



chelverton
equity partners

2011

Half-Yearly Report
to Shareholders



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Contents

	page
Chairman's Statement	1
Consolidated Statement of Comprehensive Income	4
Consolidated Balance Sheet	5
Consolidated Statement of Cashflows	6
Consolidated Statement of Changes in Shareholders' Equity	7
Accounting Policies	8
Notes to the Financial Information	9
Statement of Directors' Responsibility	12
Group Information	13

Chairman's Statement

Review of the period

After a steady start in the first quarter of 2011, trading across all our businesses has declined through the second quarter and remains, at the time of writing, challenging. This is in line with the picture across the UK and Western Europe, with growth slowing, continuing reported high levels of inflation and a major squeeze on consumer spending. Raw material price inflation is only just beginning to show some signs of easing and all of our businesses are still wrestling with the consequences of being unable to fully pass on previous price increases.

Whilst overall revenue was unchanged from the first half of 2010, £7.9m in both 2010 and 2011, gross profit has continued to fall from £868,000 (11.0%) in the first half of 2010 to £811,000 (10.3%) in 2011. This has been a continuing theme now for the past 18 months, reflecting customer and consumer resistance to raw material driven price increases and intensified competition. Our operating costs have continued to be well controlled, but our operating profit has fallen from £258,000 in 2010 to £162,000, with Group costs actually down on 2010 (£159,000 versus £169,000 in 2010).

After finance costs and provision for taxation, the profit for the period was £54,000, down from £122,000 in the previous year. Earnings per share have fallen to 0.11 pence per share (2010: 0.61 pence per share) once non-controlling interests have been accounted for.

During this period the Group negotiated additional working capital facilities to provide more flexible financing and this has enabled all acquisition borrowings to be repaid in full (December 2010: £500,000).

Financial review

Referring to the cashflow statement, during these six months the Group has generated cash from operating activities of £508,000 (2010: cash used £274,000). Repayment of the acquisition bank loans and the capital element of finance leases has absorbed £581,000 (2010 restated: £288,000), net capital expenditure was £50,000 (2010: £59,000) and interest charges were £77,000 (2010: £81,000). This resulted in a net decrease in cash and cash equivalents of £193,000 (2010 restated: £735,000).

The increase in the Group's invoice finance facilities during the period was £347,000 (June 2011: £1,183,000; December 2010: £836,000) and these facilities largely made possible the repayment of the acquisition debt referred to above.

Net debt has, in total, been reduced to £2,428,000 (2010: £2,520,000) and gearing to 41% (2010: 43%). Of net debt an amount of £460,000 (2010: £1,114,000) of bank loans is secured against the assets of subsidiary companies and with no recourse to the rest of the Group.

Group assets increased to £11,424,000 (2010: £11,301,000). Total equity has been increased by 1.2% to £5,956,000 (2010: £5,887,000).

Operational review

1. *Davies Odell*

The investment of both time and money in the development of the *Forcefield* brand continues with generally positive results. The dealer network across Europe has continued to grow in both the motorcycle and ski/snowboard segments of the market place, with some reported strong 'sell-through' results from new customers this spring/summer season. In the UK, whilst the motorcycle market, with its associated clothing, looks to be declining, we have expanded our dealer network. *Forcefield* sales overall are ahead of the previous year and are, therefore, picking up market share. This remains an excellent time to build enduring market presence for our product and brand.

In July, our Italian distributor DIX Motor Service Srl, reported that in a highly technical comparative test conducted by EuroMoto, an Italian motorcycle magazine, our Pro sub-4 back protector had scored a remarkable 10 out of 10. This result substantially exceeded the score obtained by our much larger Italian, German and American competitors such as Dainese, BMW and Spidi. Yet again it demonstrates that we are supplying the technical market-leading product, enabling us to sell to new distributors and dealers with great confidence. Product development continues apace with a number of key introductions scheduled for early 2012.

Chairman's Statement continued

Our shoe repair and factoring business has seen some major pluses and minuses by specific segment, but overall turnover was about at the level of the first half of 2010. Margins have remained under pressure as a result of imported raw material price inflation, some of which has necessarily been absorbed at the cost of profit. The story is much the same in our matting business, with sales quite strongly ahead of 2010, but, with pressure on input prices, margins are down and overall achieved contribution is about level with 2010. The bright spots here have been exports, particularly of cow-mats, and the protection business in general where judo and gym mats have led the way.

