at the office or at such other place or places as is specified in the notice convening the meeting or in any notice of any adjourned meeting or in any instrument of proxy sent out by the Company in relation to the meeting at least 48 hours before the time of the holding of the relevant meeting or adjourned meeting; or
- (b) in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or
- (c) where the poll is not taken forthwith but is taken within 48 hours after it was demanded, be delivered at the meeting at which the poll was demanded to the Chairman of the meeting or to any Director;

and an instrument of proxy not so deposited or delivered shall be invalid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within 12 months from such date.

*Revocation of proxy*

A vote given or poll demanded in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or mental disorder of the principal or the revocation of the instrument of proxy, or of the authority under which the instrument of proxy was executed, or the transfer of the share in respect of which the instrument of proxy is given, unless notice in writing of such death, mental disorder, revocation or transfer shall have been received by the Company at the office, or at such other place as has been appointed for the deposit of instruments of proxy, at least 48 hours before the commencement of the meeting or adjourned meeting or the taking of the poll at which the instrument of proxy is used.

**7.9 Directors**

*Number*

Unless otherwise determined by the Company by ordinary resolution, the number of Directors shall be not more than ten or less than two.

*Appointment of Directors by the Company and the Board*

The Company may by ordinary resolution appoint any person who is willing to act to be a Director, either to fill a vacancy or as an additional Director.

No person (other than a Director retiring by rotation or otherwise) shall be appointed or re-appointed a Director at any general meeting unless:

- (a) he is recommended by the Board; or
- (b) not less than seven nor more than 42 clear days notice has been given to the Company, by a member (other than the person to be proposed) entitled to vote at the meeting, stating his intention to propose a resolution for the appointment of that person, stating the particulars which would, if he were so appointed, be required to be included in the Company's register of Directors and a notice executed by that person of his willingness to be appointed.

The Board may appoint any person who is willing to act to be a Director either to fill a vacancy or by way of addition to their number.

*Remuneration*

The Directors (other than Directors holding executive office) shall be paid out of the funds of the Company for their services determined by the Directors. Any fee shall be distinct from any remuneration or other amounts payable to a Director under other provisions of the Articles and shall accrue from day to day. The Directors may be paid all travel, hotel and other expenses properly incurred in the performance of their duties as Directors including expenses incurred in attending meetings of the Board, committees of the Board and general meetings or separate meetings of the holders of any class of shares or debentures of the Company. If by arrangement with the Board, any Director performs special duties or services outside his ordinary duties as a Director he may be paid such reasonable additional remuneration as the Board may from time to time determine.

### *Retirement of Directors*

At each annual general meeting of the Company one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third shall retire from office. If there are fewer than three Directors who are subject to retirement by rotation, one Director shall retire from office.

### *Retirement of Directors by rotation*

Subject to the provisions of the Act and of these Articles, the Directors to retire by rotation at each annual general meeting shall exclude any Director who is for the time being the managing director or joint managing director of the Company and shall include, so far as necessary to obtain the number required, first, any Director who wishes to retire and not offer himself for re-election and secondly, those Directors who have been longest in office since their last appointment or re-appointment. As between two or more Directors who have been in office an equal length of time, the Director to retire shall, in default of agreement between them, be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board at the start of business on the date of the notice convening the annual general meeting notwithstanding any change in the number or identity of the Directors after that time but before the close of the meeting.

A Director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he is not reappointed or deemed to have been reappointed, he shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

At any general meeting at which a Director retires by rotation the Company may fill the vacancy and, if it does not do so, the retiring Director shall, if willing, be deemed to have been reappointed unless it is expressly resolved not to fill the vacancy or a resolution for the reappointment of the Director is put to the meeting and lost or such Director has attained any retiring age applicable to him as Director pursuant to the Act.

No person is capable of being appointed due to the fact that he has attained the age of 70 years. A Director of the Company shall vacate his office at the conclusion of the annual general meeting commencing next after he attains the age of 70.

### *Removal of Directors*

In addition to any power of removal conferred by the Act, the Company may by special resolution, remove any Director before his period of office has expired notwithstanding anything in these Articles or in any agreement between him and the Company.

### *Vacation of office of Director*

Without prejudice to the provisions for retirement (by rotation or otherwise) contained in these Articles, the office of a Director shall be vacated if:

- (a) he resigns by notice in writing delivered to the secretary at the office or tendered at a Board meeting;
- (b) he ceases to be a Director by virtue of any provision of the Act, is removed from office pursuant to these Articles or the Act or becomes prohibited by law from being a Director;
- (c) he becomes bankrupt, has an interim receiving order made against him, makes any arrangement or compounds with his creditors generally or applies to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act;
- (d) an order is made by any court of competent jurisdiction on the ground (howsoever formulated) of mental disorder for his detention or for the appointment of a guardian or receiver or other person to exercise powers with respect to his affairs or he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, under the Mental Health (Scotland) Act 1984 and the Board resolves that his office be vacated; or
- (e) both he and his alternate Director appointed pursuant to the provisions of these Articles (if any) are absent, without the permission of the Board, from board meetings for six consecutive months and the Board resolves that his office be vacated.

#### *Executive Directors*

The Directors may appoint a Director to an executive office in the Company. The appointment may be on the terms the Directors determine.

The Board may revoke or terminate any such appointment but without prejudice to any claim for damages for breach of any contract of employment.

#### *Power to appoint alternate Directors*

Each Director (other than an alternate Director) may appoint another Director or any other person who is willing to act as his alternate and may remove him from that office. The appointment as an alternate Director of any person who is not himself a Director shall be subject to the approval of a majority of the Directors or a resolution of the Board.

An alternate Director shall be entitled to receive notice of all meetings of the Board and of all meetings of committees of which the Director appointing him is a member, to attend and vote at any such meeting at which the Director appointing him is not personally present and at the meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at the meeting the provisions of the Articles shall apply as if he were a Director.

Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate, in addition to his own vote if he is also a Director, but he shall count as only one for the purpose of determining whether a quorum is present.

#### *Directors' interests*

A Director shall not vote nor be counted in a quorum at a meeting in relation to any resolution of the Board concerning any contract, arrangement, transaction or proposal in which he has a material interest (including by virtue of the interests of persons connected with him).

