

**Report of the Directors and
Audited Consolidated Financial Statements
for the year ended 31 December 2011
for
Chain Reaction Cycles Limited**



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for the year ended 31 December 2011**

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Chain Reaction Cycles Limited

**Company Information
for the year ended 31 December 2011**

DIRECTORS:

W G B Watson
Mrs. M J E Watson
C W G Watson
M D Cowan
F Warwick
Mrs L A O'Hare

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

**Report of the Directors
for the year ended 31 December 2011**

The directors present their annual report, together with the audited financial statements for the year ended 31 December 2011.

COMMENCEMENT OF TRADING

On 2 December 2010, Chain Reaction Limited ("the Company") set up a new subsidiary, Chain Reaction Cycles Retail Limited, a company incorporated in the United Kingdom. This subsidiary was set up to hold the trade of the new retail premises held on the Boucher Road, Belfast and commenced trading in June 2011.

On 18 January 2011, the Company set up a new subsidiary, Chain Reaction Cycles Ireland Limited, a company incorporated in the Republic of Ireland. This subsidiary was set up to provide transactional processing services on behalf of the Group and commenced trading in June 2011.

On 20 December 2011, the Company set up a new subsidiary, CRC Purchasing (Ireland) Limited, a company incorporated in the Republic of Ireland. At 31 December 2011, this company was dormant.

PRINCIPAL ACTIVITY

The principal activity of the group 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:

	2011	2010
Turnover (£'000)	136,448	109,420
Gross profit (£'000)	44,057	39,327
Gross margin (%)	32.3	35.9
Profit for the financial year after tax (£'000)	7,366	9,527
Average employees (No.)	465	365

Turnover for the year ended 31 December 2011 increased by 25%, continuing a long upward trend. This is principally a consequence of higher volume. The geographic spread of sales has further diversified as the company establishes wider recognition around the world. The company continues to make significant inroads into wider geographical markets and currently sells to over one hundred countries worldwide. This strategy of market penetration was employed throughout 2011 resulting in the considerable growth in turnover achieved. The proportion of turnover generated outside the EU during the year was 39% (2010 - 37%).

Profitability is an equally important indicator for management. The Directors regard both gross and operating margins are acceptable for the year under review given the investments made in the year to prepare the company for further growth in selected geographical markets. These investments included a number of initiatives, in areas such as warehouse management systems, specialised customer call centres and recruitment of key managerial positions. The directors believe the successful conclusion of these initiatives will allow the business to enter its next stage of growth and proceed with its ambitious development plans.

Net assets stood at almost £24m at the balance sheet date and, combined with significant operating cash flows and a low gearing ratio of 15%, illustrates the strong financial position of the business. Stock turn remained consistent with 2010 at c.3.0x cost of goods sold. Debt service costs were negligible and the company traded comfortably within its bank facilities.

Average headcount increased by 27% versus the prior year, reflecting the demands of a growing enterprise.

**Report of the Directors
for the year ended 31 December 2011**

DIVIDENDS

Interim dividends per share were paid as follows:

£5,000	- 28 January 2011
£5,000	- 22 December 2011
<u>£10,000</u>	

The directors recommend that no final dividend be paid.

The total distribution of dividends for the year ended 31 December 2011 will be £3,000,000.

FUTURE DEVELOPMENTS

The cycle industry remains relatively unscathed by the global economic downturn. The market continues to benefit from the many positive images that events such as the Olympics have brought and the company has identified many opportunities that it will explore to further develop both its product and geographical markets.

The directors believe that they can recognise more of the potential of the business and foresee further substantial improvements in turnover through 2012 and beyond, having invested significantly in 2011 to provide the necessary infrastructure to meet these demands.

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 2011 to the date of this report.

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

Other changes in directors holding office are as follows:

M D Cowan, F Warwick and Mrs L A O'Hare were appointed as directors after 31 December 2011 but prior to the date of this report.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made charitable donations totalling £100,580 (2010 - £93,000) in the year.

**Report of the Directors
for the year ended 31 December 2011**

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.