2. Friedman's

Sales at Friedman's have grown by about 4%, although within this figure, some sensible stock remnant clearance has taken place at lower margins. Overall achieved margin is at about the same level as the first half of 2010, though the further weakening of Sterling, especially against the Euro, has resulted in some exchange losses. These have pushed the segmental result below the first half of 2010, when there were considerable exchange rate gains.

The second new digital printer has recently been installed and commissioned, and the full benefits of its output productivity and colour definition will come through in 2012. In addition, both the Funki Fabrics and Friedman's websites have been redesigned to enhance our customers' experience and to make it easier to make online purchases. These websites are anticipated to be fully operational by the end of September.

3. Sunline

The final transfer of both staff and equipment from Redditch to Loughborough was concluded smoothly in March/April. The whole management team is to be congratulated on the quality of planning and preparation with both people and machinery, that has seen this exercise completed on time and within budget. The challenge now is to grow the business from its single, consolidated base in Loughborough.

Overall sales at Sunline have exceeded our budgeted expectations, though they are down on the previous year by about 8%. Similarly the trading profit is well ahead of our budgeted expectation and only about £30,000 below the previous year. Margins here too are under pressure from the continuing excess capacity in the market place and the circumspection of many of our clients in mass mailing their customers.

Upon removal from Redditch, we have taken the opportunity to refurbish and invest in our enclosing capacity, with the expectation that offering our clients a more balanced and complete service for their mail requirements should enable us to win more business. The outstanding acquisition loan balance of £500,000 was repaid in full in February 2011 and a trade receivables backed working capital facility was introduced.

Dividend

Cash conservation continues to remain the priority for the Group and a dividend is not proposed at this stage.

Prospects

Whilst a number of potential acquisitions have been reviewed, against the backcloth which has been set out elsewhere, finding a resilient business at the right price is no easy matter. Discussions are on-going with several potential acquisitions which it is hoped will lead to a successful conclusion in the next period.

Our trading outlook remains very much subject to likely levels of consumer expenditure. Recently the GDP growth forecast for the UK has been cut to nearer 1% in 2011, with a decline in consumer spending in the year a distinct possibility. In these circumstances we can only grow at the expense of our competitors or because the niche in which we operate is proofed in some way against reduced consumer spending. Raw material and finished goods price inflation appears to be beginning to abate, but customers and consumers alike are very resistant to further price rises driven by the need to restore margins.

At Davies Odell we do not anticipate any significant improvement in the trading position in the second half,

Chairman's Statement continued

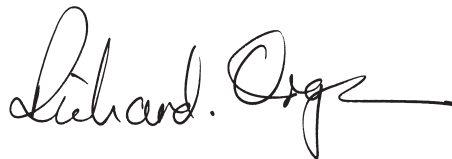
though we expect to further improve the sales and market share gains in *Forcefield* products. Our efforts now must focus on continuing to build a strong global dealer network supplied with a continuing flow of technically superior body-armour products.

Friedman's appears to occupy a niche in the market which is well placed to avoid lower levels of consumer spending. In the second half, margins traditionally are somewhat stronger: our continued sourcing from Korea and China and the introduction of the second digital printer should see us complete 2011 in good shape.

Sunline is now in a position to move forward strongly from its base on one established site. The whole operation needs to become more efficient to ensure it can win and deliver profitable business.

No stone can be left unturned at any of the Group's businesses in the pursuit of additional margin from the strong flow of work we have from existing loyal and potential clients. Of course, in no circumstances can this be at the expense of the quality and service levels that our customers have come to expect.

2011 is going to be a difficult year, that much is already certain. Nothing that has happened since I last wrote to you suggests the market place will provide any following wind. Consequently, all our businesses are engaged in 'making their own luck' whether it is *Forcefield's* continuing thrust to achieve product excellence, Friedman's digital printing service or Sunline's efforts to find more polywrap business via a better enclosing offering with it. I remain confident that in the longer run our management teams will outperform their local market competitors.



