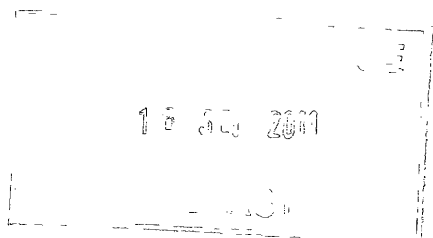


Registered Number NI036744

**Chain Reaction Cycles Limited**  
**Report of the Directors and**  
**Audited Financial Statements**  
**for the year ended 31 December 2010**



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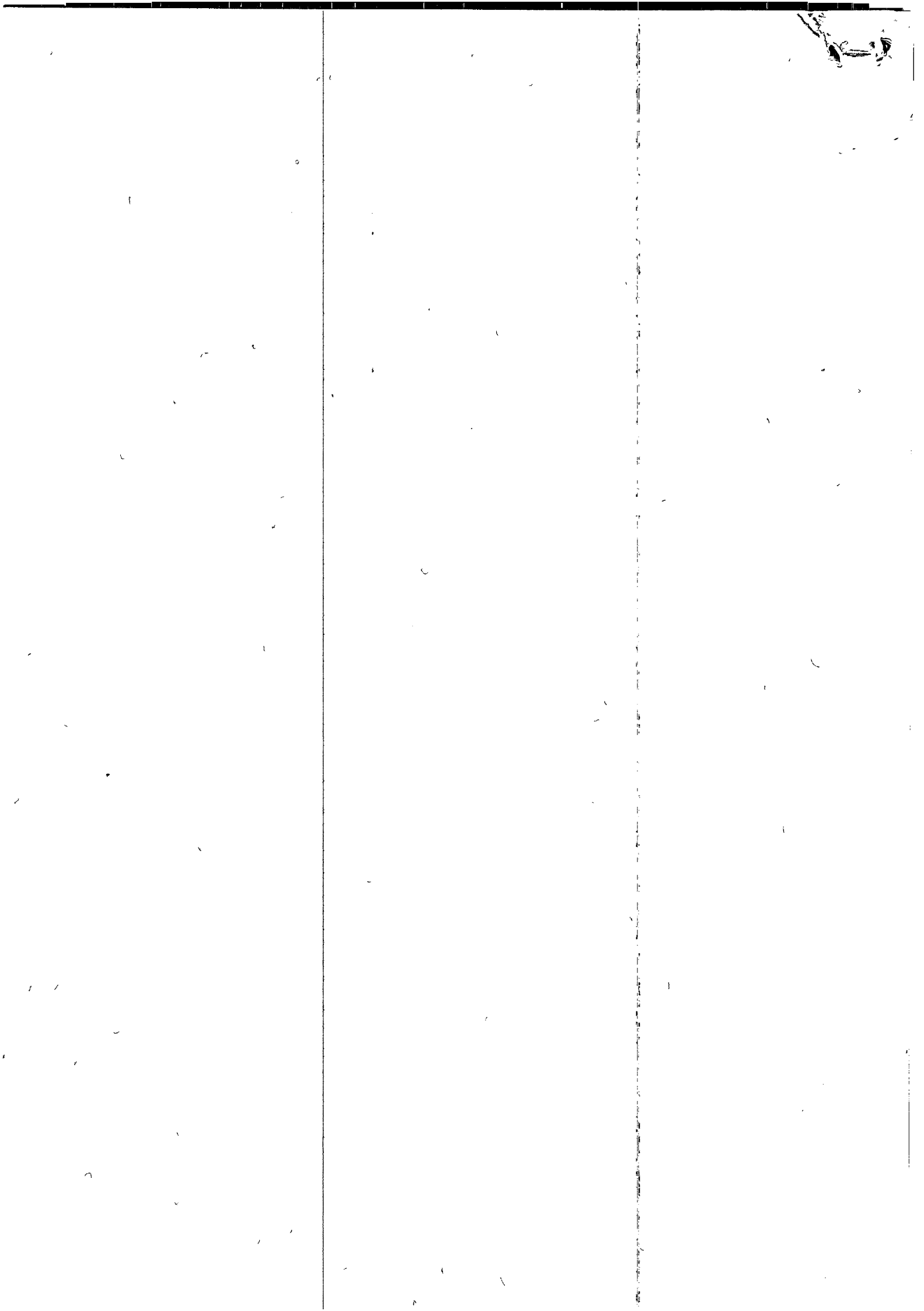
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**Chain Reaction Cycles Limited**  
**Contents of the Financial Statements**  
**for the year ended 31 December 2010**

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**Chain Reaction Cycles Limited**  
**Company Information**  
**for the year ended 31 December 2010**