The prohibition will not apply to the following:

- (a) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company (or any of its subsidiary undertakings) or in respect of a debt or obligation of the Company (or any of its subsidiary undertakings) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;
- (b) any proposal concerning an offer of shares, debentures or other securities by the Company (or any of its subsidiary undertakings) in which offer he is or may be entitled to participate as a holder of securities or he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (c) any proposal in which he is interested by virtue of his interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
- (d) an arrangement for the benefit of the employees of the Company (or any of its subsidiary undertakings) which does not award the Director a privilege or benefit not generally awarded to the employees to whom the arrangement relates; or
- (e) a proposal concerning the purchase or maintenance of insurance for the benefit of persons who include Directors.

Subject to the Act and provided he has disclosed to the Directors the nature and extent of his interest, a Director may contract with the Company, the contract shall not be avoided on the grounds of his interest or benefit and the Director is not liable to account to the Company for any benefit realised as a result of the contract.

A Director may not vote or be counted in the quorum in relation to a resolution of concerning his own appointment (including fixing or varying its terms), or the termination of his own appointment.

Where proposals are under consideration concerning the appointment (including fixing or varying its terms) or the termination of the appointment of two or more Directors, a separate resolution may be put in relation to each Director. In each case, each Director (if not otherwise debarred from voting) is entitled to vote

#### *Benefits*

The Directors may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits to any person who is or who has at any time been a Director of the Company (and for any of his relations or dependants) or in the employment or service of the Company or any of its subsidiary undertakings (or the relatives or dependants of any such person).

#### *Powers of the Board*

The business of the Company shall be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Act, the memorandum of association of the Company, the Articles and any directions given by special resolution of the Company. No such directions given by special resolution or alteration of the memorandum of association of the Company or the Articles shall invalidate any prior act of the Board which would have been valid if the resolution had not been passed or the alteration had not been made.

#### *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present and future) and uncalled capital and, subject to provisions of the Act, to create and issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (in relation to subsidiaries only so far as by such exercise it can secure) that the aggregate principal amount outstanding at any time in respect of all borrowings by the group (as defined in the Articles) (exclusive of intra-group borrowing) shall not, except with the previous sanction of the Company in general meeting, exceed an amount equal to two times the adjusted capital and reserves.

For this purpose, the adjusted capital and reserves means the aggregate of the amount paid up (or credited as paid up) on the issued or allotted share capital of the Company and the amount standing to the credit of the reserves, whether or not distributable, (including share premium account, capital redemption reserve fund any revaluation reserve and merger reserve), as shown in the last audited consolidated balance sheet of the Company and its subsidiaries and subsidiary undertakings.

#### *Indemnity of officers*

Subject to the Act, the Company may indemnify any Director, alternate Director, secretary or other officer of the Company out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution or discharge of his duties and in particular (but without limitation) any liability or expenses incurred by him in defending any proceedings (whether civil or criminal) in which judgment is given in his favour or in which he is acquitted or in connection with any application under the Act in which relief is granted to him by the court of competent jurisdiction.

Subject to the Act, the Board may purchase and maintain insurance at the expense of the Company for the benefit of any Director, officer or employee of the Company or of any other Company which is a subsidiary or subsidiary undertaking of the Company in which the Company has an interest whether direct or indirect or who is or was at any time a trustee of any pension fund or employee benefits trust in which any employee of the Company of any such other company or subsidiary undertaking is or has been interested.

#### *Delegation to individual Directors*

The Board may entrust to and confer upon any Director holding executive office any of its powers, authorities and discretions (with power to sub-delegate) on such terms and conditions as it thinks fit and may revoke or vary all of such powers.

#### *Committees*

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time and on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more or more Directors and (if thought fit) one or more other persons provided that the majority of the

members of the committee are Directors and that no resolution of the committee shall be effective unless a majority of those present when it is passed are Directors or alternate Directors.

#### *Board meetings*

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit.

#### *Notice of Board meetings*

Notice of a Board meeting shall be deemed to be properly given to a Director if it is given to him personally or by word or mouth or sent in writing to him at his last known address or any other address given by him to the Company for this purpose.

#### *Quorum*

The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two, each being a Director or an alternate Director.

#### *Voting*

Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the Chairman of the meeting shall have a second or casting vote.

#### *Participation by telephone or facsimile*

A meeting of the Board may consist of a conference between Directors (or alternate Directors) some or all of whom are in different places provided that each Director who participates is able to hear each of the other participating Directors addressing the meeting or by a series of telephone calls from the Chairman of the meeting or by exchange of facsimile transmission addressed to the Chairman of the meeting.

A meeting held in this way is deemed to take place at the place where the largest group of participating Directors is assembled or, if no such group is readily identifiable, at the place from where the Chairman of the meeting participates.

#### *Resolutions in writing*

A resolution in writing signed or approved by all the Directors entitled to notice of a meeting of the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted. The resolution may be contained in one document or in several documents in like form, each signed or approved by one or more of the Directors concerned.

## **8. Interests of Directors', and others**

8.1 As at the date of this document and on Admission, the interests of the Directors and their immediate families (all of which are beneficial) in the share capital of the Company which:

8.1.1 are or will be required to be notified to the Company pursuant to sections 324 and 328 of the Act (or to be entered in the register maintained pursuant to section 325 of the Act), by each Director to the extent that they are also directors of subsidiaries of the Company; or

8.1.2 are interests of a connected person (within the meaning of section 346 of the Act) of a Director which would, if the connected person were a Director, be required to be disclosed under paragraph 8.1.1 and the existence of which is known to or could with reasonable diligence be ascertained by that Director, are or are expected to be as follows:

<i>Director</i>	<i>Before Admission</i>			<i>Following Admission</i>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Issued Share Capital</i>	<i>Number of Ordinary Shares under Warrant/ Option</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>	<i>Number of Ordinary Shares under Warrant/ Option</i>
Richard Thomas Organ	5,966,667	3.35	2,650,000	169,333	2.04	53,000
Geoffrey Charles Martin	1,012,586	0.57	506,293	20,251	0.24	10,125
Peter George Cook	8,333,333	4.68	3,500,000	366,666	4.41	70,000
David Alistair Horner	21,355,556	11.98	10,000,000	1,287,110	15.48	200,000

- 8.2 At the date of this document and on Admission, save for the interests of Directors disclosed in paragraph 8.1, the Company is aware of the following persons who are or will be interested, directly or indirectly in 3 per cent. or more of the issued share capital of the Company (assuming that all Ordinary Shares are taken up pursuant to the Placing):

