

Company Registration No. 00194555 (England and Wales)

**DALER-ROWNEY LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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# DALER-ROWNEY LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	D Paradis M Candela S De Rosa
<b>Secretary</b>	S De Rosa
<b>Company number</b>	00194555
<b>Registered office</b>	Daler Rowney House Southern Industrial Area Bracknell Berkshire RG12 8SS
<b>Auditor</b>	Ormerod Rutter Limited The Oakley Kidderminster Road Droitwich Worcestershire WR9 9AY
<b>Bankers</b>	Lloyds Bank PLC 10 High Street Bracknell Berkshire RG12 1BT
<b>Solicitors</b>	Osborne Clarke Apex Plaza Forbury Road Reading RG1 1AX

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# **DALER-ROWNEY LIMITED**

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# DALER-ROWNEY LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors present the strategic report for the year ended 31 December 2019.

Daler-Rowney is an internationally respected brand of art materials, sold throughout the world, either by its own sales teams or through third-party distribution arrangements. The large majority of products carry brands that are owned by the group and are known for high quality and consistency. Daler-Rowney ranks highly within the industry on a global basis and considers itself to be the one of the few groups within the industry that has a comprehensive range of products covering the broad spectrum of art materials.

### Principal risks and uncertainties

The principal risks and uncertainties are outlined below.

- **Exchange rates** - The Company managed the exchange rates exposure by matching timing of foreign currencies receipts and payments.
- **Impact of Covid-19** - The company has continued to manufacture and distribute products through the Covid 19 crisis, whilst adapting to new health and safety recommendations to safeguard our employees. The crisis is still ongoing, and therefore there is some level of uncertainty as to the overall impact on the business although there will be some negative impact on financial performance for 2020.
- **Cyber security** - The Company increases alert to the cyber security by providing necessary training to the relevant departments.

### Business report

The audited financial statements for the year ended 31 December 2019 are set out on pages 8 to 38.

The company's operating profit before exceptional costs, depreciation and amortisation ("EBITDA") for the year was £3,860,000 (2018: £3,026,000) on sales of £31,443,000 (2018: £33,046,000).

The company's profit before tax for the financial year after exceptional costs of £2,594,000 (2018: £6,370,000) was £2,030,000 (2018: £2,390,000).

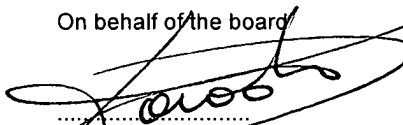
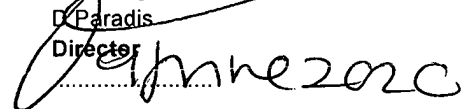
The company also benefitted from other income of £2,484,000 (2018: £7,718,000), being £2,484,000 (2018: £7,507,000) dividend income from subsidiary companies and £Nil (2018: £211,000) profit on the disposal of a freehold property.

### Key performance indicators

The directors see Key Performance Indicators (KPIs) as a way to provide a well-balanced and comprehensive review of the company's overall performance. The following table highlights some of the KPIs the company measures.

	2019	2018
EBITDA operating margin before exceptional costs	12.3%	10.0%
Stock turnover	1.6	1.7

On behalf of the board

  
.....  
D Paradis  
Director  
  
.....

# DALER-ROWNEY LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their annual report and financial statements for the year ended 31 December 2019.

#### Principal activities

The principal activity of the company in the year under review was the manufacture and global distribution of artist materials under the Daler-Rowney brand name

#### Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

D Paradis  
M Candela  
S De Rosa

#### Results and dividends

The results for the year are set out on page 8.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

#### Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in market prices of commodities, credit risks, foreign exchange risk, liquidity risks and interest rate risks.

The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The company currently does not use derivative financial instruments to manage interest rate costs, and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board.

#### Price risk

The company is exposed to commodity price risk as a result of its operations. Given the size of the company, the cost of managing the exposure to commodity price risk is considered to exceed the potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments, other than subsidiary undertakings.