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**DIRECTORS:**

W G B Watson  
Mrs M J E Watson  
C W G Watson

**SECRETARY:**

Mrs M J E Watson

**REGISTERED OFFICE.**

184 Rashee Road  
Ballyclare  
Co Antrim  
BT39 9JB

**REGISTERED NUMBER:**

NI036744 (Northern Ireland)

**AUDITORS:**

Ernst & Young LLP  
Bedford House  
16 Bedford Street  
Belfast  
BT2 7DT

**BANKERS:**

Bank of Ireland  
1 Donegall Square South  
Belfast  
BT1 5LR

**SOLICITORS:**

J W McNinch & Son  
5 The Square  
Ballyclare  
Co Antrim  
BT39 9BB



**Chain Reaction Cycles Limited**  
**Report of the Directors**  
**for the year ended 31 December 2010**

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The directors present their annual report, together with the audited financial statements of the company, for the year ended 31 December 2010

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of the retail of cycle parts and accessories

**REVIEW OF BUSINESS**

The key financial and non financial performance indicators during the year were as follows

	<b>2010</b>	<b>2009</b>
Unique orders processed (No )	1,302,974	935,738
Turnover (£'000)	109,420	77,410
Average turnover per order (£)	83 98	82 73
Gross profit (£'000)	39,327	27,886
Average gross profit per order (£)	30 18	29 80
Gross margin (%)	35 9	36 0
Profit for the financial year (£'000)	9,527	5,569
Average employees (No )	365	291

Turnover for the year ended 31 December 2010 increased by 41%, continuing a long upward trend. This is principally a consequence of higher volume, however, average order price is also up 2%. The geographic spread of sales has further diversified as the company establishes wider recognition around the world. The proportion of turnover generated outside the EU during the year was 37% (2009 - 27%).

Profitability is an equally important indicator for management. Both gross and operating margins are healthy and broadly in line with the prior year, following careful focus on attaining the right stock mix and close control over key operational costs. This has proved that the rate of sales growth experienced has not compromised the level of returns enjoyed historically.

Net assets stood at over £19m at the balance sheet date and, combined with significant operating cash flows and a low gearing ratio of 17%, illustrates the strong financial position of the business. Stock turn remained consistent with 2009 at c 3.6x cost of goods sold. Debt service costs were negligible and the company traded comfortably within its bank facilities.

Average headcount increased by 25% versus the prior year, reflecting the demands of a growing enterprise.

The company incorporated its first subsidiary during the year, Chain Reaction Cycles Retail Limited, which is intended to roll-out a new trading presence on the high street.

Through a programme of co-ordinated action, the business is working to proportionally reduce the amount of energy it uses and minimise the levels of waste it produces. The company is regulated by, and fully compliant with, WEEE and PROPW directives. Initiatives such as motion lighting and smarter packaging solutions are expected to save costs whilst also reducing our impact on the environment.

**DIVIDENDS**

An interim dividend of £5,000 per share was paid on 26 February 2010. The directors recommend that no final dividend be paid.

The total distribution of dividends for the year ended 31 December 2010 will be £1,500,000.

**FUTURE DEVELOPMENTS**

The cycle industry is currently in good shape, benefiting from a positive image and technological advances, despite very difficult economic circumstances elsewhere.



## **Chain Reaction Cycles Limited**

### **Report of the Directors for the year ended 31 December 2010**

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The directors believe that they can recognise more of the potential of the business and foresee further substantial improvements in turnover through 2011 and beyond. This is due to the scale of opportunities that exist to develop deeper penetration in emerging markets. Familiarisation is a key component of this strategy, and not just through increasing advertising expenditure to build awareness. The company has recently introduced multi-language and multi-currency options on the website allowing visitors to browse and transact with greater confidence.

There are also excellent prospects within established locations. The range of products stocked will continue to increase in response to demand. Furthermore, in striving to create a better shopping experience, to maximise levels of satisfaction and service, the business hopes to increase visitor conversion ratios and benefit from a higher percentage of repeat orders.

In August 2011 Chain Reaction Cycles Retail Limited opened its first outlet. Based in Belfast, it will complement online activities by offering customers the chance to "touch and feel" product before purchase and also to interact with members of the dedicated staff on a face-to-face basis.

In the current year the company has established a wholly owned subsidiary, Chain Reaction Cycles Ireland Limited, registered in the Republic of Ireland, with a view to creating operational efficiencies and streamlining the supply chain.

An ethos of sustainability underlies the ambition detailed above. The company continues to enjoy, and understands the importance of, good relationships with all stakeholders in the "CRC community". The management team engages a regular process of challenging the structure and resource required to deliver sufficient profits and cash for reinvestment in future expansion plans. For example, this approach has already produced an innovative and successful portfolio of in-house brands, boosted brand image with multi-national sponsorship agreements and established an automation plan within the warehouse function to accommodate higher throughput.