<i>Shareholder</i>	<i>Before Admission</i>			<i>Following Admission</i>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Issued Share Capital</i>	<i>Number of Ordinary Shares under Warrant/ Option</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>	<i>Number of Ordinary Shares under Warrant/ Option</i>
Chelverton Growth Trust	8,792,823	4.93	3,285,300	625,856	7.53	65,706
Darlington Portfolio Nominees Limited	8,583,144	4.82	2,771,860	171,662	2.06	55,437
David Abell	11,050,000	6.20	11,650,000	407,000	4.90	233,000
HSBC Global Custody Nominee (UK)	6,150,000	3.45	–	123,000	1.48	–
Pershing Keen Nominees Limited	7,003,999	3.93	–	140,079	1.68	–
Smith & Williamson Nominees Limited	7,000,000	3.93	5,000,000	140,000	1.68	100,000

Save as disclosed in paragraphs 8.1 and 8.2, the Company is not aware of any person who will, immediately following Admission, be interested (for the purposes of section 198 of the Act) directly or indirectly in 3 per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

- 8.3 The persons, referred to in paragraphs 8.1 and 8.2 do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other shareholder of the Company.
- 8.4 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 8.5 Save as disclosed in this document, no Shareholder, nor any Director, nor any member of the Concert Party, nor any director of any member of the Concert Party, nor any close relatives or related trusts or other Interested Persons of the directors of the members of the Concert Party, nor any associate of the Company has any interest in or right to subscribe for any relevant securities, nor has any such person dealt for value in any relevant securities during the disclosure period.
- 8.6 No member of the Concert Party, nor the Company nor any person acting in concert with the Company has borrowed or lent any relevant securities.
- 8.7 Save as disclosed in this document, none of the Company, nor any of the Directors has any interest or right to subscribe for any relevant securities of any member of the Concert Party, nor has any such person dealt for value in any such securities during the disclosure period.
- 8.8 No Relevant Associate of the Company has any interest in or right to subscribe for any relevant securities, nor has any such person dealt for value in any relevant securities during the disclosure period.
- 8.9 Neither:
- 8.9.1 any pension fund of the Company or of any Relevant Associate of the Company; nor
- 8.9.2 any employee benefit trust of the Company or of any Relevant Associate of the Company; nor
- 8.9.3 any pension fund of the Company or of any Relevant Associate of the Company; nor
- 8.9.4 any connected adviser of the Company, of any Relevant Associate of the Company or of any person acting in concert with the Company; nor
- 8.9.5 any person controlling, controlled by or under the same control as any connected adviser referred to in paragraph 8.9.3 above (other than an exempt principal trader or an exempt fund manager);
- is interested in, or has a right to subscribe for relevant securities, nor has any such person dealt in any relevant securities during the disclosure period.

8.10 No person with whom the Company or any person which is an associate of the Company by virtue of paragraphs (1), (2), (3) or (4) of the definition of associate in the Code, has any arrangement, is Interested in, or has a right to subscribe for relevant securities, nor has any such person dealt in any relevant securities during the disclosure period.

8.11 The Directors are not aware of any agreement, arrangement or understanding pursuant which any relevant securities are to be acquired by members of the Concert Party pursuant to the Placing will be transferred to another party.

8.12 In paragraph 8 of this Part IX:

**“associate”** has the meaning given to it in the Code and includes (without limitation) in relation to a company:

- (i) its parent, subsidiaries and fellow subsidiaries, its associated companies, and companies of which any such companies are associated companies (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status);
- (ii) its connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
- (iii) its directors and the directors of any company referred to in (i) above (together in each case with their close relatives and related trusts); and
- (iv) its pension funds and the pension funds of any company referred to in (i) above;

**“control”** has the meaning given to it in the Code;

**“disclosure date”** means 10 January 2007, the last practical date prior to the date of this document;

**“disclosure period”** means the period commencing on 11 January 2006, being the date twelve months prior to the Disclosure Date;

**“Interested Persons”** means, in relation to a director, his Immediate Relations and other persons (including, without limit, bodies corporate) whose interests that director is taken or treated as having by virtue of the application of sections 203, 205, 328 or Part I of Schedule 13 of the Act, in each case whose Interests he would be obliged to disclose pursuant to Parts VI or X of the Act or related regulations;

**“Relevant Associates”** means, in relation to a company, its parent, subsidiaries and fellow subsidiaries, its associated companies, and companies of which any such companies are associated companies (and for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status); and

**“short position”** means a short position whether conditional or absolute and whether in the money or otherwise including any short position under a derivative, any agreement to sell or any delivery obligations or right to require another person to purchase or take delivery;

**“relevant securities”** means Ordinary Shares, any other securities in the capital of the Company which carry voting rights or which are equity share capital, and securities convertible into, rights to subscribe for, options (including traded options) in respect of and derivatives referenced to, any of the foregoing, including any short positions.

8.13 No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

8.14 The Directors currently hold, and have during the five years preceding the date of this document held, the following directorships or partnerships:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Geoffrey Charles Martin	Davies & Co (Kettering) Limited Davies & Company Limited Davies Odell Limited Farmat Limited Phillips Rubber Limited	Dinkie Steel Toe Limited
Richard Thomas Organ	Cherwell Charitable Fund Davies & Co (Kettering) Limited Davies & Company Limited Dominion Housing Group Limited Farmat Limited Innovox Partners Limited Oxford Informal Investor Syndicate Phillips Rubber Limited Swallowfield PLC The Art Room (Oxford)	Jaeger Holdings Limited Oxford Bee Company Limited The Jaeger Company Limited
David Alistair Horner	Athelney Trust plc Beeley Enterprise Limited Chelverton Asset Management Limited Chelverton Growth Trust plc Colinette Holdings Limited The Quoted Companies Alliance	Bishopsgate Corporate Finance Limited Dowgate Capital PLC Smart Approach Group Plc Talisman First Venture Capital Trust Plc
Peter George Cook	Davies Odell Limited DR Direct Limited KHK Services Limited Signature Fabrics Limited EBS Realisations Limited Friedman's Limited Man Bytes Dog Limited	Assurity (Holdings) Limited DLA Recruitment Limited DLA Worldwide Limited Gordon Brown & Associates Limited ICM Assurity Limited

8.15 Peter Cook resigned as a part-time director of DLA Worldwide Limited ("DLA") and certain of its subsidiaries on 2 October 2000. He had been appointed as a director by certain of the institutional investors in DLA to restructure the business. He resigned when the board of DLA determined to seek admission to AIM. This did not occur, and administrative receivers were appointed to DLA and its subsidiaries on 1 May 2001. The shortfall to creditors of DLA was estimated at £4.65 million.

8.16 No agreement, arrangement, or understanding (including any compensation arrangements) exists between any of the Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition.

