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2014

Half-Yearly Report to Shareholders

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Contents

Chairman's Statement

Review of the period

The progress highlighted in my annual report for 2013 has been sustained into the first half of 2014. Whilst Eurozone consumer demand remains subdued, trading conditions in the UK are much improved, as they are in the USA and the Far East. The difficult steps taken at Sunline and Davies Odell over the last twelve months are starting to bear fruit.

Group revenue at £8.8m (2013: £7.8m) was up by £1m (13%) and operating profit rose by 56% to £361,000 (2013: £232,000). Friedman's has continued to perform strongly. Sunline's major investment in its polywrapping plant is now complete and the management team is highly focused on driving the financial benefits from the capital expenditure. Steps have been taken at Davies Odell since the beginning of the year both to tighten the overhead and to drive new product development and sales. The financial results so far look promising.

After external finance costs and provision for taxation, profit for the six months is just over double the level of 2013 at £269,000 (2013: £133,000). External finance charges actually rose by £13,000 over the same period last year reflecting the higher activity levels and capital investment. Earnings per share were 3.27p compared with 1.00p a year earlier. An encouraging result all round.

Financial review

A common feature in three out of the four operating companies, CEM Press, Davies Odell and Sunline, in the first half has been investment in capital equipment. This is as a result of improved confidence at local management level and a desire to be ahead of the game as the economy improves. It also explains the increase in borrowings and gearing, the latter of which has increased from 45% at the end of December 2013 to 55% at the current period end.

Friedman's invested in a third digital printer in 2013 and the continued benefits of the improved performance that all three digital printers have brought in the first half of 2014 has allowed a dividend of £100,000 (2013: £100,000) to be paid, £55,000 of which was paid to CEPS.

The level of capital expenditure in the period has also impacted on cash. Cash generated from operations in the six months to 30 June 2014 was £815,000 (2013: £245,000). After tax paid of £43,000 (2013: receipt of £18,000), interest paid of £82,000 (2013: £69,000), capital expenditure of £669,000 (2013: £41,000), the dividend paid by Signature Fabrics to the non-controlling interest of £45,000 (2013: £45,000) and the repayment of the capital element of finance leases of £98,000 (2013: £67,000), cash and cash equivalents decreased by £122,000 (2013: increased by £41,000). Attention will be focused on improving this position in the second half.

Operational review

1. Davies Odell

The sales decline of twelve months ago at Davies Odell has been turned into a modest 4% sales growth, with *Forcefield* leading the way. The improved economic climate and more benign summer weather have seen our sell-through of motorcycle body armour in the UK and North America improve. The continued strengthening in the purchasing power of Sterling, together with modest price increases, have resulted in increased margins across most sourced products, especially *Forcefield*.

As usual, the shoe-components business has produced a mixed bag of results. Turnover is at about the same level as a year ago, with a very modest margin increase. Perhaps more encouraging is the manner in which we are developing important new products already widely accepted by premium shoe manufacturers for their 2015 ranges and reviving business with existing customers. The matting business continues to disappoint.

2. Friedman's

Friedman's continues to go from strength to strength. All of the digital printers are working well and contributing heavily to improved margins. Sales for the half-year are up 5% to £2.1m (2013: £2.0m) and running ahead of expectations. We are already considering replacing the slowest of the digital printers to improve capacity.

Chairman's Statement continued

3. Sunline

The quieter production period from April to July was well used by the Sunline team to get the new automation of its polywrap lines installed. The investment totalled in excess of £850,000 which was funded by a mix of finance leases on new machinery, refinancing of existing machinery, cash flow and grant. It was most encouraging to find Royal Bank of Scotland Group once more in the market for some of this lending.

Sales in the first half have grown considerably by 27% to £3.8m from £3.0m in 2013, though margin has not kept pace as market/competitive pressures continue to bear down. The main increase has come from the lettershop business, where further investment in capacity bottlenecks will be made in the second half of 2014.

Segmental EBITDA rose 11% to £240,000 (2013: £217,000), but there remains much to do to drive an altogether higher level of profitability from the considerable capital investment.

4. CEM Press

The year has started positively with sales of £1.9m (2013: £1.6m) and an improvement in year-to-date gross profit margin from 37% at June 2013 to 43% at June 2014. These financial statements include our share of post-tax profits of £33,000 (2013: £9,000).

The new leased premises are now fully operational and production processes at the original plant have improved as a result of a re-allocation of work between the two sites. Two new machines have been acquired to enable shade card production. Entry into this sector of the market is seen as complementary to the existing pattern book manufacturing.

Dividend

The Group is in full support of the capital investment undertaken by the operating companies in the year to date and a dividend is not proposed at this stage.

Prospects

Sunline still has a great deal to do to convert the promising investments made this year into enduring profitability. Some competitors have fallen by the wayside and market sentiment continues to improve.

I expect Friedman's to continue to deliver strong profitability with some essential re-investment in new, higher-speed digital printers.

