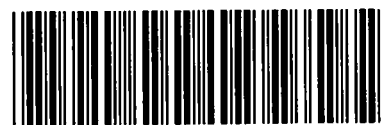


SUNLINE DIRECT MAIL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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SUNLINE DIRECT MAIL LIMITED

COMPANY INFORMATION

Directors	D A Horner V E Langford N Maybury N T Roberts P Teer R T Organ (resigned 20 June 2016)
Company secretary	N Maybury
Registered number	03341560
Registered office	Cotton Way Weldon Road Industrial Estate Loughborough Leicestershire LE11 5FJ
Independent auditors	PKF Cooper Parry Group Limited Chartered Accountants & Statutory Auditor Argosy Road East Midlands Airport Castle Donington Derby DE74 2SA
Bankers	National Westminster Bank Plc 135 Bishopsgate London EC2M 3UR

SUNLINE DIRECT MAIL LIMITED

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SUNLINE DIRECT MAIL LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

INTRODUCTION

The Directors present the Strategic Report of Sunline Direct Mail Limited (the "Company") for the year ended 31 December 2016.

BUSINESS REVIEW

Having invested heavily in previous years and with the Company expected to be able to capitalise on the new machinery in 2016, the Directors created a growth plan for the year. The sales force was strengthened with additional staff and by the half year point the Company had made good progress. However, following the well publicised Brexit vote in June, many direct marketeers chose to adopt a more cautious outlook and cut back on activity. The new sales staff failed to meet expectations and, therefore, their stay with the Company was short lived. In order to maintain volumes a lower pricing policy was promoted and, although this had a positive effect on order levels, seeing an overall turnover of £7,936,000 (2015: £6,915,000), margins were finer with the Company reporting a reduction in the gross margin to £104,000 (2015: £333,000). The increased volume of activity proved difficult to process efficiently and labour costs were significantly higher than expected to get the work completed, resulting in a disappointing final six months for the business and a reported loss before tax of £424,000 (2015: £150,000).

The consequential impact of the year's loss on the Company's cash flow has required careful management and has benefited from financial support from CEPS PLC during the first quarter of 2017. The ongoing support from CEPS PLC will continue as required.

The Company's 2017 strategy has a greater focus on efficiency, with lower volumes expected. This, together with reduced overheads from a lower staff base, has resulted in the first few months of 2017 showing an improvement in overall results.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's plans are subject to a number of risks.

The principal business risks and uncertainties affecting the Company are considered to relate to competition from other direct mail providers and employee retention.

In order to mitigate the pressure from competitors, the Directors seek to hold regular discussions with customers and actively monitor the market for changes in competitor prices. In order to retain staff the Directors measure current pay rates against market rates to ensure the rates remain competitive.

SUNLINE DIRECT MAIL LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks that include changes in price risk, credit risk, liquidity risk and interest rate risk.

Price risk

The Company is exposed to price risk as a result of its operations. However, given the size of the Company's operations, the costs of managing exposure to price risk exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the Company's operations change in size and nature.

Credit risk

The Company's credit risk is primarily attributed to its trade debtors and cash at bank. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Cash deposits are only held with reputable financial institutions.

Liquidity risk

The Company ensures that there are sufficient available funds for operations by close day-to-day management of its overdraft, invoice discounting facility and ongoing support from its ultimate parent company CEPS PLC. The Company has robust budgeting and forecasting procedures to ensure cash needs are met by external finance or CEPS PLC as required.

Interest rate risk

The Company's interest bearing assets include only cash balances, which earn interest at variable rates. Interest bearing liabilities are principally finance lease and hire purchase agreements which are typically held at fixed interest rates. The Company also has invoice discounting facilities, which are held at variable rates.

FUTURE DEVELOPMENTS

The Directors continue to seek out new opportunities and are confident of future prospects.

FINANCIAL KEY PERFORMANCE INDICATORS

The key financial performance indicators used by the Directors are given below:

	2016	2015
	£000	£000
Turnover	7,936	6,915
Gross profit	104	333
Loss before tax	(379)	(150)

This report was approved by the Board on and signed on its behalf.


N Maybury
Director

Date: 25 May 2017

SUNLINE DIRECT MAIL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their report and the financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the provision of direct mail services and the provision of third party fulfilment services.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £379,000 (2015: £150,000).

No dividends were paid during the year (2015: £Nil) and the Directors do not recommend the payment of a final dividend.

DIRECTORS

The Directors who served during the year were:

D A Horner
V E Langford
N Maybury
N T Roberts
P Teer
R T Organ (resigned 20 June 2016)

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board and signed on its behalf.



