ceps

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2008

Half-Yearly Report to Shareholders

CEPS PLC
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Chairman's Statement

Highlights

- Group revenue up 13% to £8.1m
- Operating profit up 14.6% to £611,000
- EPS up 11% to 4.15p
- Cash generated from operating activities of £676,000
- Gearing reduced to 35%
- Capital and reserves increased to £4,551,000

Review of the period

I am pleased to report a robust performance from the Group in a first half year during which all of our businesses have performed satisfactorily in increasingly difficult trading conditions.

Revenue from our businesses involved in the sale of goods, Davies Odell and Friedman's, increased by 11.4% to £4.4m (2007: £3.9m) and their segmental result before depreciation was £365,000 (2007: £404,000). Revenue from rendering of services, the Sunline business, was £3.8m (2007 from February: £3.2m) and the segmental result before depreciation £538,000 (2007 from February: £458,000).

Overall Group revenue increased by 13% to £8.1m (2007: £7.2m) and operating profit increased by 14.6% to £611,000 (2007: £533,000). After finance costs and provision for taxation the profit for the period was £400,000 (2007: £331,000).

Earnings per share, basic and diluted, for the half year were up almost 11% at 4.15p (2007: 3.74p).

Financial review

Cash generated from operating activities in the period was £676,000 (2007: £650,000) of which £422,000 (2007: £303,000) was used to repay bank loans and the capital element of hire purchase agreements. After finance costs and capital expenditure the net increase in cash for the period was £108,000 (2007, a period that included a major fund raising and the acquisition of Sunline: £581,000). Cash and cash equivalents at the period end were £484,000 (2007: £463,000).

Bank loans at 30 June 2008 were lower than a year earlier by £706,000 at £1,910,000 (2007: £2,616,000). Of these loans £1,890,000 (2007: £2,496,000) were secured against the assets of subsidiary companies and with no recourse to the rest of the Group.

Gearing has been reduced to 35% (from 51% at 31 December 2007) and total capital and reserves attributable to equity shareholders of the Company rose to £4,551,000 (2007: £3,788,000).

Operational review

1. Sale of Goods

Comprising Davies Odell and Friedman's, this division has achieved an 11.4% increase in revenue when compared to the same period of last year but has experienced a similar reduction in profitability.

Friedman's has increased its market share but has been adversely affected by the weakness of sterling against the euro.

Chairman's Statement continued

The first half at Davies Odell has been encouraging with both revenue and profits ahead of 2007. Revenue from the Forcefield body armour range and from protection products for the equestrian industry continues to grow. The matting business has experienced a significant increase in revenue and the footwear components business remains a consistent performer and significant contributor to profitability.

2. Rendering of Services

This division, which comprises Sunline's Polywrapping and Lettershop businesses, has had an encouraging first half year with revenue of £3.8m and segmental profit of £538,000.

The Polywrapping business has concentrated on both efficiency and product mix and consequently has improved margins. The Lettershop business has continued to grow revenue, although margins were a little lower. Both businesses exceeded their profit expectations for the period.

Dividend

With the effect of the 'credit crunch' on consumer behaviour and on the Group remaining unpredictable, the Board has again decided that it is prudent to conserve cash. As a result, the payment of a dividend is not recommended at this stage although the Board remains keen to do so as soon as conditions become favourable.

Prospects

Against a gloomy financial background, the second half of the year has begun positively for the Group and trading has so far been better than expected.

Encouraged by a continuing strong trading performance, Sunline has invested in a new polywrapping line that will enable the business to further increase its efficiency and broaden the range of services that it can provide.

Davies Odell has begun the second half strongly with revenue growth in the same sectors as in the first half. Friedman's, on the other hand, continues to suffer from the exchange rate difficulties that accompany the necessity to purchase much of its raw materials in euros and sell most of its output in sterling.

The Board continues to review investment opportunities but valuations do not as yet adequately reflect the current uncertain economic outlook.

At this moment the Board is pleased with the start made by the Group to the second half of the year but remains cautious about the effect on our businesses of declining consumer spending.

The overall prospects for 2008 are therefore difficult to predict, but the Board remains confident in the strength of its management teams and of their ability to outperform their immediate competition and to maximise profitability and return on capital employed.