8.17 There are no personal, financial or commercial relationships, arrangements or understanding between any member of the Concert Party and any directors of the Company, their close relatives and related trusts.

8.18 No agreement, arrangement or understanding exists to transfer to any other person the securities acquired in pursuant to the Placing.

8.19 None of the Directors has any unspent convictions in relation to indictable offences.

8.20 None of the Directors have been the subject of any public criticism by any statutory or regulatory authority (including a recognised professional body).

- 8.21 Save as provided in paragraph 8.15 of this Part IX none of the Directors has been a director of a company at the time of, or within the 12 months preceding the date of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.
- 8.22 None of the Directors has been a partner of a partnership at the time of, or within 12 months preceding the date of, that partnership being placed into compulsory liquidation or administration or being entered into a partnership voluntary arrangement nor in that time have the assets of any such partnership been the subject of a receivership.
- 8.23 No asset of any Director has at any time been the subject of a receivership.
- 8.24 None of the Directors is or has been bankrupt nor been the subject of any form of individual voluntary arrangement.
- 8.25 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 8.26 There are no outstanding loans or guarantees provided by any member of the Group for the benefit of any of the Directors nor are there any loans or any guarantees provided by any of the Directors for any member of the Group.

## **9. Directors' and Senior Management's service agreements**

### **9.1 *Executive Director***

Geoffrey Charles Martin was appointed as finance director pursuant to a service agreement approved by the Board of the Company on 11 November 1988, as amended by a letter dated 12 April 2005 (effective from 1 July 2005), under which his current full time equivalent salary is £66,000. He is contracted to work for half of full time (2.5 days a week) at a pro rata salary of £33,000. If he is required to work additional time the salary will be £300 per day. In addition the Company contributes to a final salary pension scheme, provides medical insurance and has contributed £1,500 towards the costs of equipping his home office. The notice period required to be given by either party is 6 months.

### **9.2 *Non-executive Directors***

The following agreements have been entered into between the non-executive Directors and the Company.

- 9.2.1 Richard Thomas Organ was appointed a part time non-executive director and Chairman pursuant to a letter of appointment dated 1 December 2000 under which he received a fee of £20,000 per annum for 20 days work per annum. In addition, he was entitled to a maximum additional fee of £15,000 per annum at a daily rate of £500 per day with respect to each additional day over his basis commitment. The agreement was for a three year term from 1 January 2001 renewable by mutual agreement. The Company will reimburse any expenses incurred, such as postage, telephone, travelling and hotel expenses. By letter dated 6 November 2003 Richard Organ agreed to waive his additional fee entitlement of £15,000 per annum until further notice.
- 9.2.2 Each of David Alistair Horner and Peter George Cook was appointed as a non-executive director pursuant to letters of appointment dated 26 March 2004 for an annual fee of £nil and £nil respectively. The appointments may be terminated by either party giving not less than three months written notice. Pursuant to a letter dated 6 May 2004, as of 1 April 2005 Peter Cook is entitled to an annual salary of £15,000 and in addition, was proposed to be paid a fee of £15,000 for the successful Completion of the acquisition of Friedman's Limited.
- 9.3 Save as provided in paragraphs 9.1 and 9.2 of this Part IX, there are no service agreements between any Director and the Company and no such contract has been amended in the 6 months preceding the date of the document.
- 9.4 The aggregate remuneration paid (including pension fund contributions and benefits in kind) to the Directors by members of the Group in respect of the year ended 31 December 2005 was £90,000. It is estimated that the aggregate remuneration (including pension fund contributions and benefits in kind but excluding bonuses payable to the Directors by members of the Group in respect of the current financial year (under the arrangements in force at the date of this document) is expected to be approximately £91,010.

## 10. The Company and its subsidiaries

10.1 As at the date of Admission, the Company is the holding company of the Group and has the following principal subsidiaries:

<i>Name</i>	<i>Country of registration or incorporation</i>	<i>Principal activity</i>	<i>Percentage of issued share capital held by the Company</i>
Davies & Co (Kettering) Limited	UK	Manufacture of footwear	100
Phillips Rubber Limited	UK	Manufacture of footwear	100
Farmat Limited	UK	Non-trading company	100
Davies and Company Limited	UK	Non-trading company	100
Signature Fabrics Limited	UK	Holding company	75 reducing to 55 on a ratchet basis
Friedman's Limited	UK	Wholesale of textiles	100 (indirectly)
Hot Property Leotards Limited	UK	Non-trading company	100 (indirectly)
Davies Odell Limited	UK	None supplied	100
Sunline Direct Mail (Holdings) Limited	UK	Holding company	80
Sunline Direct Mail Limited	UK	Polythene wrapping	80
Sunline Limited	UK	Dormant	80

10.2 Except for Signature Fabrics Limited, Sunline Direct Mail Limited and Sunline Limited, the above companies are directly or indirectly wholly-owned by the Company. Signature Fabrics Limited has its registered office at Sunaco House, Unit 2, Bletchley Road, Heaton Mersey Industrial Estate, Heaton Mersey, Stockport, Cheshire SK4 3EF; Friedman's Limited and Hot Property Leotards Limited's registered offices are at Unit 11, Brookfield Industrial Estate, Brookfield Road, Cheadle, Cheshire SK8 2PN; Davies Odell Limited has its registered office at 11 George Street, Bath BA1 2EH; Davies & Co (Kettering) Ltd, Phillips Rubber Limited, Farmat Limited and Davies and Company Limited are registered at c/o G.C. Martin, Yew Tree House, Cliff Road, Sherston, Wiltshire SN16 0LN and Sunline Direct Mail Limited and Sunline Limited's registered offices are at Cotton Way, Weldon Road Industrial Estate, Loughborough, Leicester LE11 5FS. Each company is registered in England and Wales and operates principally within the United Kingdom.

10.3 Following the Acquisition, SDMH will be an 80 per cent. subsidiary of the Company. SDMH was incorporated on 9 November 2006 and is registered in England & Wales with company number 5993856 under the Act as a private limited company. SDMH's registered office is at 11 George Street, Bath BA1 2EH. Following the Acquisition, SDMH will hold 100 per cent. of the issued share capital in Sunline.