Richard Organ
Chairman
19 September 2011

Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 June 2011 £'000	Unaudited 6 months to 30 June 2010 £'000	Audited 12 months to 31 December 2010 £'000
Revenue	7,853	7,917	16,519
Cost of sales	<u>(7,042)</u>	<u>(7,049)</u>	<u>(15,108)</u>
Gross profit	811	868	1,411
Net operating expenses	<u>(649)</u>	<u>(610)</u>	<u>(1,246)</u>
Operating profit	162	258	165
Analysis of operating profit			
Trading	321	427	811
Exceptional costs	–	–	(302)
Group costs	<u>(159)</u>	<u>(169)</u>	<u>(344)</u>
	162	258	165
Finance costs	<u>(77)</u>	<u>(81)</u>	<u>(151)</u>
Profit before tax	85	177	14
Taxation	<u>(31)</u>	<u>(55)</u>	<u>206</u>
Profit for the period from continuing operations	<u>54</u>	<u>122</u>	<u>220</u>
Other comprehensive income			
Actuarial loss on defined benefit pension plans	–	–	(83)
Other comprehensive loss for the period, net of tax	–	–	(83)
Total comprehensive income for the period	<u>54</u>	<u>122</u>	<u>137</u>
Profit attributable to:			
Owners of the parent	9	51	175
Non-controlling interest	<u>45</u>	<u>71</u>	<u>45</u>
	<u>54</u>	<u>122</u>	<u>220</u>
Total comprehensive income attributable to:			
Owners of the parent	9	51	92
Non-controlling interest	<u>45</u>	<u>71</u>	<u>45</u>
	<u>54</u>	<u>122</u>	<u>137</u>
Earnings per share			
– basic and diluted	<u>0.11p</u>	<u>0.61p</u>	<u>2.10p</u>

Consolidated Balance Sheet

	Unaudited as at 30 June 2011 £'000	Unaudited as at 30 June 2010 £'000	Audited as at 31 December 2010 £'000
Assets			
	Non-current assets		
Property, plant and equipment	1,303	1,471	1,376
Intangible fixed assets	4,728	4,738	4,732
Deferred tax asset	582	164	582
	<u>6,613</u>	<u>6,373</u>	<u>6,690</u>
	Current assets		
Inventories	2,078	1,836	1,993
Trade and other receivables	2,652	2,714	2,704
Cash and cash equivalents	81	378	282
	<u>4,811</u>	<u>4,928</u>	<u>4,979</u>
Total assets	<u>11,424</u>	<u>11,301</u>	<u>11,669</u>
Equity	Capital and reserves attributable to owners of the parent		
Called up share capital	416	416	416
Share premium	2,756	2,756	2,756
Retained earnings	2,294	2,244	2,285
	<u>5,466</u>	<u>5,416</u>	<u>5,457</u>
Non-controlling interest	490	471	445
Total equity	<u>5,956</u>	<u>5,887</u>	<u>5,902</u>
Liabilities	Non-current liabilities		
Borrowings	595	1,082	777
Deferred tax liability	171	–	171
Provisions for liabilities and charges	55	55	155
	<u>821</u>	<u>1,137</u>	<u>1,103</u>
	Current liabilities		
Borrowings	1,914	1,816	1,975
Trade and other payables	2,551	2,394	2,449
Current tax liabilities	76	67	38
Provisions for liabilities and charges	106	–	202
	<u>4,647</u>	<u>4,277</u>	<u>4,664</u>
Total liabilities	<u>5,468</u>	<u>5,414</u>	<u>5,767</u>
Total equity and liabilities	<u>11,424</u>	<u>11,301</u>	<u>11,669</u>

Consolidated Statement of Cashflows

	Unaudited 6 months to 30 June 2011 £'000	Restated unaudited 6 months to 30 June 2010 £'000	Audited 12 months to 31 December 2010 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	508	(274)	52
Tax received/(paid)	7	(33)	(48)
Interest paid	(77)	(81)	(149)
Net cash generated from/(used in) operations	438	(388)	(145)
Cash flow from investing activities			
Purchase of property, plant and equipment	(125)	(59)	(66)
Disposal of property, plant and equipment	75	–	30
Interest received	–	–	2
Net cash used in investing activities	(50)	(59)	(34)
Cash flows from financing activities			
Repayment of bank loans	(500)	(221)	(421)
Repayment of capital element of finance leases	(81)	(67)	(273)
Net cash used in financing activities	(581)	(288)	(694)
Net decrease in cash and cash equivalents	(193)	(735)	(873)
Cash and cash equivalents at the beginning of the period	(242)	631	631
Cash and cash equivalents at the end of the period	(435)	(104)	(242)
Cash generated from operations			
The reconciliation of operating profit to cash flows from operating activities is as follows:			
Profit before income tax	85	177	14
Adjustments for:			
Depreciation and amortisation	126	142	286
Profit on disposal of property, plant and equipment	–	–	(14)
Net finance costs	77	81	151
Difference between pension charge and cash contribution	(35)	(33)	(69)
Operating profit before changes in working capital and provisions	253	367	368
Increase in inventories	(85)	(267)	(424)
Decrease/(increase) in trade and other receivables	52	(92)	(82)
Increase/(decrease) in trade and other payables, including trade receivables backed working capital facilities	449	(282)	(112)
(Decrease)/increase in provisions	(161)	–	302
Cash generated from/(used in) operations	508	(274)	52
Cash and cash equivalents			
Cash at bank and in hand	81	378	282
Bank overdrafts repayable on demand	(516)	(482)	(524)
	(435)	(104)	(242)