N Maybury
Director

Date: 25 May 2017

SUNLINE DIRECT MAIL LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

SUNLINE DIRECT MAIL LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNLINE DIRECT MAIL LIMITED

We have audited the financial statements of Sunline Direct Mail Limited for the year ended 31 December 2016, set out on pages 7 to 21. The relevant financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those Standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER - GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.3 to the financial statements concerning the company's ability to continue as a going concern. Included within debtors falling due within one year is an amount of £2,747,000 due from the company's immediate parent undertaking, Sunline Direct Mail (Holdings) Limited. At 31 December 2016, the balance sheet of Sunline Direct Mail (Holdings) Limited shows net liabilities of £4,608,000. The company is therefore dependent on the ongoing support of its ultimate parent undertaking, CEPS Plc. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

SUNLINE DIRECT MAIL LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNLINE DIRECT MAIL LIMITED
(CONTINUED)**

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

PKF Cooper Parry Group Limited

Steven Ellis (Senior Statutory Auditor)

for and on behalf of

PKF Cooper Parry Group Limited

Chartered Accountants
Statutory Auditor

Sky View
Argosy Road
East Midlands Airport
Castle Donington
Derby
DE74 2SA

Date: 31 May 2017

SUNLINE DIRECT MAIL LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £000	2015 £000
Turnover	4	7,936	6,915
Cost of sales		(7,832)	(6,582)
Gross profit		104	333
Administrative expenses		(456)	(405)
Operating loss	5	(352)	(72)
Interest payable and similar charges	9	(72)	(78)
Loss before tax		(424)	(150)
Tax on loss	10	45	-
Loss after tax		(379)	(150)
Retained earnings at the beginning of the year		2,492	2,642
Loss for the year		(379)	(150)
Retained earnings at the end of the year		2,113	2,492

There were no recognised gains and losses for 2016 or 2015 other than those included in the Profit and Loss Account.

The notes on pages 9 to 21 form part of these financial statements.

SUNLINE DIRECT MAIL LIMITED
REGISTERED NUMBER:03341560

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	11	1,716	1,481
		<u>1,716</u>	<u>1,481</u>
Current assets			
Stocks	12	62	22
Debtors: amounts falling due within one year	13	4,064	3,993
Cash at bank and in hand		-	5
		<u>4,126</u>	<u>4,020</u>
Creditors: amounts falling due within one year	14	(2,991)	(2,393)
		<u>1,135</u>	<u>1,627</u>
Net current assets		<u>1,135</u>	<u>1,627</u>
Total assets less current liabilities		<u>2,851</u>	<u>3,108</u>
Creditors: amounts falling due after more than one year	15	(538)	(416)
		<u>2,313</u>	<u>2,692</u>
Net assets		<u>2,313</u>	<u>2,692</u>
Capital and reserves			
Called up share capital	17	120	120
Capital redemption reserve	18	80	80
Profit and Loss Account	18	2,113	2,492
		<u>2,313</u>	<u>2,692</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:


N Maybury
 Director

Date: 25 May 2017

The notes on pages 9 to 21 form part of these financial statements.

SUNLINE DIRECT MAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Sunline Direct Mail Limited is a limited liability Company, incorporated in England and Wales. The registered office is Cotton Way, Weldon Road Industrial Estate, Loughborough, Leicester, LE11 5FJ.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared in Sterling (£) which is the functional currency of the Company. The financial statements are for a period of 52 weeks ended 31 December 2016 (2015: 52 weeks ending 31 December 2015).

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with Financial Reporting Standard (FRS) 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of a judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following principal accounting policies have been applied consistently throughout the year:

2.2 EXEMPTIONS

Under FRS102 (section 1), the Company is exempt from the requirement to prepare a cashflow statement on the grounds that its parent company (CEPS PLC) includes the Company's cashflows in its own published consolidated financial statements.

The entity is a qualifying entity and has also taken advantage of the financial instrument disclosures exemption, disclosure of related party transactions with Group members and the exemption from disclosing key management compensation (other than Directors' emoluments) under FRS102 (section 1.12).

2.3 GOING CONCERN

Included within debtors falling due within one year is an amount of £2,747,000 due from the Company's immediate parent undertaking, Sunline Direct Mail (Holdings) Limited. At 31 December 2016, the balance sheet of Sunline Direct Mail (Holdings) Limited shows net liabilities of £4,608,000. The Company is therefore dependent on the ongoing support of its ultimate parent undertaking, CEPS PLC. The directors of CEPS PLC have confirmed that it is their intention to provide ongoing financial support to the Company to ensure the Company can meet its liabilities as they fall due for a period of at least 12 months from the date of signing the financial statements. As a result, the Directors have prepared the financial statements on a going concern basis.

2. ACCOUNTING POLICIES (continued)

2.4 TURNOVER

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Rendering of services

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (continued)

2.5 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Profit and Loss Account during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a reducing balance basis.