Davies Odell has made good progress this year with *Forcefield* and the prospects on shoe components are brighter, with some excellent new products.

In general, I expect the steady progress I have reported in Group performance since last autumn to continue.

Richard Organ
Chairman
15 September 2014

Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 June 2014 £'000	Unaudited 6 months to 30 June 2013 £'000	Audited 12 months to 31 December 2013 £'000
Revenue	8,834	7,823	15,624
Cost of sales	(7,785)	(6,909)	(14,019)
Gross profit	1,049	914	1,605
Net operating expenses	(688)	(682)	(1,257)
Operating profit	361	232	348
Analysis of operating profit			
Trading	534	405	679
Group costs	(173)	(173)	(331)
	361	232	348
Finance income	–	–	5
Finance costs	(82)	(69)	(128)
Share of profit of associate	33	9	36
Profit before tax	312	172	261
Taxation	(43)	(39)	(80)
Profit for the period from continuing operations	269	133	181
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Actuarial loss on defined benefit pension plans	–	–	(85)
Items that may be subsequently reclassified to profit or loss	–	–	–
Other comprehensive loss for the period, net of tax	–	–	(85)
Total comprehensive income for the period	269	133	96
Profit/(loss) attributable to:			
Owners of the parent	177	54	(8)
Non-controlling interest	92	79	189
	269	133	181
Total comprehensive income/(loss) attributable to:			
Owners of the parent	177	54	(93)
Non-controlling interest	92	79	189
	269	133	96
Earnings per share			
– basic and diluted	3.27p	1.00p	(0.15)p

Consolidated Balance Sheet

		Unaudited as at 30 June 2014 £'000	Unaudited as at 30 June 2013 £'000	Audited as at 31 December 2013 £'000
Assets	Non-current assets			
	Property, plant and equipment	1,836	971	1,004
	Intangible fixed assets	2,237	2,245	2,241
	Investment in associate	587	527	554
	Deferred tax asset	453	505	453
		5,113	4,248	4,252
	Current assets			
	Inventories	1,690	1,690	1,709
	Trade and other receivables	2,894	2,874	2,436
	Cash and cash equivalents (excluding bank overdrafts)	111	177	145
		4,695	4,741	4,290
	Total assets	9,808	8,989	8,542
Equity	Capital and reserves attributable to owners of the parent			
	Called up share capital	541	541	541
	Share premium	3,114	3,114	3,114
	Retained earnings	152	122	(25)
		3,807	3,777	3,630
	Non-controlling interest in equity	282	125	235
	Total equity	4,089	3,902	3,865
Liabilities	Non-current liabilities			
	Borrowings	611	407	510
	Deferred tax liability	30	80	30
	Provisions for liabilities and charges	55	55	55
		696	542	595
	Current liabilities			
	Borrowings	1,762	1,702	1,380
	Trade and other payables	3,214	2,671	2,655
	Current tax liabilities	33	158	33
	Provisions for liabilities and charges	14	14	14
		5,023	4,545	4,082
	Total liabilities	5,719	5,087	4,677
	Total equity and liabilities	9,808	8,989	8,542

Consolidated Statement of Cashflows

	Unaudited 6 months to 30 June 2014 £'000	Unaudited 6 months to 30 June 2013 £'000	Audited 12 months to 31 December 2013 £'000
Cash flows from operating activities			
Cash generated from operations	**815**	245	532
Tax (paid)/received	**(43)**	18	(146)
Interest paid	**(82)**	(69)	(128)
Net cash generated from operations	**690**	194	258
Cash flows from investing activities			
Purchase of property, plant and equipment	**(669)**	(41)	(23)
Purchase of intangibles	**–**	–	(15)
Disposal of property, plant and equipment	**–**	–	25
Net cash used in investing activities	**(669)**	(41)	(13)
Cash flows from financing activities			
Dividend paid to non-controlling interest	**(45)**	(45)	(45)
Repayment of capital element of finance leases	**(98)**	(67)	(163)
Net cash used in financing activities	**(143)**	(112)	(208)
Net (decrease)/increase in cash and cash equivalents	**(122)**	41	37
Cash and cash equivalents at the beginning of the period	**(272)**	(309)	(309)
Cash and cash equivalents at the end of the period	**(394)**	(268)	(272)
Cash generated from operations			
The reconciliation of operating profit to cash flows from operating activities is as follows:			
Profit before income tax	**312**	172	261
Adjustments for:			
Depreciation and amortisation	**122**	105	218
Profit of associate	**(33)**	(9)	(36)
Loss on disposal of property, plant and equipment	**–**	–	6
Net finance costs	**82**	69	123
Retirement benefit obligations	**(35)**	(35)	(80)
Operating profit before changes in working capital and provisions	**448**	302	492
Decrease in inventories	**19**	254	235
Increase in trade and other receivables	**(458)**	(639)	(201)
Increase in trade and other payables, including trade receivables backed working capital facilities	**806**	330	8
Decrease in provisions	**–**	(2)	(2)
Cash generated from operations	**815**	245	532
Cash and cash equivalents			
Cash at bank and in hand	**111**	177	145
Bank overdrafts repayable on demand	**(505)**	(445)	(417)
	(394)	(268)	(272)