Finally, the company is and will remain committed to promoting cycling events wherever they take place. The provision of funding supports growth at the grass roots and participation of local and international teams provides valuable insight into the future of the activities that drive the business.

#### **DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2010 to the date of this report.

W G B Watson  
Mrs M J E Watson  
C W G Watson

#### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

The company made charitable donations totalling £93,000 (2009 - £7,820) in the year.



## **Chain Reaction Cycles Limited**

### **Report of the Directors for the year ended 31 December 2010**

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#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The activities of the company expose it to certain risks and uncertainties that can be broadly grouped into liquidity, business performance, foreign exchange and credit categories

##### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company's liquidity risk is monitored through cash flow forecasting and is primarily controlled by management of working capital. This is supplemented by mixed-term banking facilities including overdrafts and Stockline facility to ensure maximum flexibility in funding arrangements.

##### Business performance risk

Business performance risk is the risk that an entity may not perform as expected either due to internal factors or due to competitive pressures in the markets in which it operates. This risk is managed through a number of measures: appointment and retention of key personnel, business planning, monthly reviews of sales trends and stock composition, financial controls and regulatory compliance.

##### Foreign currency risk

Fluctuations in exchange rates in the countries where the company operates and the countries of origin of supplies may significantly affect performance. Where possible, measures are adopted to minimise this risk including matching payments to suppliers with monies received from sales in the same currency.

##### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The majority of customer payments are by credit card, bank transfer or PayPal, therefore in most instances the transaction is settled before goods are dispatched. This minimises the risk of loss occurring. Strict procedures for the identification of fraudulent transactions and the potential compromising of the secure payments system are in place and reviewed on a regular basis.

#### **Employee involvement**

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. It is company policy to communicate information about the company's activities to all employees on a regular basis, and to encourage employees to provide ideas and feedback to management on all aspects of the company's operations. The company believes that a regular flow of information from management to staff and vice versa will enhance its effectiveness and productivity.

During the year the policy of providing employees with information has been continued through various channels of communication, specifically through weekly team briefs, monthly newsletters, a quarterly communication committee and internal memos and posters.

The company believes in the "open door principle", i.e. that every employee should feel comfortable in approaching his or her manager to raise any issues that are of concern or interest, and it is felt that through using the above mechanisms that the process of employee involvement can be facilitated.

#### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities available to disabled employees for training, career development and promotion are, as far as possible, identical to those of other employees.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

#### **Payment of suppliers**

The company aims to pay its suppliers in accordance with the relevant payment terms.



## **Chain Reaction Cycles Limited**

### **Report of the Directors for the year ended 31 December 2010**

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#### **GOING CONCERN**

The activities of the company, together with the factors likely to affect its future development, performance and position are set out in the business review. This also details the principal risks and uncertainties that the company is exposed to and how they are managed through existing policies and processes. The directors believe that the company is well placed to manage its business risks successfully.

There is sufficient diversity in the customer and supplier profiles to mitigate any significant counterparty risk. No other factors are perceived that might materially affect the trading performance of the company.

The directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Report of the Directors 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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.

#### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### **AUDITORS**

In accordance with s485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

#### **BY ORDER OF THE BOARD**

Mrs M J E Watson - Secretary



8 September 2011



## **Report of the Independent Auditors to the Shareholders of Chain Reaction Cycles Limited**

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We have audited the financial statements of Chain Reaction Cycles Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Total Recognised Gains and Losses and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 a Report of the Auditors 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 Statement of Directors' Responsibilities set out on page five, 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.

### **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 2010 and of its profit 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.

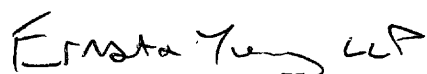
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **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.



David Graham Galbraith (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Bedford House  
16 Bedford Street  
Belfast  
BT2 7DT

8 September 2011



**Chain Reaction Cycles Limited**

**Profit and Loss Account  
for the year ended 31 December 2010**

	Notes	2010 £'000	2009 £'000
<b>TURNOVER</b>	2	<b>109,420</b>	77,410
Cost of sales		<u>70,093</u>	<u>49,524</u>
<b>GROSS PROFIT</b>		<b>39,327</b>	27,886
Distribution costs		17,027	10,494
Administrative expenses		<u>8,935</u>	<u>9,284</u>
		<b>25,962</b>	19,778
		<b>13,365</b>	8,108
Other operating income	3	<u>5</u>	64
<b>OPERATING PROFIT</b>	5	<b>13,370</b>	8,172
Interest receivable and similar income		<u>1</u>	-
		<b>13,371</b>	8,172
Interest payable and similar charges	6	<u>98</u>	<u>124</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>13,273</b>	8,048
Tax on profit on ordinary activities	7	<u>3,746</u>	<u>2,479</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b><u>9,527</u></b>	<b><u>5,569</u></b>