#### Liquidity risk

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

#### Interest rate cash flow risk

The company has both interest bearing assets and liabilities. Interest is accrued using a floating rate. The directors will revisit the appropriateness of using a floating rate should the company's operations change in size or nature. The company may enter into interest rate swap contracts to hedge these exposures.

#### Foreign exchange risk

The company in the normal course of business buys and sells in US dollars and Euros, and is thus exposed to the risk of changes in foreign currency exchange rates. However, the company transfers surplus foreign currency to other group companies as part of the group's currency matching policies. The foreign exchange risk may be further managed through the use of forward foreign currency exchange contracts taken out by the company.

# DALER-ROWNEY LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Credit risk**

The company has implemented policies that require appropriate credit checks on potential customers before new accounts are accepted.

### **Post reporting date events**

On 1 January 2020 the trade and assets of Creativity International Limited, a company acquired in December 2019, were hived up into Daler-Rowney Limited. From 1 January 2020 the site which formally traded as Creativity International Limited is now trading as part of Daler-Rowney Limited.

### **Future developments**

The Company continues revenue and cost synergies with F.I.L.A. group that will enhance the future growth prospects.

### **Auditor**

Ormerod Rutter Limited were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual 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 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;
- 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 of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

# DALER-ROWNEY LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### Going concern

The accompanying financial statements have been prepared on the assumption that the company will continue as a going concern.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report above. This includes the financial position of the company.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance and inclusion in the wider F.I.L.A. group, show that the company should be able to operate within the level of its current funding facilities. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the company continues to adopt the going concern basis in preparing the financial statements.

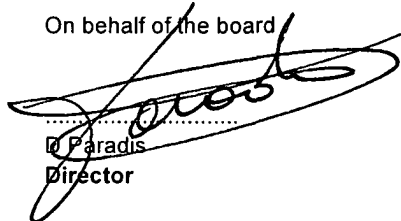
### Charitable donations

The company contributed £nil (2018: £250) to charities. There were no political contributions (2018: £nil).

### Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment. Trade creditors of the company at 31 December 2019 were equivalent to 43 (2018: 60) days' purchases, based on the average daily amount invoiced by suppliers during the year.

On behalf of the board



.....  
J Paradis  
Director

Date: 9 June 2020

# DALER-ROWNEY LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF DALER-ROWNEY LIMITED

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#### Opinion

We have audited the financial statements of Daler-Rowney Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the Companies Act 2006

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



# **DALER-ROWNEY LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF DALER-ROWNEY LIMITED**

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### **Matters on which we are required to report by exception**

In the light of the 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 the directors' report.

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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

# **DALER-ROWNEY LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF DALER-ROWNEY LIMITED**

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### **Use of our report**

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 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.