Depreciation is provided on the following basis:

Long-term leasehold property	- 25% on reducing balance
Plant and machinery	- 15% on reducing balance
Motor vehicles	- 25% on reducing balance
Fixtures and fittings	- 15% on reducing balance
Computer equipment	- 33% on reducing balance

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

At each Balance Sheet date, the Company reviews the carrying amounts of its tangible fixed assets to determine whether there is any indication that any items have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of the asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

2.6 STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads where appropriate.

At each Balance Sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Profit and Loss Account.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (continued)

2.7 DEBTORS

Short term debtors are measured at transaction price, less any impairment, aside from accrued income which represents revenue earned, but not yet invoiced at the year end. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.8 FINANCIAL INSTRUMENTS

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other accounts receivables and payables, loans from banks and other third parties or loans with related parties.

All financial assets and liabilities are initially measured at transaction price and subsequently measured at amortised cost.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the Balance Sheet date.

2.9 GOVERNMENT GRANTS

Government grants relating to tangible fixed assets are treated as deferred income and released to the Profit and Loss Account over the expected useful lives of the assets concerned. Other grants are credited to the Profit and Loss Account as the related expenditure is incurred.

2.10 OPERATING LEASES

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

2.11 LEASING AND HIRE PURCHASE

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the Profit and Loss Account over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Profit and Loss Account over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

2. ACCOUNTING POLICIES (continued)

2.12 PENSIONS

DEFINED CONTRIBUTION PENSION PLAN

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.13 PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.14 TAXATION

Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date. The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is calculated at the tax rate substantively enacted at the reporting date expected to apply to the reversal of the timing difference.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Directors make estimates and assumptions concerning the future. They are also required to exercise judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of non-current assets

The Company assesses the impairment of tangible fixed assets subject to depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- Significant underperformance relative to historical or projected future operating results;
- Significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- Significant negative industry or economic trends.

Impairment of other assets

The Company reviews the carrying value of all other assets for indications of impairment at each period end. If indicators of impairment exist, the carrying value of the asset is subject to further testing to determine whether its carrying value exceeds its recoverable amount. This process will usually involve the estimation of future cash flows which are likely to be generated by the asset.

Recoverability of trade debtors

Trade and other receivables are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of reserves required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

Management makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are applied to debtors where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the provision for doubtful debts. Where the expectation is different from the original estimate, such difference will impact the carrying value of debtors and the charge in the Profit and Loss Account.

Leases

Management must determine whether leases entered into by the Company either as a lessor or a lessee are operating leases or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis based on an evaluation of the terms and conditions of the arrangements, and accordingly whether the lease requires an asset or liability to be recognised in the Balance Sheet.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flow at a rate that reflects the time value of money and the risks specific to the liability.

Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and management's judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Depreciation and residual values

The Directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that asset lives and residual values are appropriate.

The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projects disposal values.

Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 10.

4. TURNOVER

The whole of the turnover is attributable to the Company's principal activity.

All turnover arose within the United Kingdom.

5. OPERATING LOSS

The operating loss is stated after charging:

	2016 £000	2015 £000
Depreciation of tangible fixed assets	262	276
Operating lease rentals: plant and machinery	40	57
Operating lease rentals: other	333	272
Profit on sale of fixed assets	(1)	(1)
	<u> </u>	<u> </u>

6. AUDITORS' REMUNERATION

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	6	6
	<u> </u>	<u> </u>
Fees payable to the Company's auditor in respect of:		
Taxation compliance services	2	2
	<u> </u>	<u> </u>

SUNLINE DIRECT MAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. EMPLOYEES

Staff costs, including Directors' remuneration, were as follows:

	2016 £000	2015 £000
Wages and salaries	3,096	2,827
Social security costs	269	241
Cost of defined contribution scheme	11	12
	<u>3,376</u>	<u>3,080</u>

The average monthly number of employees, including the Directors, during the year was as follows:

	2016 No.	2015 No.
Management and administration	24	24
Production and sales	112	105
	<u>136</u>	<u>129</u>

8. DIRECTORS' REMUNERATION

	2016 £000	2015 £000
Directors' emoluments	282	269
Company contributions to defined contribution pension schemes	6	7
	<u>288</u>	<u>276</u>

During the year retirement benefits were accruing to 1 Director (2015: 2) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £99,000 (2015: £103,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £6,000 (2015: £6,000).