**CONTINUING OPERATIONS**

None of the company's activities were acquired or discontinued during the current year or previous year

**TOTAL RECOGNISED GAINS AND LOSSES**

The company has no recognised gains or losses other than the profits for the current year or previous year



# Chain Reaction Cycles Limited

## Balance Sheet 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	7,750	5,743
Investments	10	-	-
		<u>7,750</u>	<u>5,743</u>
<b>CURRENT ASSETS</b>			
Stocks	11	24,841	17,511
Debtors	12	8,299	7,549
Cash at bank and in hand		653	3,882
		<u>33,793</u>	<u>28,942</u>
<b>CREDITORS</b>			
Amounts falling due within one year	13	19,353	22,500
<b>NET CURRENT ASSETS</b>		<u>14,440</u>	<u>6,442</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>22,190</u>	<u>12,185</u>
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	(2,620)	(673)
<b>PROVISIONS FOR LIABILITIES</b>	18	(62)	(31)
<b>NET ASSETS</b>		<u><u>19,508</u></u>	<u><u>11,481</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	-	-
Profit and loss account	20	19,508	11,481
<b>SHAREHOLDERS' FUNDS</b>	25	<u><u>19,508</u></u>	<u><u>11,481</u></u>

The financial statements were approved by the Board of Directors on 8 September 2011 and were signed on its behalf by

Mrs M J E Watson - Director

C W G Watson - Director

*CWGWATSON*

The notes form part of these financial statements



**Chain Reaction Cycles Limited**

**Cash Flow Statement  
for the year ended 31 December 2010**

		<b>2010</b>		<b>2009</b>	
	Notes	£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	26		4,600		9,437
<b>Returns on investments and servicing of finance</b>	27		(92)		(132)
<b>Taxation</b>			(3,783)		(1,596)
<b>Capital expenditure</b>	27		(2,160)		(2,312)
<b>Equity dividends paid</b>			(1,500)		(1,500)
			<u>(2,935)</u>		<u>3,897</u>
<b>Financing</b>	27		<u>(304)</u>		<u>3</u>
<b>(Decrease)/Increase in cash in the period</b>			<u><u>(3,239)</u></u>		<u><u>3,900</u></u>
<b>Reconciliation of net cash flow to movement in net debt</b>	28				
(Decrease)/Increase in cash in the period		(3,243)		3,900	
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		<u>544</u>		<u>(294)</u>	
Change in net debt resulting from cash flows			(2,699)		3,606
New finance leases			(620)		-
Reallocation of directors' and shareholders' accounts			<u>653</u>		<u>-</u>
<b>Movement in net debt in the period</b>			<u>(2,666)</u>		<u>3,606</u>
<b>Net debt at 1 January</b>			<u>(572)</u>		<u>(4,178)</u>
<b>Net debt at 31 December</b>			<u><u>(3,238)</u></u>		<u><u>(572)</u></u>

The notes form part of these financial statements



## **Chain Reaction Cycles Limited**

### **Notes to the Financial Statements for the year ended 31 December 2010**

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#### **1 ACCOUNTING POLICIES**

##### **Basis of preparing the financial statements**

The principal accounting policies are summarised below and have been applied consistently throughout the year and the preceding year

##### **Accounting convention**

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards

##### **Turnover**

Turnover represents the net invoiced sales of goods despatched, excluding value added tax. For website sales, turnover is recognised when payment is processed and goods are awaiting despatch or despatched.

##### **Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter

Freehold property	- 2% on cost
Plant and machinery	- 20% on cost
Fixtures and fittings	- 15% on reducing balance
Motor vehicles	- 25% on reducing balance
Computer equipment	- 25% on cost

All fixed assets are initially recorded at cost and subsequently stated net of depreciation and any provision for impairment

##### **Stocks**

Stocks are stated at the lower of cost and net realisable value on an average costs basis. Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal. Provision is made for obsolete, slow moving or defective items where appropriate.



## Chain Reaction Cycles Limited

### Notes to the Financial Statements - continued for the year ended 31 December 2010

---

#### 1 ACCOUNTING POLICIES - continued

##### **Taxation**

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

##### **Research and development**

Expenditure on research and development is written off in the year in which it is incurred

##### **Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result

##### **Hire purchase and leasing commitments**

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the profit and loss account so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term

##### **Pension costs and other post-retirement benefits**

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate

The assets of the pension scheme are held separately from that of the Company

1

2

# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 1 ACCOUNTING POLICIES - continued

#### Loans

Interest-bearing loans are recorded at the proceeds received. Finance charges are accounted for on an accruals basis in the profit and loss account.