**Report of the Directors
for the year ended 31 December 2011**

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 the group and of the profit or loss of the group 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 and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group 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 group'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 group'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.

ON BEHALF OF THE BOARD:

Mrs. M J E Watson - Secretary

26 September 2012

**Report of the Independent Auditors to the Members of
Chain Reaction Cycles Limited**

We have audited the financial statements of Chain Reaction Cycles Limited for the year ended 31 December 2011 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement 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 which we are required to state to them in an auditor's 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 Statement of Directors' Responsibilities, 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 group's and the parent 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 Report of the Directors to identify material inconsistencies with the audited financial statements. 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 group's and of the parent company's affairs as at 31 December 2011 and of the group's 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.

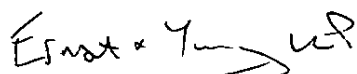
Opinion on other matter prescribed by the Companies Act 2006

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 Galbraith (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Belfast

26 September 2012

**Consolidated Profit and Loss Account
for the year ended 31 December 2011**

	Notes	2011 £'000	2010 £'000
TURNOVER	2	136,448	109,420
Cost of sales		92,391	70,093
GROSS PROFIT		44,057	39,327
Distribution costs		20,760	17,027
Administrative expenses		13,195	8,935
		33,955	25,962
		10,102	13,365
Other operating income	3	27	5
OPERATING PROFIT	5	10,129	13,370
Interest receivable and similar income		4	1
		10,133	13,371
Interest payable and similar charges	6	125	98
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,008	13,273
Tax on profit on ordinary activities	7	2,642	3,746
PROFIT FOR THE FINANCIAL YEAR FOR THE GROUP		7,366	9,527

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

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

Consolidated Balance Sheet
31 December 2011

	Notes	2011 £'000	2010 £'000
FIXED ASSETS			
Tangible assets	10	8,956	7,750
Investments	11	-	-
		<u>8,956</u>	<u>7,750</u>
CURRENT ASSETS			
Stocks	12	28,059	24,841
Debtors	13	15,807	8,299
Cash at bank and in hand		1,284	653
		<u>45,150</u>	<u>33,793</u>
CREDITORS			
Amounts falling due within one year	14	28,038	19,353
NET CURRENT ASSETS		<u>17,112</u>	<u>14,440</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,068</u>	<u>22,190</u>
CREDITORS			
Amounts falling due after more than one year	15	(2,128)	(2,620)
PROVISIONS FOR LIABILITIES	19	(66)	(62)
NET ASSETS		<u>23,874</u>	<u>19,508</u>
CAPITAL AND RESERVES			
Called up share capital	20	-	-
Profit and loss account	21	23,874	19,508
SHAREHOLDERS' FUNDS	26	<u>23,874</u>	<u>19,508</u>

The financial statements were approved by the Board of Directors on 26 September 2012 and were signed on its behalf by:

Mrs. M J E Watson - Director

C W G Watson - Director

Chris Watson

The notes on pages 11 to 26 form part of these financial statements

Company Balance Sheet
31 December 2011

	Notes	2011 £'000	2010 £'000
FIXED ASSETS			
Tangible assets	10	8,372	7,750
Investments	11	-	-
		<u>8,372</u>	<u>7,750</u>
CURRENT ASSETS			
Stocks	12	27,511	24,841
Debtors	13	17,354	8,299
Cash at bank and in hand		764	653
		<u>45,629</u>	<u>33,793</u>
CREDITORS			
Amounts falling due within one year	14	<u>27,900</u>	<u>19,353</u>
NET CURRENT ASSETS		<u>17,729</u>	<u>14,440</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,101</u>	<u>22,190</u>
CREDITORS			
Amounts falling due after more than one year	15	(2,128)	(2,620)
PROVISIONS FOR LIABILITIES	19	<u>(66)</u>	<u>(62)</u>
NET ASSETS		<u><u>23,907</u></u>	<u><u>19,508</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	-	-
Profit and loss account	21	<u>23,907</u>	<u>19,508</u>
SHAREHOLDERS' FUNDS	26	<u><u>23,907</u></u>	<u><u>19,508</u></u>