**Colm McGrory FCA (Senior Statutory Auditor)  
for and on behalf of Ormerod Rutter Limited**

**Chartered Accountants  
Statutory Auditor**

12 June 2020  
.....

The Oakley  
Kidderminster Road  
Droitwich  
Worcestershire  
WR9 9AY

# DALER-ROWNEY LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Before exceptionals, depreciation and amortisation	Exceptionals, depreciation and amortisation	Total	Before exceptionals, depreciation and amortisation	Exceptionals, amortisation and depreciation	Total
	Notes	2019 £'000	2019 £'000	2019 £'000	2018 £'000	2018 £'000	2018 £'000
<b>Turnover</b>	<b>3</b>	31,443	-	31,443	33,046	-	33,046
Depreciation and amortisation		-	(551)	(551)	-	(649)	(649)
Cost of sales		(21,553)	-	(21,553)	(22,967)	-	(22,967)
<b>Gross profit</b>		<u>9,890</u>	<u>(551)</u>	<u>9,339</u>	<u>10,079</u>	<u>(649)</u>	<u>9,430</u>
Depreciation and amortisation		-	(757)	(757)	-	(767)	(767)
Exceptional costs	<b>4</b>	-	(2,594)	(2,594)	-	(6,370)	(6,370)
Other income		3	-	3	-	211	211
Other operating expenses	<b>5</b>	(6,033)	-	(6,033)	(7,053)	-	(7,053)
Past service cost of pension scheme		-	-	-	-	(458)	(458)
<b>Operating loss</b>	<b>6</b>	<u>3,860</u>	<u>(3,902)</u>	<u>(42)</u>	<u>3,026</u>	<u>(8,033)</u>	<u>(5,007)</u>
Dividend income				2,484			2,484
Interest receivable and similar income	<b>9</b>			6			6
Interest payable and similar expenses	<b>10</b>			(418)			(418)
Profit/(loss) on disposal of operations							
<b>Profit before taxation</b>				<u>2,030</u>			<u>2,030</u>
Tax on profit	<b>11</b>			(383)			(383)
<b>Profit for the financial year</b>				<u>1,647</u>			<u>1,647</u>
<b>Other comprehensive income</b>							
Actuarial loss on defined benefit pension schemes	<b>24</b>			(235)			(235)
Tax relating to other comprehensive income	<b>11</b>			49			49
<b>Total comprehensive income for the year</b>				<u>1,461</u>			<u>1,461</u>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

# DALER-ROWNEY LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	12	2,654	2,801
Tangible assets	13	8,741	9,440
Investments	14	7,649	1,816
		<u>19,044</u>	<u>14,057</u>
<b>Current assets</b>			
Stocks	16	13,776	13,894
Debtors falling due after more than one year	17	605	795
Debtors falling due within one year	17	22,839	24,874
Cash at bank and in hand		3,869	2,397
		<u>41,089</u>	<u>41,960</u>
<b>Amounts falling due within one year</b>			
Creditors	18	(26,001)	(22,800)
Provisions	22	(98)	(124)
		<u>(26,099)</u>	<u>(22,924)</u>
<b>Net current assets</b>		<u>14,990</u>	<u>19,036</u>
<b>Total assets less current liabilities</b>		<u>34,034</u>	<u>33,093</u>
<b>Creditors: amounts falling due after more than one year</b>	19	(10,858)	(11,624)
<b>Provisions for liabilities</b>	22	(207)	(247)
<b>Net assets excluding pension liability</b>		<u>22,969</u>	<u>21,222</u>
<b>Defined benefit pension liability</b>	24	(2,187)	(1,901)
<b>Net assets</b>		<u><u>20,782</u></u>	<u><u>19,321</u></u>
<b>Capital and reserves</b>			
Called up share capital	25	179	179
Share premium account	26	9,004	9,004
Revaluation reserve	27	1,472	1,503
Profit and loss reserves	28	10,127	8,635
<b>Total equity</b>		<u><u>20,782</u></u>	<u><u>19,321</u></u>

**DALER-ROWNEY LIMITED**

**BALANCE SHEET (CONTINUED)**

**AS AT 31 DECEMBER 2019**

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The financial statements were approved by the board of directors and authorised for issue on .....  
and are signed on its behalf by:

9 June 2020



.....  
D Parais  
Director

Company Registration No. 00194555

# DALER-ROWNEY LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss reserves £'000	Total £'000
<b>Balance at 1 January 2018</b>		179	1,568	1,781	8,125	11,653
<b>Year ended 31 December 2018:</b>						
Profit for the year		-	-	-	2,078	2,078
Other comprehensive income:						
Actuarial gains/(losses) on defined benefit plans		-	-	-	(2,314)	(2,314)
Deferred tax on actuarial losses/ (gains)		-	-	-	468	468
Total comprehensive income for the year		-	-	-	232	232
Issue of share capital	25	-	7,436	-	-	7,436
Transfer to distributable reserves		-	-	(278)	278	-
<b>Balance at 31 December 2018</b>		179	9,004	1,503	8,635	19,321
<b>Year ended 31 December 2019:</b>						
Profit for the year		-	-	-	1,647	1,647
Other comprehensive income:						
Actuarial gains/(losses) on defined benefit plans		-	-	-	(235)	(235)
Tax relating to other comprehensive income		-	-	-	49	49
Total comprehensive income for the year		-	-	-	1,461	1,461
Transfer to distributable reserves		-	-	(31)	31	-
<b>Balance at 31 December 2019</b>		179	9,004	1,472	10,127	20,782