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
Other loan interest payable	25	23
Finance leases and hire purchase contracts	47	55
	<u>72</u>	<u>78</u>

SUNLINE DIRECT MAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. TAXATION

	2016 £000	2015 £000
CORPORATION TAX		
Adjustments in respect of previous periods	(45)	-
TOTAL CURRENT TAX	<u>(45)</u>	<u>-</u>
DEFERRED TAX		
TOTAL DEFERRED TAX	<u>-</u>	<u>-</u>
TAXATION ON LOSS ON ORDINARY ACTIVITIES	<u>(45)</u>	<u>-</u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are explained below:

	2016 £000	2015 £000
Loss on ordinary activities before tax	<u>(424)</u>	<u>(150)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20%)	(85)	(30)
EFFECTS OF:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	2	(15)
Capital allowances for year in excess of depreciation	(9)	25
Adjustment in research and development tax credit leading to a decrease in the tax charge	(45)	-
Transfer pricing adjustment	(16)	-
Other timing differences	5	-
Deferred tax not recognised	103	20
TOTAL TAX CHARGE FOR THE YEAR	<u>(45)</u>	<u>-</u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Reductions in the United Kingdom corporation tax rate to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly.

SUNLINE DIRECT MAIL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

11. TANGIBLE FIXED ASSETS

	Long-term leasehold property £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Office equipment £000	Total £000
COST OR VALUATION						
At 1 January 2016	50	3,404	150	99	124	3,827
Additions	-	433	-	68	4	505
Disposals	-	(3)	(16)	-	-	(19)
At 31 December 2016	50	3,834	134	167	128	4,313
DEPRECIATION						
At 1 January 2016	35	2,077	83	45	105	2,345
Charge for the period on owned assets	3	27	16	17	7	70
Charge for the period on financed assets	-	192	-	-	-	192
Disposals	-	-	(10)	-	-	(10)
At 31 December 2016	38	2,296	89	62	112	2,597
NET BOOK VALUE						
At 31 December 2016	12	1,538	45	105	16	1,716
At 31 December 2015	15	1,326	67	54	19	1,481

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2016 £000	2015 £000
Plant and machinery	1,353	1,182
	<u>1,353</u>	<u>1,182</u>

SUNLINE DIRECT MAIL LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****12. STOCKS**

	2016	2015
	£000	£000
Raw materials	60	19
Work in progress	2	3
	62	22

Stock recognised in cost of sales during the year as an expense was £2,265,000 (2015: £1,577,000).

13. DEBTORS

	2016	2015
	£000	£000
Trade debtors	1,162	1,159
Amounts owed by Group undertakings	2,747	2,719
Other debtors	50	6
Prepayments and accrued income	105	109
	4,064	3,993

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£000	£000
Bank overdrafts	75	-
Proceeds of factored debts	916	642
Trade creditors	1,134	870
Other taxation and social security	178	196
Obligations under finance lease and hire purchase contracts	272	231
Other creditors	253	199
Accruals and deferred income	163	255
	2,991	2,393

Obligations under finance lease and hire purchase contracts are secured against the assets to which they relate.

Factored debts are secured against the debtors that they relate to.

SUNLINE DIRECT MAIL LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2016	2015
	£000	£000
Net obligations under finance leases and hire purchase contracts	538	416
	538	416

Obligations under finance lease and hire purchase contracts are secured against the assets to which they relate.

16. HIRE PURCHASE AND FINANCE LEASES

Minimum lease payments under hire purchase fall due as follows:

	2016	2015
	£000	£000
Within one year	272	231
Between 1-5 years	538	416
	810	647

17. SHARE CAPITAL

	2016	2015
	£000	£000
SHARES CLASSIFIED AS EQUITY		
ALLOTTED, CALLED UP AND FULLY PAID		
119,601 Ordinary shares of £1 each	120	120

18. RESERVES**Capital redemption reserve**

The capital redemption reserve relates to prior buy back of shares. There has been no movement in this reserve in the current or prior year.

Profit and Loss Account

This includes all current and prior period retained profits and losses, all of which are considered distributable.

19. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme. The pension charge represents contributions payable by the Company to the fund and amounted to £11,000 (2015: £12,000).

SUNLINE DIRECT MAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	367	341
Later than 1 year and not later than 5 years	937	1,225
Later than 5 years	37	202
	<u>1,341</u>	<u>1,768</u>

21. RELATED PARTY TRANSACTIONS

During the year total amounts advanced by Directors to the Company were £65,000 (2015: £60,000). These were in the form of short term loans. All amounts were repaid prior to the year end.

At the year end the Company was owed £2,747,000 (2015: £2,719,000) by companies with a controlling interest.

22. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Sunline Direct Mail (Holdings) Limited, which is incorporated in England and Wales. The ultimate parent Company is CEPS PLC, incorporated in England and Wales.

At the Balance Sheet date, CEPS PLC is the parent of both the smallest and largest groups which prepare financial statements that consolidate this entity. Copies of the financial statements of CEPS PLC are available from CEPS PLC, 11 Laura Place, Bath, BA2 4BL.