### 2 TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

An analysis of turnover by geographical market is given below:

	2010 £'000	2009 £'000
EU	69,422	56,188
Rest of World	39,998	21,222
	<u>109,420</u>	<u>77,410</u>

### 3 OTHER OPERATING INCOME

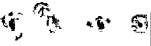
	2010 £'000	2009 £'000
Other operating income	<u>5</u>	<u>64</u>

### 4 STAFF COSTS

	2010 £'000	2009 £'000
Wages and salaries	6,269	4,758
Social security costs	542	400
Other pension costs	<u>7</u>	<u>7</u>
	<u>6,818</u>	<u>5,165</u>

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

	2010	2009
Selling & Distribution	304	246
Administration	<u>61</u>	<u>45</u>
	<u>365</u>	<u>291</u>



# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 5 OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	2010 £'000	2009 £'000
Depreciation - owned assets	591	298
Depreciation - assets on hire purchase contracts and finance leases	124	44
Loss on disposal of fixed assets	-	29
Auditors' remuneration	30	30
Auditors' remuneration for non audit work	197	68
Foreign exchange differences	(256)	329
	<u>          </u>	<u>          </u>

	2010 £	2009 £
Directors' remuneration	120,000	131,250
Directors' pension contributions to money purchase schemes	2,400	2,400
	<u>          </u>	<u>          </u>

The number of directors to whom retirement benefits were accruing was as follows

	2010 <u>1</u>	2009 <u>1</u>
Money purchase schemes		

### 6 INTEREST PAYABLE AND SIMILAR CHARGES

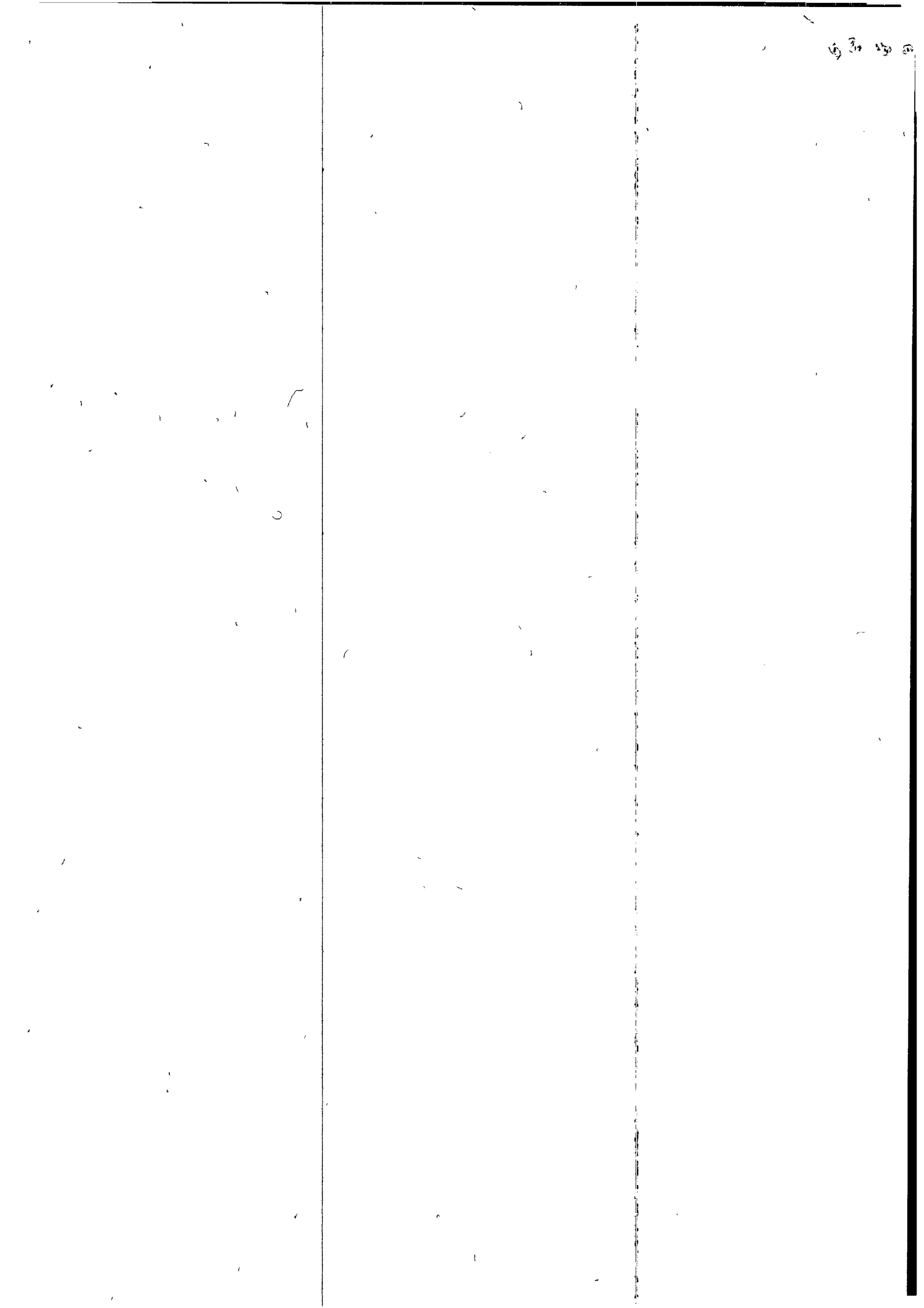
	2010 £'000	2009 £'000
Bank interest	7	18
Bank loan interest	71	83
Stockline Interest	15	12
Interest/charges - overdue tax	-	5
Hire purchase	2	1
Finance Lease interest	3	5
	<u>98</u>	<u>124</u>