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Attributable to the owners of the parent £'000	Non- controlling interest £'000	Total £'000
At 1 January 2010 (audited)	416	2,756	2,193	5,365	400	5,765
Profit for the period	–	–	51	51	71	122
Total comprehensive income for the period	–	–	51	51	71	122
At 30 June 2010 (unaudited)	416	2,756	2,244	5,416	471	5,887
Actuarial loss	–	–	(83)	(83)	–	(83)
Profit for the period	–	–	124	124	(26)	98
Total comprehensive income for the period	–	–	41	41	(26)	15
At 31 December 2010 (audited)	416	2,756	2,285	5,457	445	5,902
Profit for the period	–	–	9	9	45	54
Total comprehensive income for the period	–	–	9	9	45	54
At 30 June 2011 (unaudited)	416	2,756	2,294	5,466	490	5,956

Accounting Policies

General information

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 12b George Street, Bath, BA1 2EH and the registered number of the company is 507461.

The Company has its primary listing on AIM.

This condensed consolidated half-yearly financial information was approved for issue on 19 September 2011.

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved by the Board of directors on 3 May 2011 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 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 2011 has been prepared in accordance with IAS 34, *Interim Financial Reporting* as adopted by the European Union. The condensed consolidated half-yearly financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Consolidated Statement of Cashflows for the six months ended 30 June 2010 has been restated to reclassify import loans within cash and cash equivalents rather than within borrowings. The effect of this has been to increase the net cash used in financing activities by £414,000 and to decrease cash and cash equivalents at the end of the period by the same amount.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements. Where new standards, or amendments to existing standards, have become effective during the year there has been no material impact on the results of the Group.

Principal risks and uncertainties

The Group set out in its 2010 Annual Report and Financial Statements the principal risks and uncertainties that could impact on its performance; these remain unchanged since the Annual Report was published. The main area of potential risk and uncertainty over the remainder of the financial year centres on the sales and profit impact from the economic conditions and fluctuations in foreign exchange rates. For further consideration see the *Operational Review* in the Chairman's Statement.

Certain statements within this report are forward looking. The expectations reflected in these statements are considered reasonable. However, no assurance can be given that they are correct. As these statements involve risks and uncertainties the actual results may differ materially from those expressed or implied by these statements.

Notes to the Financial Information

1. Segmental analysis

All activities are classed as continuing.

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

Operating segments and their principal activities are as follows:

- Davies Odell, the manufacture and distribution of protection equipment, matting and footwear components;
- Friedman's, the conversion and distribution of specialist Lycra;
- Sunline, a supplier of services to the direct mail market.

The United Kingdom is the main country of operation from which the Group derives its revenue and operating profit and is the principal location of the assets of the Group. The Group information provided below, therefore, also represents the geographical segmental analysis. Of the £7,853,000 revenue, £6,633,000 is derived from UK customers.

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

i) Results by segment

Unaudited 6 months to 30 June 2011

	Davies Odell £'000	Friedman's £'000	Sunline £'000	Group £'000
Revenue	2,748	1,762	3,343	7,853
Segmental result (EBITDA)	24	154	270	448
Depreciation charge	(20)	(17)	(90)	(127)
Group costs				(159)
Interest expenses				(77)
Profit before taxation				85
Taxation				(31)
Profit for the period				54

Unaudited 6 months to 30 June 2010

	Davies Odell £'000	Friedman's £'000	Sunline £'000	Group £'000
Revenue	2,591	1,691	3,635	7,917
Segmental result (EBITDA)	25	230	311	566
Depreciation charge	(17)	(18)	(104)	(139)
Group costs				(169)
Interest expenses				(81)
Profit before taxation				177
Taxation				(55)
Profit for the period				122