## 11. Principal establishments

The principal establishments of the Group as at the date of this document are as follows:

<i>Company</i>	<i>Location</i>	<i>Approx. area</i>	<i>Current rent (per annum excl. of VAT)</i>	<i>Terms of Lease</i>
Davies Odell Limited	2 Bath Road, Kettering	3,700 sq. ft.	£15,000	5 years from and including 30 April 2003 and expiring on 29 April 2008
Friedmans Limited	Sunaco House, Part of Ground Floor of Unit 1, Bletchley Road, Heaton Mersey Industrial Estate, Heaton Mersey, Stockport, Cheshire SK4 3EF	7,500 sq. ft.	£37,000	6 years from and including 16 January 2006 and expiring on 15 January 2012
Friedmans Warehouse Limited	Unit 11, Brookfield Industrial Estate, Brookfield Road, Cheadle, Cheshire SK8 2PN	5,000 sq. ft.	£16,500	10 years commencing on 1 August 1998 and expiring on 31 July 2008
Sunline Direct Mail Limited	10 Cotton Way Loughborough Leicestershire	28,000 sq. ft.	£98,000	25 years from and including 24 November 1997

<i>Company</i>	<i>Location</i>	<i>Approx. area</i>	<i>Current rent (per annum excl. of VAT)</i>	<i>Terms of Lease</i>
Sunline Direct Mail Limited	Unit 49, Heming Road, Washford Industrial Estate, Washford, Redditch, B98 0EA	14,000 sq. ft.	£52,500	5 years commencing on 20 September 2000 and ending on 19 September 2005
Sunline Direct Mail Limited	Unit 6b Weldon Road, Loughborough Industrial Park, Loughborough, Leicestershire	8,500 sq. ft.	£36,125	5 years commencing on 24 November 2002
Sunline Direct Mail Limited	6 Weldon Road, Loughborough	car parking spaces	One peppercorn per annum	Commencing on 26 May 2000 and ending on 20 November 2022
Davies Odell Limited	The Warehouse, Beatrice Road, Kettering, Northamptonshire	10,000 sq. ft.	£32,500 subject to a 2004 rent review	20 years from and including 15 August 1998 and expiring on 14 August 2008
Davies Odell Limited	Units 2 and 3 Portland Road, Rushden	14,500 sq. ft.	£30,000 (subject to a 2005 rent review)	From 25 March 2001 and expiring on 31 August 2008
Davies Odell Limited	Unit 4 Portland Road, Rushden	4,500 sq. ft.	£13,000 (subject to a 2005 rent review)	From and including 1 July 2003 and expiring on 31 August 2008

## 12. Placing

- 12.1 Under an agreement dated 11 January 2007 (the “Placing Agreement”) and made between the Company, the Directors and CFA, CFA has agreed (conditionally, *inter alia*, on Admission taking place not later than 13 February 2007) to assist the Company to procure subscribers for 4,750,000 New Ordinary Shares. Under the Placing Agreement and subject to its becoming unconditional, the Company has agreed to pay CFA a fee of £80,000 together with any applicable VAT.
- 12.2 The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.
- 12.3 The Placing Agreement contains warranties given by the Company and the Directors and indemnities given by the Company to CFA as to the accuracy of the information contained in this document and other matters relating to the Group and its business. CFA is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

## 13. United Kingdom Taxation

**This paragraph is intended as a general guide to UK current tax law and practice in the areas referred to below. It applies to persons who (unless the position of non-resident shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments. Any person who is in doubt as to his or her tax position or requires further information should consult an appropriate professional adviser.**

### 13.1 *UK taxation of dividends*

No tax will be withheld by the Company when it pays dividends under current United Kingdom tax legislation.

#### 13.1.1 *Individual and trustee shareholders*

- 13.1.1.1 An individual shareholder, resident for tax purposes in the United Kingdom, who receives a dividend from the Company will be entitled to a tax credit equal to one ninth of the amount of the net dividend which is also equivalent to a tax credit of 10 per cent. of the sum of the net dividend and the tax credit (the “gross dividend”).

13.1.1.2 Individual shareholders resident for tax purposes in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual's income. The tax credit referred to in sub-paragraph 13.1.1.1 will discharge the liability to income tax in respect of the dividend of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the gross dividend. A higher rate taxpayer will be liable to income tax on the gross dividend at a rate of 32.5 per cent.. After setting off the tax credit, a higher rate tax payer will be liable to an additional income tax equal to 25 per cent. of the net dividend. However, if an individual United Kingdom resident shareholder's total tax credit on such dividends exceeds his overall United Kingdom tax liability, he may no longer claim from HM Revenue & Customs repayment of the excess.

13.1.1.3 For dividends paid to trustees of United Kingdom resident discretionary or accumulation trusts the gross dividend will be subject to United Kingdom income tax at a rate of 32.5 per cent. with a tax credit equal to 10 per cent. of the gross dividend.

13.1.1.4 The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust, will not be repaid.

#### 13.1.2 *Corporate shareholders*

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on dividends received.

#### 13.1.3 *Non-resident shareholders*

Shareholders who are not United Kingdom resident will not generally be able to claim repayment from HM Revenue & Customs of any part of the tax credit attaching to dividends paid by the Company. Persons who are not resident in the United Kingdom should consult their own tax advisers concerning their tax liabilities on dividends received from the Company.

#### 13.2 *Taxation on capital gains for shareholders*

The exercise of subscription rights conferred by the warrants will not be treated as a disposal of the warrants. The amount paid on the exercise of the subscription rights will constitute the base cost of the New Ordinary Shares acquired. Shareholders disposing of all or any of their New Ordinary Shares or Warrants, may depending on their particular circumstances incur a liability to taxation on chargeable gains.

#### 13.3 *AIM listed shares*

HM Revenue & Customs have confirmed that securities dealt with on AIM will not fall to be treated as listed or quoted securities for tax purposes. There are a number of tax reliefs available for unquoted securities including capital gains tax, business property relief, inheritance tax business property relief, and the enterprise investment scheme (subject to a number of different requirements in each case). Anyone who requires further information on this should consult an appropriate professional adviser.

#### 13.4 *Stamp duty and stamp duty reserve tax ("SDRT")*

13.4.1 Except as mentioned in sub-paragraph 13.3.3, no liability to stamp duty or SDRT will arise on the issue or allotment of New Ordinary Shares by the Company pursuant to the Placing.

13.4.2 Except as mentioned in sub-paragraph 13.3.4, the transfer on sale of the New Ordinary Shares, both before and after the issue of certificates will generally be liable to ad valorem stamp duty at the rate (in broad terms) of 0.5 per cent. of the amount or value of the consideration paid or, if an unconditional agreement to transfer the shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay the stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the rules of the CREST system.