### 7 TAXATION

#### Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows

	2010 £'000	2009 £'000
Current tax		
UK corporation tax	3,715	2,482
Deferred tax	31	(3)
	<u>3,746</u>	<u>2,479</u>
Tax on profit on ordinary activities		



# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 7 TAXATION - continued

#### Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	<u>13,273</u>	<u>8,048</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 - 28%)	3,716	2,253
Effects of		
Depreciation / loss on disposal in excess of capital allowances	-	30
Capital allowances in excess of depreciation / loss on disposal	(4)	-
Expenditure disallowed for tax purposes	<u>3</u>	<u>198</u>
Current tax charge	<u>3,715</u>	<u>2,481</u>

#### Factors that may affect future tax charges

Future corporation tax liabilities will be charged at the reduced UK Corporation Tax Rate of 26% from 1 April 2011. UK Corporation Tax Rates will further reduce by 1% per annum until 1 April 2014 when the prevailing rate will be 23%.

### 8 DIVIDENDS

	2010 £'000	2009 £'000
Ordinary shares of £1 each		
Interim	<u>1,500</u>	<u>1,500</u>



**Chain Reaction Cycles Limited**

**Notes to the Financial Statements - continued  
for the year ended 31 December 2010**

**9 TANGIBLE FIXED ASSETS**

	<b>Freehold property £'000</b>	<b>Plant and machinery £'000</b>	<b>Fixtures and fittings £'000</b>
<b>COST</b>			
At 1 January 2010	5,265	660	486
Additions	464	1,017	918
Disposals	-	-	(3)
At 31 December 2010	5,729	1,677	1,401
<b>DEPRECIATION</b>			
At 1 January 2010	252	411	170
Charge for year	114	282	185
At 31 December 2010	366	693	355
<b>NET BOOK VALUE</b>			
At 31 December 2010	5,363	984	1,046
At 31 December 2009	5,013	249	316
	<b>Motor vehicles £'000</b>	<b>Computer equipment £'000</b>	<b>Totals £'000</b>
<b>COST</b>			
At 1 January 2010	159	126	6,696
Additions	83	243	2,725
Disposals	-	-	(3)
At 31 December 2010	242	369	9,418
<b>DEPRECIATION</b>			
At 1 January 2010	75	45	953
Charge for year	42	92	715
At 31 December 2010	117	137	1,668
<b>NET BOOK VALUE</b>			
At 31 December 2010	125	232	7,750
At 31 December 2009	84	81	5,743



# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 9 TANGIBLE FIXED ASSETS - continued

Fixed assets, included in the above, which are held under hire purchase contracts and finance leases are as follows

	Plant and machinery £'000	Motor vehicles £'000	Totals £'000
<b>COST</b>			
At 1 January 2010	209	19	228
Additions	620	-	620
Reclassification/transfer	(209)	(19)	(228)
	<u>620</u>	<u>-</u>	<u>620</u>
At 31 December 2010			
<b>DEPRECIATION</b>			
At 1 January 2010	209	13	222
Charge for year	124	-	124
Reclassification/transfer	(209)	(13)	(222)
	<u>124</u>	<u>-</u>	<u>124</u>
At 31 December 2010			
<b>NET BOOK VALUE</b>			
At 31 December 2010	<u>496</u>	<u>-</u>	<u>496</u>
At 31 December 2009	<u>-</u>	<u>6</u>	<u>6</u>

The company had capital commitments of £186,030 as at 31 December 2010 (2009 - £nil), which were contracted but not provided for at the balance sheet date

### 10 FIXED ASSET INVESTMENTS

The company's investments at the balance sheet date in the share capital of companies include the following

#### Chain Reaction Cycles Retail Limited

Nature of business retail of cycle parts and accessories

	% holding
Class of shares	
Ordinary	100.00

Chain Reaction Cycles Retail Limited has issued one ordinary share of £1 and as it did not commence trading until after 1 January 2011 its carrying value in the accounts of Chain Reaction Cycles Limited remains £1