The financial statements were approved by the Board of Directors on 26 September 2012 and were signed on its behalf by:

Mrs. M J E Watson - Director

C W G Watson - Director

The notes on pages 11 to 26 form part of these financial statements

**Consolidated Cash Flow Statement
for the year ended 31 December 2011**

		2011		2010	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	27		7,604		4,600
Returns on investments and servicing of finance	28		(121)		(92)
Taxation			(3,655)		(3,783)
Capital expenditure	28		(2,147)		(2,160)
Equity dividends paid			(3,000)		(1,500)
			(1,319)		(2,935)
Financing	28		393		(304)
Decrease in cash in the period			(926)		(3,239)
Reconciliation of net cash flow to movement in net debt	29				
Decrease in cash in the period		(926)		(3,243)	
Cash outflow from decrease in debt and lease financing		493		544	
Change in net debt resulting from cash flows			(433)		(2,699)
New finance leases			-		(620)
Reallocation of directors' and shareholders' accounts			-		653
Movement in net debt in the period			(433)		(2,666)
Net debt at 1 January			(3,238)		(572)
Net debt at 31 December			(3,671)		(3,238)

The notes on pages 11 to 26 form part of these financial statements

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

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

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
Tenant's improvements	- 20% on cost and 10% 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.

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

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 group operates a defined contribution pension scheme. Contributions payable to the group'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.

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

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:

	2011 £'000	2010 £'000
EU	82,895	69,422
Rest of World	53,553	39,998
	<u>136,448</u>	<u>109,420</u>

3. OTHER OPERATING INCOME

	2011 £'000	2010 £'000
Other operating income	27	5
	<u>27</u>	<u>5</u>

4. STAFF COSTS

	2011 £'000	2010 £'000
Wages and salaries	8,441	6,269
Social security costs	738	542
Other pension costs	7	7
	<u>9,186</u>	<u>6,818</u>

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

	2011	2010
Selling & Distribution	285	304
Administration	80	61
	<u>365</u>	<u>365</u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

5. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2011	2010
	£'000	£'000
Depreciation - owned assets	821	591
Depreciation - assets on hire purchase contracts	124	124
Loss on disposal of fixed assets	25	-
Auditors' remuneration	40	30
Auditors' remuneration for non audit work	397	197
Foreign exchange differences	306	(256)
	<u> </u>	<u> </u>

	2011	2010
	£	£
Directors' remuneration	120,000	120,000
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:

	2011	2010
Money purchase schemes	<u>1</u>	<u>1</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2011	2010
	£'000	£'000
Bank interest	25	7
Bank loan interest	64	71
Stockline Interest	11	15
Interest/charges - overdue tax	10	-
Hire purchase	15	2
Finance Lease interest	-	3
	<u> </u>	<u> </u>
	<u>125</u>	<u>98</u>

7. TAXATION

Analysis of the tax charge

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

	2011	2010
	£'000	£'000
Current tax:		
UK corporation tax	2,637	3,715
Deferred tax	<u>5</u>	<u>31</u>
Tax on profit on ordinary activities	<u>2,642</u>	<u>3,746</u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

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:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	<u>10,008</u>	<u>13,273</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.493% (2010 - 28%)	2,651	3,716
Effects of:		
Expenses not deductible for tax purposes	(7)	3
Capital allowances in excess of depreciation	-	(4)
Depreciation in excess of capital allowances tax rate	12	-
Profits taxed overseas	<u>(19)</u>	<u>-</u>
Current tax charge	<u><u>2,637</u></u>	<u><u>3,715</u></u>

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £7,399,251 (2010 - £9,526,541).