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **1 Accounting policies**

#### **Company information**

Daler-Rowney Limited is a private company limited by shares incorporated in England and Wales. The registered office is Daler Rowney House, Southern Industrial Area, Bracknell, Berkshire, RG12 8SS.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of F.I.L.A. group. These consolidated financial statements are available from its website [www.filagroup.it](http://www.filagroup.it).

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 1.2 Going concern

These financial statements have been drawn up on the going concern basis. If the going concern basis were not appropriate, adjustments would have been made to reduce assets to recoverable amounts, to provide for any further liabilities that might arise, and to re-classify fixed assets as current assets and long term liabilities as current liabilities.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. This includes the financial position of the company.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance and inclusion in the wider F.I.L.A. group, show that the company should be able to operate within the level of its current facilities.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the company continues to adopt the going concern basis in preparing the financial statements.

#### 1.3 Turnover

Turnover comprises the value of sales (net of VAT and similar taxes, trade discounts and intra-group transactions) of goods and services in the normal course of business. Turnover from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customers which is either on dispatch or when the goods are physically delivered depending on agreed terms.

Dividend income is recognised when the right to receive payment is established.

#### 1.4 Intangible fixed assets other than goodwill

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Acquired brands and trademarks	10 years
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Where factors, such as changes in market price or reduction in quantity sold under these acquired brands and trademarks, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

#### 1.5 Tangible fixed assets

Land and buildings are shown at original historical cost or subsequent valuations. Other fixed assets are shown at cost, net of depreciation and provision for impairment.

Freehold land is not depreciated. Assets under construction are not depreciated until completed and in use. Other fixed assets are depreciated at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold land and buildings	25 years from date of revaluation
Plant and equipment	1 - 20 years
Merchandising units	3 years



# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

#### Revaluation of properties

The properties were last revalued at 24 May 2015. The directors believe that there has been no material diminution, or appreciation, in value since this valuation and consider this to be fair value as at 31 December 2019.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Individual freehold and leasehold properties are revalued every year with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

#### 1.6 Fixed asset investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

Income from investments is included in the financial statements of the year in which it is receivable.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### 1.7 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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 an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials - purchase cost on a first in, first out basis, including an element of transport cost.

Work-in-progress and finished goods - cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Provision is made for obsolete, slow-moving or defective items where appropriate.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

#### 1.9 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.10 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **Basic financial assets**

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

##### **Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### **Impairment of financial assets**

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

#### **Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

#### **Classification of financial liabilities**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### **Basic financial liabilities**

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

#### **Other financial liabilities**

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### ***Derecognition of financial liabilities***

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

#### **1.11 Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

#### **1.12 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

##### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

##### ***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

#### **1.13 Provisions**

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

#### **1.14 Employee benefits**

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 1.15 Retirement benefits

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

#### 1.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The asset is depreciated over the shorter of the lease term and its useful economic life. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

#### 1.17 Foreign exchange

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Exchange differences on foreign currency borrowings, to the extent that they relate to investments in overseas operations, are taken to reserves and separately reported.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### 1.18 Related party transactions

Under the provisions of Financial Reporting Standard 102 Section 33, the company is not required to disclose details of certain related party transactions as it is a subsidiary, and the consolidated financial statements of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A. in which the company's results are included are available to the public.

### 2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- i) Inventories provision is made accordance with the Stock accounting policy above.
- ii) Defined benefit pension assets or liabilities are measured in accordance with the Retirement Benefits accounting policy above.