Richard Organ

Richard Organ
Chairman
22 September 2008

Consolidated Income Statement

Consolidated income statement

	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months to 31 December 2007 £'000
Revenue	8,140	7,188	15,394
Cost of sales	(6,861)	(6,049)	(13,102)
Gross profit	1,279	1,139	2,292
Net operating expenses	(668)	(606)	(1,347)
Operating profit	611	533	945
Analysis of operating profit			
Trading	785	738	1,324
Abortive acquisition costs	–	(71)	(71)
Group costs	(174)	(134)	(308)
Finance costs	(125)	(125)	(271)
Profit before tax	486	408	674
Taxation	(86)	(77)	(88)
Profit for the period	400	331	586
Attributable to:			
Equity holders of the Company	345	270	491
Minority interest	55	61	95
	400	331	586
Earnings per share – basic and diluted	4.15p	3.74p	6.32p

Consolidated statement of recognised income and expense

	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months to 31 December 2007 £'000
Fair value gains, net of tax			
Actuarial gain on retirement benefit obligations	–	–	196
Net income recognised directly in equity	–	–	196
Profit for the period	400	331	586
Total recognised income for the period	400	331	782
Attributable to:			
Equity holders of the Company	345	270	687
Minority interest	55	61	95
	400	331	782

Consolidated Balance Sheet

		Unaudited as at 30 June 2008 £'000	Unaudited as at 30 June 2007 £'000	Audited as at 31 December 2007 £'000
Assets	Non-current assets			
	Property, plant and equipment	1,145	1,180	1,239
	Intangible assets	4,748	5,330	4,751
	Deferred tax asset	45	144	45
		5,938	6,654	6,035
	Current assets			
	Inventory	1,481	1,459	1,391
	Trade and other receivables	2,913	3,095	3,151
	Deferred tax asset	73	45	73
	Cash and cash equivalents	555	463	383
		5,022	5,062	4,998
	Total assets	10,960	11,716	11,033
Equity	Capital and reserves attributable to equity holders of the Company			
	Called up share capital	416	416	416
	Share premium	2,756	2,755	2,756
	Profit and loss account	1,379	617	1,034
		4,551	3,788	4,206
	Minority interest in equity	214	219	159
	Total equity	4,765	4,007	4,365
Liabilities	Non-current liabilities			
	Borrowings	1,659	2,393	2,138
	Trade and other payables	–	500	–
	Retirement benefit liabilities	126	470	162
	Provisions	55	32	55
		1,840	3,395	2,355
	Current liabilities			
	Borrowings	1,739	1,434	1,490
	Trade and other payables	2,485	2,532	2,778
	Current tax liabilities	131	348	45
		4,355	4,314	4,313
	Total liabilities	6,195	7,709	6,668
	Total equity and liabilities	10,960	11,716	11,033

Consolidated Cash Flow Statement

	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months to 31 December 2007 £'000
Cash flow from operating activities			
Cash generated from operations	676	650	1,466
Tax paid	–	–	(237)
Interest paid	(125)	(125)	(254)
Net cash generated from operations	551	525	975
Cash flow from investing activities			
Purchase of property, plant and equipment	(21)	(11)	(67)
Purchase of computer software and website development	–	(7)	(49)
Purchase of subsidiary undertakings net of cash acquired	–	(3,940)	(3,940)
Payment of deferred consideration	–	–	(30)
Net cash used in investing activities	(21)	(3,958)	(4,086)
Cash flow from financing activities			
Proceeds from issue of Ordinary share capital	–	2,317	2,318
Proceeds from new bank loans	–	2,000	2,000
Repayment of bank loans	(347)	(245)	(604)
Repayment of capital element of hire purchase agreements	(75)	(58)	(109)
Net cash (used in)/generated from financing activities	(422)	4,014	3,605
Net increase in cash and cash equivalents	108	581	494
Cash and cash equivalents at beginning of period	376	(118)	(118)
Cash and cash equivalents at end of period	484	463	376
Cash flows from operating activities			
The reconciliation of operating profit to cash flows from operating activities is as follows:			
Operating profit for the period	611	533	945
Adjustments for:			
Depreciation charge	118	124	264
Difference between pension charge and cash contribution	(36)	(36)	(76)
Operating profit before changes in working capital and provisions	693	621	1,133
Movement in provisions	–	–	(27)
Increase in inventory	(90)	(71)	(3)
Decrease in trade and other receivables	238	220	164
(Decrease)/increase in trade and other payables	(165)	(120)	199
Cash generated from operations	676	650	1,466
Cash and cash equivalents			
Cash at bank and in hand	555	463	383
Bank overdrafts repayable on demand	(71)	–	(7)
	484	463	376

Accounting Policies

General information

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985 (section 434 of the Companies Act 2006). Statutory accounts for the year ended 31 December 2007 were approved by the Board of directors on 20 May 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

This condensed consolidated half-yearly financial information has not been reviewed or audited.