9. DIVIDENDS

	2011 £'000	2010 £'000
Ordinary shares of £1 each		
Interim	<u><u>3,000</u></u>	<u><u>1,500</u></u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

10. TANGIBLE FIXED ASSETS

Group	Freehold property £'000	Tenant's improvements £'000	Plant and machinery £'000
COST			
At 1 January 2011	5,729	-	1,677
Additions	325	531	64
At 31 December 2011	6,054	531	1,741
DEPRECIATION			
At 1 January 2011	366	-	693
Charge for year	121	35	289
Eliminated on disposal	-	-	-
At 31 December 2011	487	35	982
NET BOOK VALUE			
At 31 December 2011	5,567	496	759
At 31 December 2010	5,363	-	984

	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Totals £'000
COST				
At 1 January 2011	1,401	242	369	9,418
Additions	801	90	383	2,194
Disposals	(34)	(35)	-	(69)
At 31 December 2011	2,168	297	752	11,543
DEPRECIATION				
At 1 January 2011	355	117	137	1,668
Charge for year	268	51	181	945
Eliminated on disposal	(5)	(21)	-	(26)
At 31 December 2011	618	147	318	2,587
NET BOOK VALUE				
At 31 December 2011	1,550	150	434	8,956
At 31 December 2010	1,046	125	232	7,750

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

10. TANGIBLE FIXED ASSETS - continued

Group

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

	Plant and machinery £'000
COST	
At 1 January 2011	
and 31 December 2011	620
DEPRECIATION	
At 1 January 2011	124
Charge for year	124
At 31 December 2011	248
NET BOOK VALUE	
At 31 December 2011	372
At 31 December 2010	496

Company

	Freehold property £'000	Plant and machinery £'000	Fixtures and fittings £'000
COST			
At 1 January 2011	5,729	1,677	1,401
Additions	325	60	757
Disposals	-	-	(34)
At 31 December 2011	6,054	1,737	2,124
DEPRECIATION			
At 1 January 2011	366	693	355
Charge for year	121	289	266
Eliminated on disposal	-	-	(5)
At 31 December 2011	487	982	616
NET BOOK VALUE			
At 31 December 2011	5,567	755	1,508
At 31 December 2010	5,363	984	1,046

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

10. TANGIBLE FIXED ASSETS - continued

Company

	Motor vehicles £'000	Computer equipment £'000	Totals £'000
COST			
At 1 January 2011	242	369	9,418
Additions	90	337	1,569
Disposals	(35)	-	(69)
At 31 December 2011	297	706	10,918
DEPRECIATION			
At 1 January 2011	117	137	1,668
Charge for year	51	177	904
Eliminated on disposal	(21)	-	(26)
At 31 December 2011	147	314	2,546
NET BOOK VALUE			
At 31 December 2011	150	392	8,372
At 31 December 2010	125	232	7,750

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

	Plant and machinery £'000
COST	
At 1 January 2011 and 31 December 2011	620
DEPRECIATION	
At 1 January 2011	124
Charge for year	124
At 31 December 2011	248
NET BOOK VALUE	
At 31 December 2011	372
At 31 December 2010	496

The company had no capital commitments as at 31 December 2011 (2010 - £186,030), which were contracted but not provided for at the balance sheet date.

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011**11. FIXED ASSET INVESTMENTS**

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

Subsidiaries**Chain Reaction Cycles Retail Limited**

Country of incorporation: United Kingdom

Nature of business: retail of cycle parts and accessories

	%
Class of shares:	holding
Ordinary	100.00

Chain Reaction Cycles Ireland Limited

Country of incorporation: Ireland

Nature of business: provide transactional processing services

	%
Class of shares:	holding
Ordinary	100.00

CRC Purchasing (Ireland) Limited

Country of incorporation: Ireland

Nature of business: dormant

	%
Class of shares:	holding
Ordinary	100.00

12. STOCKS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Stocks	28,059	24,841	27,511	24,841

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Amounts owed by group undertakings	-	-	1,589	-
Other debtors	375	477	348	477
Related party loans	521	1,377	521	1,377
Deposits / payments on account	12,966	5,743	12,966	5,743
VAT	1,641	487	1,646	487
Prepayments	300	204	280	204
Staff loans	4	11	4	11
	15,807	8,299	17,354	8,299