### 3 Turnover and other revenue

Contributions to turnover and profit on ordinary activities before taxation all arise from the company's principal activity. Further segmental information is as follows:

	2019 £'000	2018 £'000
<b>Other significant revenue</b>		
Interest income	6	24
Dividends received	2,484	7,507
Sale of freehold property	-	211
	<u>          </u>	<u>          </u>
	2019 £'000	2018 £'000
<b>Turnover analysed by geographical market</b>		
UK	17,124	16,931
Europe	5,951	8,252
Rest of the world	8,368	7,863
	<u>          </u>	<u>          </u>
	31,443	33,046
	<u>          </u>	<u>          </u>

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 Exceptional item

	2019 £'000	2018 £'000
Exceptional costs	2,594	6,370

Exceptional costs of £2,594,000 (2018: £6,370,000) comprise:

- investments written off of £2,459,000 (2018: £7,537,000),
- insurance claim funds received of £178,000 credit (2018: £nil),
- costs in relation to restructuring of £255,000 (2018: £430,000),
- rent of £39,000 (2018: £nil),
- onerous contracts of £19,000 (2018: £106,000 credit), and
- intercompany payable balances waived £Nil (2018: £1,491,000 credit).

### 5 Other operating expenses

	2019 £'000	2018 £'000
Selling and distribution expenses	4,349	4,467
Administrative expenses	1,684	2,586
	6,033	7,053

### 6 Operating loss

	2019 £'000	2018 £'000
Operating loss for the year is stated after charging/(crediting):		
Exchange (gains)/losses	(404)	698
Fees payable to the company's auditor for the audit of the company's financial statements	49	80
Depreciation of owned tangible fixed assets	1,144	1,363
Depreciation of tangible fixed assets held under finance leases	38	52
Amortisation of intangible assets	126	29
Cost of stocks recognised as an expense	15,213	15,411
Operating lease charges	891	1,138

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 7 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019 Number	2018 Number
Production	122	130
Distribution	39	34
Sales and administration	47	39
	<u>208</u>	<u>203</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	5,832	5,467
Social security costs	582	541
Pension costs	148	124
	<u>6,562</u>	<u>6,132</u>

### 8 Directors' remuneration

	2019 £'000	2018 £'000
Remuneration for qualifying services	301	198
Company pension contributions to defined contribution schemes	1	2
	<u>302</u>	<u>200</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2018 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2019 £'000	2018 £'000
Remuneration for qualifying services	301	198
Company pension contributions to defined contribution schemes	1	2
	<u>302</u>	<u>200</u>



# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 8 Directors' remuneration

(Continued)

The directors received total emoluments of £302,000 (2018: £200,000) from Daler-Rowney Limited for services to the company and services provided to other companies within the wider Daler-Rowney group. However it is not practicable to allocate their remuneration between their services as directors of the company and those services provided to other the group companies.

### 9 Interest receivable and similar income

	2019 £'000	2018 £'000
<b>Interest income</b>		
Interest on bank deposits	6	3
Interest on the net defined benefit asset	-	21
	<u>6</u>	<u>24</u>
<b>Total interest revenue</b>	<b>6</b>	<b>24</b>
<b>Income from fixed asset investments</b>		
Income from shares in group undertakings	2,484	7,507
	<u>2,484</u>	<u>7,507</u>
<b>Total income</b>	<b>2,490</b>	<b>7,531</b>

### 10 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest payable to group undertakings	357	126
Interest on finance leases and hire purchase contracts	8	8
Net interest on the net defined benefit liability	51	-
Other interest	2	-
	<u>418</u>	<u>134</u>

### 11 Taxation

	2019 £'000	2018 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	100	28
Adjustments in respect of prior periods	6	-
	<u>106</u>	<u>28</u>
<b>Total current tax</b>	<b>106</b>	<b>28</b>

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 11 Taxation

(Continued)