Basis of preparation

This condensed consolidated half-yearly financial information for the six months ended 30 June 2008 has been prepared under the historical cost convention and in accordance with the AIM Rules for Companies and the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008, but are not currently relevant for the Group.

- IFRIC 11, *IFRS2 – Group and treasury share transactions*
- IFRIC 12, *Service concession arrangements*
- IFRIC 14, *IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction*

Notes to the Financial Information

1. Segmental analysis

All activities are classed as continuing.

a) Primary reporting format – Business segments
The Group is managed in two principal business segments.

i) Results by segment
Unaudited 6 months to 30 June

	Sale of goods		Rendering of services		Group	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Revenue	**4,380**	3,933	**3,760**	3,255	**8,140**	7,188
Segmental result	**365**	404	**538**	458	**903**	862
Depreciation charge	**(40)**	(56)	**(78)**	(68)	**(118)**	(124)
Abortive acquisition costs					**–**	(71)
Group costs					**(174)**	(134)
Interest expenses					**(125)**	(125)
Profit before taxation					**486**	408
Taxation					**(86)**	(77)
Profit for the period					**400**	331

ii) Assets and liabilities by segment
Unaudited as at 30 June

	Segment assets		Segment liabilities		Segment net assets	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
CEPS Group	**133**	225	**(72)**	(29)	**61**	196
Sale of goods	**5,068**	4,867	**(3,090)**	(3,433)	**1,978**	1,434
Rendering of services	**5,759**	6,624	**(3,033)**	(4,247)	**2,726**	2,377
Total – Group	**10,960**	11,716	**(6,195)**	(7,709)	**4,765**	4,007

b) Secondary reporting format – Geographical segments

The United Kingdom is the main country of operation from which the Group derives its revenue and operating profit and is the principal location of the assets of the Group. The Group information provided above therefore also represents the geographical segmental analysis.

Notes to the Financial Information continued

2. Earnings per share

Basic earnings per share is calculated on the profit after taxation for the period attributable to equity holders of the Company of £345,000 (2007: £270,000) and on 8,314,233 (2007: 7,211,618) 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. No adjustment is required in either period because the fair value of warrants was below the exercise price.

3. AIM compliance committee

In accordance with AIM Rule 31 the Company is required to have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules; seek advice from its nominated adviser ('Nomad') regarding its compliance with the AIM Rules whenever appropriate and take that advice into account; provide the Company's Nomad with any information it requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Companies and the AIM Rules for Nominated Advisers; ensure that each of the Company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and ensure that each director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

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

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

Group Information

Directors	P G Cook, Group Managing D A Horner, Non-executive G C Martin FCA, Financial R T Organ BA(Hons) FRSA, Non-executive Chairman
Secretary and registered office	G C Martin FCA 11 George Street, Bath BA1 2EH Company number 507461 www.cepsplc.com
Operating locations	Davies Odell Ltd Portland Road, Rushden, Northants NN10 0DJ telephone 01933 410818, fax 01933 315976 email info@daviesodell.co.uk; www.forcefieldbodyarmour.com and Beatrice Road, Kettering, Northants NN16 9QS telephone 01536 513456, fax 01536 310080 email info@davieskett.co.uk; www.equimat.co.uk Friedman's Ltd Sunaco House, Unit 2, Bletchley Road, Stockport SK4 3EF telephone 0161 975 9002, fax 0161 975 9003 email sales@friedmans.co.uk; www.friedmans.co.uk; www.funkifabrics.com Sunline Direct Mail Ltd Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ telephone 01509 263434, fax 01509 264225 email enquiries@sunlinedirect.co.uk; www.sunlinesolutions.com
Registrars and share transfer office	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA telephone 0871 664 0300 – calls cost 10p per minute plus network extras
Share price information	The day-to-day movement of the share price on the London Stock Exchange can be found on the Company website and at www.londonstockexchange.com (code CEPS)
Auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors 31 Great George Street, Bristol BS1 5QD
Solicitors	Berwin Leighton Paisner LLP Adelaide House, London Bridge, London EC4R 9HA
Nominated adviser	Dowgate Capital Advisers Limited 46 Worship Street, London EC2A 2EA telephone 020 7492 4777, fax 020 7492 4774
Broker	Dowgate Capital Stockbrokers Limited Talisman House, Jubilee Walk, Three Bridges, Crawley, West Sussex RH10 1LQ telephone 01293 517744, fax 01293 521093 email broker@dowgate.co.uk