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 16)	2,703	1,147	2,703	1,147
Hire purchase contracts (see note 17)	124	124	124	124
Trade creditors	16,022	10,001	16,013	10,001
Tax	343	1,361	326	1,361
Social security and other taxes	219	142	209	142
Other creditors	2,579	3,115	2,557	3,115
Shareholders' accounts	731	309	731	309
Directors' current accounts	1,340	454	1,340	454
Accrued expenses	3,977	2,700	3,897	2,700
	<u>28,038</u>	<u>19,353</u>	<u>27,900</u>	<u>19,353</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Bank loans (see note 16)	1,766	2,134	1,766	2,134
Hire purchase contracts (see note 17)	362	486	362	486
	<u>2,128</u>	<u>2,620</u>	<u>2,128</u>	<u>2,620</u>

16. LOANS

An analysis of the maturity of loans is given below:

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Amounts falling due within one year or on demand:				
Bank overdrafts	2,335	778	2,335	778
Bank loans	368	369	368	369
	<u>2,703</u>	<u>1,147</u>	<u>2,703</u>	<u>1,147</u>
Amounts falling due between one and two years:				
Bank loans	315	380	315	380
Amounts falling due between two and five years:				
Bank loans	353	558	353	558
Amounts falling due in more than five years:				
Repayable by instalments				
Bank loans	1,098	1,196	1,098	1,196

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

16. LOANS - continued

The combined outstanding balance on loans due to Bank of Ireland at 31 December 2011 was £2,135,064 (2010 - £2,503,162).

The interest charged on banking facilities in the year ended 31 December 2011 was Bank of England base rate +2.5% for the overdraft and LIBOR +2% on loans.

17. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

Group

	Hire purchase contracts	
	2011 £'000	2010 £'000
Net obligations repayable:		
Within one year	124	124
Between one and five years	362	486
	<u>486</u>	<u>610</u>

Company

	Hire purchase contracts	
	2011 £'000	2010 £'000
Net obligations repayable:		
Within one year	124	124
Between one and five years	362	486
	<u>486</u>	<u>610</u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

18. SECURED DEBTS

The following secured debts are included within creditors:

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Bank overdrafts	2,335	778	2,335	778
Bank loans	2,134	2,503	2,134	2,503
	<u>4,469</u>	<u>3,281</u>	<u>4,469</u>	<u>3,281</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 14), which is secured by an insurance policy taken by Bank of Ireland on the outstanding amount and is paid for by the company.

19. PROVISIONS FOR LIABILITIES

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Deferred tax				
Accelerated capital allowances	<u>66</u>	<u>62</u>	<u>66</u>	<u>62</u>

Group

	Deferred tax £'000
Balance at 1 January 2011	62
Credit to profit and loss account during year	5
Rounding to £'000s	(1)
Balance at 31 December 2011	<u>66</u>

Company

	Deferred tax £'000
Balance at 1 January 2011	62
Credit to profit and loss account during year	5
Rounding to £'000s	(1)
Balance at 31 December 2011	<u>66</u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

20. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	2011	2010
Number:	Class:		£	£
300	Ordinary	£1	<u>300</u>	<u>300</u>

21. RESERVES

Group

	Profit and loss account £'000
At 1 January 2011	19,508
Profit for the year	7,366
Dividends	<u>(3,000)</u>
At 31 December 2011	<u>23,874</u>

Company

	Profit and loss account £'000
At 1 January 2011	19,508
Profit for the year	7,399
Dividends	<u>(3,000)</u>
At 31 December 2011	<u>23,907</u>

22. 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 (2010: £7,200).

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

23. TRANSACTIONS WITH DIRECTORS

The balances due on the directors' current accounts of each director were as follows:-

	2011 £'000	2010 £'000
Mr WGB & Mrs MJE Watson	276	93
Mr CWG Watson	1,064	361
	<u>1,340</u>	<u>454</u>

These amounts are included under other creditors above.

24. RELATED PARTY DISCLOSURES

Hotlines Europe Limited

Mr C Watson is a shareholder and director of Hotlines Europe Limited

Mr Chris Watson, director, also owns 1/3 of the share capital of Hotlines Europe Limited. During the year ended 31 December 2011, the company traded with Hotlines Europe Limited and the net trading income earned from Hotlines Europe Limited was £4,657,157 (2010 £4,933,736) net of VAT. The directors consider the mark-up applied to the goods sold is representative of the market rate for such transactions.