	2019 £'000	2018 £'000
<b>Deferred tax</b>		
Origination and reversal of timing differences	166	123
Changes in tax rates	(13)	(13)
Adjustment in respect of prior periods	124	174
<b>Total deferred tax</b>	<u>277</u>	<u>284</u>
<b>Total tax charge</b>	<u>383</u>	<u>312</u>

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £'000	2018 £'000
Profit before taxation	<u>2,030</u>	<u>2,390</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	386	454
Tax effect of expenses that are not deductible in determining taxable profit	40	(182)
Adjustments in respect of prior years	6	51
Effect of change in corporation tax rate	(13)	(13)
Group relief	(36)	(26)
Foreign tax suffered	-	28
<b>Taxation charge for the year</b>	<u>383</u>	<u>312</u>

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £'000	2018 £'000
Deferred tax arising on:		
Actuarial differences recognised as other comprehensive income	<u>(49)</u>	<u>(468)</u>

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 12 Intangible fixed assets

	Acquired brands and trademarks £'000
<b>Cost</b>	
At 1 January 2019	2,830
Exchange adjustments	(21)
At 31 December 2019	2,809
<b>Amortisation and impairment</b>	
At 1 January 2019	29
Amortisation charged for the year	126
At 31 December 2019	155
<b>Carrying amount</b>	
At 31 December 2019	2,654
At 31 December 2018	2,801

Amortisation charged for the year is included in the statement of comprehensive income within other operating expenses.

### 13 Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Merchandising units £'000	Total £'000
<b>Cost or valuation</b>				
At 1 January 2019	4,836	13,471	1,655	19,962
Additions	-	461	29	490
Disposals	-	(109)	(381)	(490)
At 31 December 2019	4,836	13,823	1,303	19,962
<b>Depreciation and impairment</b>				
At 1 January 2019	584	8,849	1,089	10,522
Depreciation charged in the year	83	765	334	1,182
Eliminated in respect of disposals	-	(102)	(381)	(483)
At 31 December 2019	667	9,512	1,042	11,221
<b>Carrying amount</b>				
At 31 December 2019	4,169	4,311	261	8,741
At 31 December 2018	4,252	4,622	566	9,440

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 13 Tangible fixed assets

(Continued)

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2019 £'000	2018 £'000
Plant and equipment	229	195

Freehold land amounting to £2,750,000 (2018: £2,750,000) has not been depreciated.

The main freehold property, land and buildings, of the company was revalued on an existing use value basis as at 24 May 2015 by Jones Lang LaSalle Limited, Consultant Surveyors, at £5,425,000. The directors continue to take a more prudent view and as such have retained their original valuation of £4,836,000 in November 2011. As at 31 December 2019 the directors consider this valuation to remain appropriate and consider this to represent the fair value of the property.

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

	2019 £'000	2018 £'000
Cost	4,340	4,340
Accumulated depreciation	(1,552)	(1,504)
Carrying value	2,788	2,836

#### 14 Fixed asset investments

	Notes	2019 £'000	2018 £'000
Investments in subsidiaries	15	7,649	1,816

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 14 Fixed asset investments

(Continued)

#### Movements in fixed asset investments

	Shares in group undertakings £'000
<b>Cost or valuation</b>	
At 1 January 2019	1,816
Additions	8,292
Write off	(2,459)
	<hr/>
At 31 December 2019	7,649
	<hr/>
<b>Carrying amount</b>	
At 31 December 2019	7,649
	<hr/>
At 31 December 2018	1,816
	<hr/>

On 8 October 2019, Filalyra GB Limited was dissolved, resulting in £840,000 of investments being written off by Daler-Rowney Limited. The write off is included within exceptional items in the statement of profit and loss.

On 23 December 2019, the company acquired 100% shareholdings in Creativity International Limited and Castlehill Crafts Ltd.