13.4.3 Where a charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp

duty at the higher rate (in broad terms) of 1.5 per cent. or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or subsequent transfer.

#### 14. Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Enlarged Group in the two years preceding the date of this document and which are, or may be, material:

- 14.1 the Placing Agreement, details of which are set out in paragraph 12 of this Part IX;
- 14.2 the Amended and Restated Warrant Instrument to be entered into conditional on Admission details of which are set out in paragraph 5 of this Part IX;
- 14.3 the Business Sale Agreement dated 25 April 2006, under which the Company sold the business and assets of Davies Odell and Davies & Co Kettering to its subsidiary Davies Odell Limited. Davies Odell Limited is a wholly owned subsidiary of the Company and the consideration payable under the Business Sale Agreement was £1,521,180. The business that was transferred by the Company involved the manufacture and distribution of footwear components, personal protection equipment and matting. In addition, the Company also transferred plant and machinery, motor cars, fixtures, properties (2 Bath Road, Kettering; Unit 2, 3 and 4 Portland Road, Rushden; and Warehouse Premises, Beatrice Road, Kettering), intellectual property, the benefit of contracts, book debts, cash in hand and goodwill under the terms of the Business Sale Agreement.
- 14.4 The Acquisition Agreement pursuant to which SDMH will acquire the entire issued share capital of Sunline. The sellers of Sunline are, amongst others, 3i Group Plc, Kevan Brown and Nigel Maybury. The consideration pursuant to the Acquisition Agreement comprises £3.8m initial consideration plus an earn out in favour of Nigel Maybury based on net profits for the two years following Completion. Of the initial consideration £3,450,000 will be paid in cash, £150,000 will be satisfied by the issue to Nigel Maybury of B ordinary shares and B preference shares in SDMH and £200,000 by the issue to Nigel Maybury of loan notes in SDMH. 3i Group plc and Kevan Brown will be paid their consideration in cash on Completion. The initial consideration of £3.8 million is subject to a downward adjustment at Completion based on a net asset adjustment. £200,000 of the initial consideration will be held in a retention account in respect of such completion adjustments. The Company guarantees SDMH's obligations to pay the initial consideration. The earn out consideration is capped at £500,000. Nigel Maybury and Kevan Brown are providing a standard set of warranties which are repeated at Completion. Such warranties are subject to standard warranty limitations including a cap of the amount of consideration received by each warrantor. 3i Group plc is not giving any warranties other than as to title to its shares being free from encumbrances and that it has the power to enter into the Acquisition Agreement. Nigel Maybury will continue to run the Sunline business following completion. Each of Nigel Maybury and Kevan Brown will give standard non-compete covenants for a period of three years from Completion. Completion is conditional upon, *inter alia*, approval by the Company's shareholders and Admission.
- 14.5 The Investment Agreement in relation to SDMH which will be entered into by the Company and Nigel Maybury upon completion of the Acquisition Agreement. The Investment Agreement includes a warranty that the business plan has been honestly and diligently prepared by Nigel Maybury. It also includes standard restrictive covenants in respect of Nigel Maybury for as long as he is an employee of Sunline and for 24 months from him ceasing to be such an employee. Standard information rights apply in favour of the Company. Certain matters may not be carried out by SDMH without the prior consent of the Company or its representative. Pursuant to the Investment Agreement, the Company and Nigel Maybury will be issued with, respectively A preference shares and B preference shares which are each entitled to a cumulative preferential dividend of 15 per cent. per annum on the aggregate subscription price and any arrears thereon. Such dividend is payable quarterly on 31 January, 30 April, 31 July and 31 October. On a return of capital the preference shares rank ahead of the ordinary shares in respect of the return of their subscription prices but have no right to any proceeds over and above such subscription price. The preference shares shall be redeemed quarterly on 31 January, 30 April, 31 July and 31 October after the second anniversary of the date of completion in tranches of 54,167 preference shares. Intra group transfer of shares and transfer of shares to certain privilege relations are permitted as are transfer to an employee trust. Otherwise pre-emption rights apply and neither the Company nor Nigel Maybury may be entitled to give a transfer notice without the other's consent.

- 14.6 The loan stock instrument (the “**Loan Stock Instrument**”) pursuant to which SDMH will issue £1,050,000 of 15 per cent. loan stock 2012. The loan stock is unsecured and not subject to intercompany guarantees and is repayable upon usual events of default. Interest of 15 per cent. per annum is payable quarterly on 31 January, 30 April, 31 July and 31 October. The loan stock is redeemable in tranches of £87,500 quarterly on 31 January, 30 April, 31 July and 31 October after the second anniversary of completion.
- 14.7 A loan agreement made between The Governor and Company of the Bank of Scotland (the “**Lender**”) and SDMH (the “**Loan Agreement**”) under which the Lender has agreed to make available to SDMH a term loan facility of £2,000,000 (the “**Facility**”). Under the terms the Loan Agreement SDMH and Sunline are required to enter into certain security documents and guarantee SDMH’s obligations to the Lender as security for the provision of the Facility.
- 14.8 An intercreditor deed made between the Lender, SDMH, Sunline, Nigel Maybury and the Company.
- 14.9 An all monies mortgage debentures to be made between SDMH and the Lender and Sunline and the Lender whereby SDMH and Sunline will respectively charge all their assets and undertakings in favour of the Lender as security for the payment of all liabilities owing to the Lender from time to time.
- 14.10 An all monies guarantee and indemnity to be made between SDMH, Sunline and the Lender, guaranteeing to the Lender the payment of all present and future liabilities of the original principals (as defined therein) and indemnifying the Lender against any loss incurred should the guaranteed amounts not be fully recoverable.

## 15. Related party transactions

The following related party transaction is a transaction which, as a single transaction is or may be material to the Company and has been entered into by the Company or any other member of the Group during the period commencing on 1 January 2003 and the date of this document. The transaction was concluded at arm’s length.

Peter Cook received a fee of £15,000 in the year ended 31 December 2005 relating to the successful acquisition of Signature Fabrics Limited.

## 16. Market Quotations

The following table shows the middle market quotations for an Ordinary Share at the close of business on the first dealing day of in each of the six months from 1 August 2006 to 2 January 2007 inclusive and on 10 January 2007 (being the last dealing day prior to the temporary suspension of trading in the Company’s Ordinary Shares pending publication of this document);

<i>Date</i>	<i>Closing Price of Ordinary</i>
<i>Shares</i>	
1 August	1p
1 September	1p
2 October	0.88p
1 November	0.70p
1 December	0.80p
2 January	0.80p
10 January	0.80p

## 17. Working capital

The Directors are of the opinion (having made due and careful enquiry) that, after taking into account the financing facilities available and the net proceeds of the Placing, the working capital of the Enlarged Group will be sufficient for its present requirements, that is, for at least the period of 12 months from the date of Admission.