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 2013 (audited)	541	3,114	68	3,723	91	3,814
Profit for the period	–	–	54	54	79	133
Total comprehensive income for the period	–	–	54	54	79	133
Dividend paid to non-controlling interest	–	–	–	–	(45)	(45)
Total distributions recognised directly in equity	–	–	–	–	(45)	(45)
At 30 June 2013 (unaudited)	541	3,114	122	3,777	125	3,902
Actuarial loss	–	–	(85)	(85)	–	(85)
(Loss)/profit for the period	–	–	(62)	(62)	110	48
Total comprehensive (loss)/income for the period	–	–	(147)	(147)	110	(37)
At 31 December 2013 (audited)	541	3,114	(25)	3,630	235	3,865
Profit for the period	–	–	177	177	92	269
Total comprehensive income for the period	–	–	177	177	92	269
Dividend paid to non-controlling interest	–	–	–	–	(45)	(45)
Total distributions recognised directly in equity	–	–	–	–	(45)	(45)
At 30 June 2014 (unaudited)	541	3,114	152	3,807	282	4,089

Notes to the Financial Information

1. 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 is listed on AIM.

This condensed consolidated half-yearly financial information was approved for issue on 15 September 2014.

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 2013 were approved by the Board of directors on 14 May 2014 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 2014 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 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, 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 2013 Annual Report the principal risks and uncertainties that could impact on its performance; these remain unchanged since the 2013 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 continued

2. 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 £8,834,000 revenue, £7,586,000 is derived from UK customers.

The Board assesses the performance of each operating segment by a measure of adjusted earnings before interest, tax, depreciation and amortisation 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 2014

	Davies Odell £'000	Friedman's £'000	Sunline £'000	Group £'000
Revenue	2,948	2,071	3,815	8,834
Segmental result (EBITDA)	145	271	240	656
Depreciation and amortisation charge	(22)	(24)	(76)	(122)
Group costs				(173)
Finance costs				(82)
Share of profit of associate				33
Profit before taxation				312
Taxation				(43)
Profit for the period				269

Unaudited 6 months to 30 June 2013

	Davies Odell £'000	Friedman's £'000	Sunline £'000	Group £'000
Revenue	2,841	2,002	2,980	7,823
Segmental result (EBITDA)	54	239	217	510
Depreciation and amortisation charge	(21)	(14)	(70)	(105)
Group costs				(173)
Finance costs				(69)
Share of profit of associate				9
Profit before taxation				172
Taxation				(39)
Profit for the period				133

Notes to the Financial Information continued

2. Segmental analysis
continued

ii) Assets and liabilities by segment

Unaudited as at 30 June

	Segment assets		Segment liabilities		Segment net assets	
	2014	2013	**2014**	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
CEPS Group	**735**	668	**(114)**	(95)	**621**	573
Davies Odell	**2,437**	2,511	**(1,414)**	(1,274)	**1,023**	1,237
Friedman's	**2,932**	3,010	**(1,102)**	(1,338)	**1,830**	1,672
Sunline	**3,704**	2,800	**(3,089)**	(2,380)	**615**	420
Total – Group	**9,808**	8,989	**(5,719)**	(5,087)	**4,089**	3,902

3. 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 £177,000 (2013: £54,000) and on 5,407,155 (2013: 5,407,155) 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 options. No adjustment is required in either period because all of the options have lapsed.

4. Net debt and gearing

Gearing ratios at 30 June 2014, 30 June 2013 and 31 December 2013 are as follows:

	Unaudited 30 June 2014 £'000	Unaudited 30 June 2013 £'000	Audited 31 December 2013 £'000
Total borrowings	**2,373**	2,109	1,890
Less: cash and cash equivalents	**(111)**	(177)	(145)
Net debt	**2,262**	1,932	1,745
Total equity	**4,089**	3,902	3,865
Gearing ratio	**55%**	50%	45%

5. 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 (Holdings) Limited £'000	Signature Fabrics Limited £'000
Receipt of equity share dividend			
2014	**–**	**–**	**55**
2013	–	–	55
Receipt of preference share dividend			
2014	**–**	**39**	**–**
2013	–	39	–
Receipt of loan note interest			
2014	**–**	**63**	**1**
2013	–	63	10
Receipt of management charge income			
2014	**–**	**8**	**6**
2013	–	8	6
Amount owed to the Company			
30 June 2014	**44**	**2,425**	**–**
30 June 2013	84	2,220	2

Notes to the Financial Information continued

6. Contingent liability

Further to note 28 in the 2013 Annual Report there has been no change to this matter.

7. 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.

A list of current directors is maintained on the CEPS PLC Group website: www.cepsplc.com.

By order of the Board

P G Cook
Group Managing Director
15 September 2014