Notes to the Financial Information continued

1. Segmental analysis continued

ii) Assets and liabilities by segment

Unaudited as at 30 June

	Segment assets		Segment liabilities		Segment net assets	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
CEPS Group	112	88	(64)	(80)	48	8
Davies Odell	2,720	2,363	(1,395)	(1,153)	1,325	1,210
Friedman's	3,120	3,003	(1,522)	(1,483)	1,598	1,520
Sunline	5,472	5,847	(2,487)	(2,698)	2,985	3,149
Total – Group	11,424	11,301	(5,468)	(5,414)	5,956	5,887

2. Earnings per share

Basic earnings per share are calculated on the profit after taxation for the period attributable to equity holders of the Company of £9,000 (2010: £51,000) and on 8,314,310 (2010: 8,314,310) ordinary shares, being the weighted number in issue during the period.

Diluted earnings per share are calculated on the weighted number of ordinary shares in issue adjusted to reflect the potential effect of the exercise of share options. No adjustment is required in either period because the fair value of the options was below the exercise price.

3. Net debt and gearing

Gearing ratios at 30 June 2011, 30 June 2010 and 31 December 2010 are as follows:

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Total borrowings	2,509	2,898	2,752
Less: cash and cash equivalents	(81)	(378)	(282)
Net debt	2,428	2,520	2,470
Total equity	5,956	5,887	5,902
Gearing ratio	41%	43%	42%

4. Related-party transactions

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

During the period the Company entered into the following transactions with its subsidiaries:

	Davies Odell Limited £'000	Sunline Direct Mail Limited £'000	Signature Fabrics Limited £'000
Receipt of preference share dividend			
2011	–	39	–
2010	–	39	–
Receipt of loan note interest			
2011	–	63	18
2010	–	63	18
Receipt of management charge income			
2011	–	8	6
2010	–	8	6

Notes to the Financial Information continued

5. Property, plant and equipment

During the early part of 2011 the Group incurred capital expenditure of £80,000 as a result of the improvements made to Sunline's Loughborough site and in April 2011 the Group acquired a digital printer to enhance its design capabilities at a cost of £35,000.

6. 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.

Statement of Directors' Responsibility

The directors confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union. The interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The directors of CEPS PLC are listed on the following page.

By order of the Board

A handwritten signature in black ink, appearing to be 'P G Cook', written over a vertical dashed line.

P G Cook
Group Managing Director
19 September 2011

Group Information

Directors	P G Cook, Group Managing D A Horner, Non-executive V E Langford, Group Finance G C Martin, Non-executive R T Organ, Non-executive Chairman
Secretary and registered office	V E Langford 12b George Street, Bath BA1 2EH Company number 507461 www.cepsplc.com
Operating locations	Davies Odell Ltd Portland Road, Rushden, Northants NN10 0DJ telephone 01933 410818, fax 01933 315976 email info@daviesodell.co.uk ; www.forcefieldbodyarmour.com and Beatrice Road, Kettering, Northants NN16 9QS telephone 01536 513456, fax 01536 310080 email info@davieskett.co.uk ; www.equimat.co.uk Friedman's Ltd Sunaco House, Unit 2, Bletchley Road, Stockport SK4 3EF telephone 0161 975 9002, fax 0161 975 9003 email sales@friedmans.co.uk ; www.friedmans.co.uk ; www.funkifabrics.com Sunline Direct Mail Ltd Cotton Way, Weldon Road Industrial Estate, Loughborough LE11 5FJ telephone 01509 263434, fax 01509 264225 email enquiries@sunlinedirect.co.uk ; www.sunlinesolutions.com
Registrars and share transfer office	Capita Registrars Limited The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU telephone 0871 664 0300 – calls cost 10p per minute plus network extras, lines are open 8.30am to 5.30pm Monday to Friday
Share price information	The day-to-day movement of the share price on the London Stock Exchange can be found on the Company's website and at www.londonstockexchange.com (code CEPS)
Independent auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors 31 Great George Street, Bristol BS1 5QD
Solicitors	Berwin Leighton Paisner LLP Adelaide House, London Bridge, London EC4R 9HA
Nominated adviser and broker	Cairn Financial Advisers LLP 61 Cheapside, London EC2V 6AX