## 18. Environmental issues

The Directors are not aware of any environmental issues or risks affecting the utilisation of property, plant or machinery of the Enlarged Group.

## 19. Corporate Governance

The Company is AIM listed, therefore it is not required to comply with the 2003 Financial Reporting Council Combined Code on Corporate Governance (the “**Combined Code**”). Nonetheless, the Directors recognise that it is in the best interests of the Company and its Shareholders to follow the Combined Code’s principles of corporate governance and risk controls appropriate for a company of its size.

The Combined Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors, with non-executive directors comprising at least one-half of the board (excluding the Chairman). The Combined Code states that the board should determine whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The Company currently has one executive director and three non-executive directors due to the nature of its business.

The Directors support high standards of corporate governance. The Company's Board currently comprises the Chairman (who is non-executive), the Finance Director (who is executive) and two further non-executive directors.

The Directors have adopted terms of reference for an audit committee, a nominations committee and a remuneration committee. The Combined Code requires that all the members of the audit committee and remuneration committee and a majority of the members of the nominations committee should be independent non-executive directors and the Company fully complies with these requirements.

The Combined Code also recommends that the Board should appoint one of its independent non-executive directors to be the senior independent director ("SID"). The SID should be available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Chief Finance Officer has failed to resolve or for which such contact is inappropriate. The Company does not currently have a SID appointed.

The audit committee consists of three members all of whom are non-executive directors. In compliance with the Combined Code, the chairman, Peter Cook, has relevant financial experience. The audit committee has responsibility for, amongst other things, the appointment of the external auditor, agreeing the nature and scope of the audit and reviewing and making recommendations to the Board on matters relating 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.

The nominations committee consists of three members all of whom are non-executive directors. It is responsible for making recommendations to the Board on any appointment to the Board.

The remuneration committee consists of three members all of whom are non-executive directors. The remuneration committee sets the remuneration and other terms of employment of executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package appropriate for the responsibilities involved. Directors' contracts are designed to provide the assurance of continuity which the Company desires. There are no provisions for pre-determined compensation on termination.

## **20. Litigation**

- 20.1 No member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Group.
- 20.2 No member of Sunline is or has been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect Sunline's Group's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Sunline Group.

## **21. General**

- 21.1 There has been no significant change in the financial or trading position of the Group since 31 December 2005, the date to which the last audited accounts of the Group were prepared.
- 21.2 The Directors are aware of no material change in the financial or trading position of the Group since 31 December 2005, the date to which the last audited accounts of the Group were prepared.
- 21.3 The estimated costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 12 of this Part IX) payable by the Company are estimated to amount to approximately £650,000 (excluding VAT). The total net proceeds of the Placing, after settling fees, will be £1.725 million.
- 21.4 The financial information set out in this document relating to the Group and the Enlarged Group does not constitute statutory accounts within the meaning of section 240 of the Act. PwC, chartered accountants of

31 Great George Street, Bristol BS1 5QD have been the auditors of the Company for the three financial years ended 31 December 2005 and have given unqualified audit reports on the statutory accounts of the Company for those financial years within the meaning of section 235 of the Act. None of those reports contained any statements under section 237(2) or (3) of the Act. Statutory accounts of the Company for each of the three financial years ended 31 December 2005 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.

- 21.5 CFA has given and not withdrawn its consent to the inclusion in this document of its letter in Part II and to the issue of this document with the references to its name in the form and context in which they appear.
- 21.6 Solely for the purpose of Rule 28.4 of the Code, CFA has given and not withdrawn its written consent to the issue of this document with the inclusion of its letter concerning the profit estimate in the form and context in which it is included.
- 21.7 PwC have given and not withdrawn its written consent to the inclusion of its report in Part VI in the form and context in which it is included and has authorised the contents of those parts of this document for the purpose of item 23.1 of Annex I to the AIM Rules.
- 21.8 Solely for the purpose of Rule 28.4 of the Code, PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the issue of this document with the inclusion of its letter concerning the profit estimate in the form and context in which it is included.
- 21.9 The information at Parts VI, VII and VIII of this document provided by PwC has been accurately reproduced and as far as the Company is aware and has been able to ascertain from information published by PwC, no facts have been omitted which render the reproduced information inaccurate or misleading.
- 21.10 CFA is registered in England and Wales under number 04063750 and its registered office is at Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL is regulated by the Financial Services Authority and is acting in the capacity as nominated adviser and broker to the Company.
- 21.11 Save as otherwise disclosed in this document there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's or the Enlarged Group's business or profitability.
- 21.12 A consultancy fee of £200,000 is payable to Peter Chappelow in connection with the completion of the Acquisition.
- 21.13 A bonus payment of £30,000 has been orally promised to Nicolas Roberts, the commercial director of Sunline Direct Mail Limited, on completion of the Acquisition.
- 21.14 Save as disclosed in paragraphs 21.11 and 21.12 of this Part IX no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 21.14.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission; or
- 21.14.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission:
- any of the following:
- 21.14.2.1 fees totalling £10,000 or more;
- 21.14.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- 21.14.2.3 any other benefit with a value of £10,000 or more at the date of Admission.
- 21.15 As at 10 January 2007, the latest practicable date prior to the publication of this document, the Group employed approximately 57 people and Sunline employed approximately 141 people.

**22. Documents on Display**

Copies of the following documents may be inspected at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA during usual business hours on any weekday (Saturday, Sunday and Public holidays excepted) for a period of one month following the date of this document:

- 22.1 memorandum and articles of association of the Company;
- 22.2 published audited consolidated accounts of the Company for the past two years.
- 22.3 service agreements and letters of appointment of the Directors of the Company;
- 22.4 the reports by PwC set out in Parts VI, VII and VIII of this document;
- 22.5 CFA's letter to the Independent Shareholders in Part II.
- 22.6 The letters from PwC and CFA in Part III of this document;
- 22.7 written consents from CFA and PwC in paragraphs 21.5, 21.6, 21.7 and 21.8 of this Part IX; and
- 22.8 the material contracts referred to in paragraph 14 of this Part IX.

**23 . Availability of this document**

Copies of this document will be available free of charge during the normal business hours on any weekday (Saturdays, Sundays and Public holidays excepted) until the date of following one month after the date of Admission at the registered office of the Company and at the offices of CFA.