### 11 STOCKS

	2010 £'000	2009 £'000
Stocks	<u>24,841</u>	<u>17,511</u>



**Chain Reaction Cycles Limited**

**Notes to the Financial Statements - continued  
for the year ended 31 December 2010**

**12 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Other debtors	477	4,483
Related party loans	1,377	918
Deposits / payments on account	5,743	1,596
VAT	487	410
Prepayments	204	130
Staff loans	11	12
	<u>8,299</u>	<u>7,549</u>

**13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Bank loans and overdrafts (see note 15)	1,147	3,112
Hire purchase contracts and finance leases (see note 16)	124	16
Trade creditors	10,001	4,918
Tax	1,361	1,429
Social security and other taxes	142	120
Other creditors	3,115	9,552
Shareholders' accounts	309	439
Directors' current accounts	454	214
Accrued expenses	2,700	2,700
	<u>19,353</u>	<u>22,500</u>

**14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Bank loans (see note 15)	2,134	673
Hire purchase contracts and finance leases (see note 16)	486	-
	<u>2,620</u>	<u>673</u>

**15 LOANS**

An analysis of the maturity of loans is given below

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Amounts falling due within one year or on demand		
Bank overdrafts	778	764
Bank loans	369	2,348
	<u>1,147</u>	<u>3,112</u>



**Chain Reaction Cycles Limited**

**Notes to the Financial Statements - continued  
for the year ended 31 December 2010**

**15 LOANS - continued**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Amounts falling due between one and two years		
Bank loans	<u>380</u>	<u>673</u>
Amounts falling due between two and five years		
Bank loans	<u>558</u>	<u>-</u>
Amounts falling due in more than five years		
Repayable by instalments		
Bank loans	<u>1,196</u>	<u>-</u>

The combined outstanding balance on loans due to Bank of Ireland at 31 December 2010 was £2,503,162 (2009 - £3,021,229)

The interest charged on banking facilities in the year ended 31 December 2010 was Bank of England base rate +2.5% for the overdraft and LIBOR +2% on loans

**16 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES**

	<b>Hire purchase contracts</b>		<b>Finance leases</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net obligations repayable				
Within one year	124	2	-	14
Between one and five years	<u>486</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>610</u>	<u>2</u>	<u>-</u>	<u>14</u>



# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 17 SECURED DEBTS

The following secured debts are included within creditors

	2010 £'000	2009 £'000
Bank overdrafts	778	764
Bank loans	2,503	3,021
	<u>3,281</u>	<u>3,785</u>

Bank of Ireland holds the following securities in relation to amounts advanced by way of overdraft facilities and loans

- a) An all monies debenture over the company comprising of a fixed and floating charge over the company's assets
- b) A legal mortgage over both of the company's properties (Whitepark and Kilbride)

This security is held for all the company's liabilities to Bank of Ireland apart from the Stockline facility, included in bank overdrafts (see note 13), which is secured by an insurance policy taken by Bank of Ireland on the outstanding amount and is paid for by the company

### 18 PROVISIONS FOR LIABILITIES

	2010 £'000	2009 £'000
Deferred tax	<u>62</u>	<u>31</u>
		<b>Deferred tax</b>
		<b>£'000</b>
Balance at 1 January 2010		31
Accelerated Capital Allowances		31
		<u>62</u>
Balance at 31 December 2010		<u>62</u>

### 19 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid			2010	2009
Number	Class	Nominal value	£	£
300	Ordinary	£1	<u>300</u>	<u>300</u>



# Chain Reaction Cycles Limited

## Notes to the Financial Statements - continued for the year ended 31 December 2010

### 20 RESERVES

	Profit and loss account £'000
At 1 January 2010	11,481
Profit for the year	9,527
Dividends	(1,500)
At 31 December 2010	<u>19,508</u>

### 21 PENSION COMMITMENTS

The company operates defined contribution personal pension schemes for eligible employees. The company makes contributions at a set rate into each personal pension plan.

The company operates a defined contribution pension scheme for the benefit of the directors. The assets of the scheme are administered by the trustees in a fund independent from those of the company.

The total pension cost charge for the year was £7,200 (2009 £7,200).

### 22 TRANSACTIONS WITH DIRECTORS

The balances due on the directors' current accounts of each director at 31 December 2010 were as follows -

	£'000
Mr WGB & Mrs MJE Watson	92
Mr CWG Watson	361
	<u>453</u>

These amounts are included under other creditors above.

1000

## Chain Reaction Cycles Limited

### Notes to the Financial Statements - continued for the year ended 31 December 2010

#### 23 RELATED PARTY DISCLOSURES

During the year ended 31 December 2010, the company traded with Hotlines Europe Limited. Mr Chris Watson, director, is also a director of Hotlines Europe Limited and owns 1/3 of the share capital of that company. Sales totalling £4,933,736 (2009 - £3,415,371) were invoiced to Hotlines Europe Limited by Chain Reaction Cycles Limited in the year ended 31 December 2010. The directors consider the mark-up applied to these goods is representative of the market rate for such transactions.