Chain Reaction Cycles Limited has also advanced funds to Hotlines Europe Limited by way of loan.

The total amount owing to Chain Reaction Cycles Limited by Hotlines Europe Limited at the year end is included in related party loans above.

	2011 £'000	2010 £'000
Amount due from related party at the balance sheet date	<u>358</u>	<u>1,321</u>

Decade Europe Limited

Mr C Watson is a shareholder and director of Decade Europe Ltd.

Mr Chris Watson, director, also owns 1/3 of the share capital of Decade Europe Limited. Sales totalling £260,799 (2010: £48,091) were invoiced to Decade Europe Limited by Chain Reaction Cycles Limited in the year ended 31 December 2011. The directors consider the mark-up applied to these goods is representative of the market rate for such transactions.

The total amount owing to Chain Reaction Cycles Limited by Decade Europe Limited at the year end is included in related party loans above.

	2011 £'000	2010 £'000
Amount due from related party at the balance sheet date	<u>163</u>	<u>56</u>

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

24. RELATED PARTY DISCLOSURES - continued

CRC Taiwan

Mr C Watson is a shareholder and director of CRC Taiwan.

Mr C Watson, director, also owns 1/3 of the share capital of CRC Taiwan.

Chain Reaction Cycles Limited reimbursed CRC Taiwan for costs incurred in procuring product and managing supply lines in South East Asia. Costs totalling £55,019 were incurred in the year and were all reimbursed, therefore there was no balance outstanding at the year end.

25. 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.

26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	2011 £'000	2010 £'000
Profit for the financial year	7,366	9,527
Dividends	(3,000)	(1,500)
Net addition to shareholders' funds	4,366	8,027
Opening shareholders' funds	19,508	11,481
Closing shareholders' funds	23,874	19,508

Company

	2011 £'000	2010 £'000
Profit for the financial year	7,399	9,527
Dividends	(3,000)	(1,500)
Net addition to shareholders' funds	4,399	8,027
Opening shareholders' funds	19,508	11,481
Closing shareholders' funds	23,907	19,508

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 £'000	2010 £'000
Operating profit	10,129	13,370
Depreciation charges	945	716
Loss on disposal of fixed assets	25	-
Increase in stocks	(3,218)	(7,330)
Increase in debtors	(7,508)	(748)
Increase/(decrease) in creditors	7,231	(1,408)
Net cash inflow from operating activities	7,604	4,600

Notes to the Consolidated Financial Statements - continued
for the year ended 31 December 2011

28. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2011 £'000	2010 £'000
Returns on investments and servicing of finance		
Interest received	4	1
Interest paid	(110)	(88)
Interest element of hire purchase payments	(15)	(5)
Net cash outflow for returns on investments and servicing of finance	<u>(121)</u>	<u>(92)</u>
Capital expenditure		
Purchase of tangible fixed assets	(2,165)	(2,163)
Sale of tangible fixed assets	18	3
Net cash outflow for capital expenditure	<u>(2,147)</u>	<u>(2,160)</u>
Financing		
Loan repayments in year	(369)	(518)
Capital repayments in year	(124)	(26)
Amount introduced by directors	2,099	1,050
Amount withdrawn by directors	(1,213)	(810)
Net cash inflow/(outflow) from financing	<u>393</u>	<u>(304)</u>

29. ANALYSIS OF CHANGES IN NET DEBT

	At 1/1/11 £'000	Cash flow £'000	At 31/12/11 £'000
Net cash:			
Cash at bank and in hand	653	631	1,284
Bank overdrafts	(778)	(1,557)	(2,335)
	<u>(125)</u>	<u>(926)</u>	<u>(1,051)</u>
Debt:			
Hire purchase	(610)	124	(486)
Debts falling due within one year	(369)	1	(368)
Debts falling due after one year	(2,134)	368	(1,766)
	<u>(3,113)</u>	<u>493</u>	<u>(2,620)</u>
Total	<u>(3,238)</u>	<u>(433)</u>	<u>(3,671)</u>