Dated 11 January 2007

# CEPS PLC

(Incorporated in England and Wales with registered number 00507461)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT AN EXTRAORDINARY GENERAL MEETING of CEPS PLC (the "Company") will be held at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA at 11.00 a.m. on 5 February 2007 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary and special resolutions as indicated below:

### ORDINARY RESOLUTIONS

1. THAT subject to, and conditional upon, resolutions 2 to 6 inclusive being passed that the acquisition of Sunline Direct Mail Limited by the Company pursuant to the Acquisition Agreement (as such term as defined in the circular issued by the Company to its shareholders on 11 January 2007 (the "Circular") be and is hereby approved and the Directors be and are hereby authorised to do all such things, attend to all such matters and effect all such acts (including, but not limited to, the signing and/or execution of any documents and the approval of the terms of, or any variations to, the Acquisition Agreement provided that such amendments or variations are not material) as they may consider necessary, expedient or desirable to complete or give effect to, or otherwise in connection with, the Acquisition Agreement and only matters incidental thereto.
2. THAT subject to, and conditional upon resolution 1 and resolutions 3 to 6 inclusive being passed, the grant by the Panel on Takeovers and Mergers of the waiver on the terms described in Part I of the Circular of any obligation on the Concert Party (as defined in the Circular) to make a general offer under Rule 9 of the City Code on Takeovers and Mergers as a result of the issue of the Placing Shares (as such term is defined in the Circular) to be issued pursuant to the Placing (as such term is defined in the Circular) to the Concert Party as a result of which the Concert Party will become the holders of an aggregate 4,368,341 New Ordinary Shares (as such term is defined in the Circular) being approximately 47.93 per cent of the Enlarged Issued Share Capital be and is hereby approved.

### SPECIAL RESOLUTIONS

3. THAT subject to and conditional upon resolutions 1, 2 and 4 to 6 inclusive being passed and Admission (as such term is defined in the Circular) the existing issued and unissued share capital of the Company be consolidated and divided whereby every 50 existing ordinary Shares of 0.01 pence each in the capital of the Company (both issued and unissued) be and is hereby consolidated into one New Ordinary Share (as such term is defined in the Circular) and where as a result of such consolidation any shareholder becomes entitled to fractions of a share, then such fractions shall be aggregated and sold in the market at the best price reasonably obtainable for the benefit of the Company.
4. THAT, subject to and conditional on resolutions 1 to 3 and 5 and 6 inclusive being passed and Admission, the authorised share capital of the Company be increased from £330,403.25 to £750,000.00 by the creation of 8,391,935 New Ordinary Shares each ranking *pari passu* in all respects with the Existing Ordinary Shares each in the capital of the Company.
5. THAT subject to, and conditional upon, resolutions 1 to 4 and 6 inclusive being passed and Admission, the Directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Act such authority to replace all existing authorities granted to the Directors pursuant to section 80 of the Act to:
  - 5.1 allot New Ordinary Shares up to a maximum aggregate nominal amount of £237,500 pursuant to the Placing (as such term is defined in the Circular);
  - 5.2 allot New Ordinary Shares up to a maximum aggregate nominal amount of £72,300.85 pursuant to the exercise of the Warrants and Options (as such term is defined in the Circular) and;
  - 5.3 allot other relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £262,007.75

such authority to expire at the conclusion of the next annual general meeting of the Company (unless and to the extent that such authority is revoked, varied, renewed or extended prior to such date), but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require

relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

6. The Directors be and are hereby empowered pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) to Section 94(3A) of the Act) for cash pursuant to the authority referred to in resolution 5 (in substitution for all existing powers granted to the Directors pursuant to Section 95 of the Act:

6.1 the allotment of New Ordinary Shares up to a maximum aggregate nominal amount of £237,500 pursuant to the Placing;

6.2 the allotment of New Ordinary Shares up to a maximum aggregate nominal amount of £72,300.85 pursuant to the exercise of the Warrants and Options;

6.3 the allotment of equity securities in connection with an offer of such securities by way of rights issue;

6.4 the allotment of equity securities otherwise than pursuant to sub-paragraphs 6.1, 6.2 and 6.3 above), up to an aggregate nominal amount of £200,000;

such power to expire at the conclusion of the next annual general meeting of the Company (unless and to the extent that such power is revoked, varied, renewed or extended prior to such date), but save 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 a period and the Directors may allot equity securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.

For the purposes of this resolution 6, “rights issue” means an offer of equity securities (as defined in Section 94(2) of the Act) open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlement or with any legal or practical difficulties under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

The power applies in relation to a sale of the shares which is an allotment of equity securities by the virtue of Section 94(3A) of the Act as if the words “pursuant to the authority referred to in resolution 5” were omitted.

Dated 11 January 2007

Notes:

- 1 A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company.
- 2 To be valid, a Form of Proxy and, if applicable, any authority under which it is signed, or a certified copy of such authority, must be lodged at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for holding the meeting. Completion and return of a Form of Proxy will not prevent a member attending and voting at the meeting should he so wish.
- 3 Resolution 2 will be taken on a poll in accordance with the requirements of the Panel on Takeovers and Mergers for dispensations from Rule 9 of the City Code on Takeovers and Mergers.

# CEPS PLC

(Incorporated in England and Wales with registered number 00507461)

## NOTICE OF EXTRAORDINARY MEETING OF WARRANTHOLDERS

NOTICE IS HEREBY GIVEN THAT AN EXTRAORDINARY MEETING of the Warrantholders of CEPS PLC (the "Company") will be held at the offices of Berwin Leighton Paisner LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HA at 11.30 a.m. on 5 February 2007 for the purpose of considering and, if thought fit, passing the following resolution proposed as an extraordinary resolution as indicated below:

### EXTRAORDINARY RESOLUTION

1. THAT subject to, and conditional upon, the passing of the resolutions set out in the notice of extraordinary general meeting of the Warrantholders of the Company and Admission, the Warrant Instrument of the Company be replaced by the Amended and Restated Warrant Instrument, a copy of which is attached hereto.

Dated 11 January 2007

#### Notes:

1. A Warrantholder entitled to attend and vote at the above Warrantholder Meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a Warrantholder in the Company.
2. To be valid, a Warrantholder Proxy and, if applicable, any authority under which it is signed, or a certified copy of such authority, must be lodged at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for holding the meeting. Completion and return of a Warrantholder Proxy will not prevent a Warrantholder attending and voting at the meeting should he so wish.