At 31 December 2010, the amount owing to Chain Reaction Cycles Limited by Hotlines Europe Limited in respect of trading transactions was £911,304 (2009 - £508,477) (inclusive of VAT). This amount is included in related party loans above.

Chain Reaction Cycles Limited has also advanced funds to Hotlines Europe Limited by way of loan. At 31 December 2010 the amount due to Chain Reaction Cycles Limited by way of loan was £409,573 (2009 - £409,573) and is included in related party loans above.

The total amount owing to Chain Reaction Cycles Limited by Hotlines Europe Limited at the year end was £1,320,877 (2009 - £918,050).

During the year ended 31 December 2010, the company also traded with Decade Europe Limited. Mr Chris Watson, director, is also a director of Decade Europe Limited and owns 1/3 of the share capital of that company. Sales totalling £48,091 were invoiced to Decade Europe Limited by Chain Reaction Cycles Limited in the year ended 31 December 2010. The directors consider the mark-up applied to these goods is representative of the market rate for such transactions.

At 31 December 2010, the amount owing to Chain Reaction Cycles Limited by Decade Europe Limited in respect of trading transactions was £56,110 (inclusive of VAT) (2009 - nil). This amount is included in related party loans above.

#### 24 ULTIMATE CONTROLLING PARTY

Mr CWG Watson holds 50% of the issued share capital, his parents combined own 20% and his 3 siblings own the remaining 30% therefore no one individual ultimately controls the company. However, the Watson family in aggregation control the company.

#### 25 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
Profit for the financial year	9,527	5,569
Dividends	(1,500)	(1,500)
<b>Net addition to shareholders' funds</b>	<b>8,027</b>	<b>4,069</b>
Opening shareholders' funds	11,481	7,412
<b>Closing shareholders' funds</b>	<b>19,508</b>	<b>11,481</b>



**Chain Reaction Cycles Limited**

**Notes to the Financial Statements - continued  
for the year ended 31 December 2010**

**26 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	13,370	8,172
Depreciation charges	716	343
Loss on disposal of fixed assets	-	29
Increase in stocks	(7,330)	(5,884)
Increase in debtors	(748)	(6,293)
(Decrease)/Increase in creditors	(1,408)	13,070
<b>Net cash inflow from operating activities</b>	<b><u>4,600</u></b>	<b><u>9,437</u></b>

**27 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	1	-
Interest paid	(88)	(126)
Interest element of hire purchase and finance lease rental payments	(5)	(6)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b><u>(92)</u></b>	<b><u>(132)</u></b>
 <b>Capital expenditure</b>		
Purchase of tangible fixed assets	(2,163)	(2,312)
Sale of tangible fixed assets	3	-
<b>Net cash outflow for capital expenditure</b>	<b><u>(2,160)</u></b>	<b><u>(2,312)</u></b>
 <b>Financing</b>		
New loans in year	-	1,100
Loan repayments in year	(518)	(1,201)
Capital repayments in year	(26)	(29)
Amount introduced by directors	1,050	1,051
Amount withdrawn by directors	(810)	(918)
<b>Net cash (outflow)/inflow from financing</b>	<b><u>(304)</u></b>	<b><u>3</u></b>

11/16/03

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**Chain Reaction Cycles Limited**

**Notes to the Financial Statements - continued  
for the year ended 31 December 2010**

**28 ANALYSIS OF CHANGES IN NET DEBT**

	At 1/1/10 £'000	Cash flow £'000	Other non-cash changes £'000	At 31/12/10 £'000
Net cash				
Cash at bank and in hand	3,882	(3,229)		653
Bank overdraft	(764)	(14)		(778)
	<u>3,118</u>	<u>(3,243)</u>		<u>(125)</u>
Debt				
Hire purchase and finance leases	(16)	26	(620)	(610)
Debts falling due within one year	(3,001)	-	2,632	(369)
Debts falling due after one year	(673)	518	(1,979)	(2,134)
	<u>(3,690)</u>	<u>544</u>	<u>33</u>	<u>(3,113)</u>
Total	<u>(572)</u>	<u>(2,699)</u>	<u>33</u>	<u>(3,238)</u>

**29 MAJOR NON-CASH TRANSACTIONS**

There are two non-cash adjustments to debts falling due within one year totalling £2,632,000

An adjustment of £653,000 removes the balances owed to directors and shareholders as at 1 January 2010 that were contained within the opening balance. Henceforth, the net debt figure presented will represent the net total of interest bearing loans and overdrafts payable to third parties only.

A further adjustment of £1,979,000 is required to correct the opening apportionment of the company's debt from debts falling due within one year to debts falling due after one year. The corresponding adjustment is made to debts falling due after one year.