The investment in Castlehill Crafts Ltd of £1,619,000 was subsequently written off. The write off is included within exceptional items in the statement of profit and loss.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Daler-Rowney GmbH	Windermayerstraße 3, 80538, München, Germany	Dormant	Ordinary shares	100.00	-
Lukas Nerchau GmbH	Harffstraße 40, Düsseldorf, Germany	Distributor of artists' materials	Ordinary shares	100.00	-
Nerchauer Malfarben	Harffstraße 40, Düsseldorf, Germany	Dormant	Ordinary shares	100.00	-
Brideshore S.r.l.	Zona Franca II, La Romana, Dominican Republic	Manufacturer of artists' materials	Ordinary shares	99.90	-
Creativity International Limited	16 Narrowboat Way, Hurst Business Park, Brierly Hill, West Midlands, DY5 1UF	Supply of craft and educational display products	Ordinary shares	100.00	-
Castlehill Crafts Ltd	16 Narrowboat Way, Hurst Business Park, Brierly Hill, West Midlands, DY5 1UF	Holding company	Ordinary shares	100.00	-

### 16 Stocks

	2019 £'000	2018 £'000
Raw materials and consumables	2,753	3,107
Work in progress	442	606
Finished goods and goods for resale	10,581	10,181
	<u>13,776</u>	<u>13,894</u>

Raw material stocks include a valuation of labels for manufactured colour products.

In the opinion of directors, there is no material difference between the book value of stocks and their replacement cost.

## DALER-ROWNEY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 17 Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	5,120	4,815
Corporation tax recoverable	14	8
Amounts owed by group undertakings	17,310	19,340
Other debtors	21	22
Prepayments and accrued income	374	689
	<u>22,839</u>	<u>24,874</u>
Amounts falling due after more than one year:		
	2019	2018
	£'000	£'000
Deferred tax asset (note 23)	605	795
	<u>605</u>	<u>795</u>
Total debtors	<u>23,444</u>	<u>25,669</u>

The amounts owed group undertakings are unsecured, interest free and have no fixed term of repayment.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 18 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Obligations under finance leases	20	71	39
Trade creditors		2,523	3,730
Amounts owed to parent undertakings		4,034	1,140
Amounts owed to other group undertakings		15,748	13,817
Taxation and social security		577	378
Other creditors		160	32
Accruals and deferred income		2,986	3,664
		<u>26,099</u>	<u>22,800</u>

Amounts owed to parent undertakings include:

- £1,618,000 (2018: £Nil) which is unsecured, carries interest at Euribor 3 months plus 3% and has no fixed term of repayment; and
- £851,000 (2018: £Nil) which is unsecured, carries interest at Euribor 3 months plus 3% and is repayable on 30 December 2020.
- The remaining amounts owed to parent undertakings are unsecured, interest free and have no fixed term of repayment.

Amounts owed to other group undertakings include:

- £5,147,000 (2018: £Nil) which is unsecured, carries interest at 4.5% per annum and has no fixed term of repayment; and
- £467,000 (2018: £Nil) which is unsecured, carries interest at LIBOR plus 1.5% per annum and is repayable within 1 year.
- The remaining amounts owed to other group companies are unsecured, interest free and have no fixed term of repayment, other than £Nil (2018: £984,000) carrying interest at 1.97% per annum.

### 19 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Obligations under finance leases	20	167	140
Amounts owed to parent undertakings		3,403	3,131
Amounts owed to other group undertakings		7,288	8,353
		<u>10,858</u>	<u>11,624</u>

Amounts owed to parent undertakings are unsecured, carry interest at Euribor 3 months plus 3% and are repayable on 30 December 2021.

Amounts owed to other group undertakings are unsecured, carry interest at LIBOR plus 1.5% per annum and are repayable over 10 years in equal annual instalments from 2021.



# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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### 19 Creditors: amounts falling due after more than one year (Continued)

Amounts included above which fall due after five years are as follows:

	2019 £'000	2018 £'000
Payable by instalments	4,049	5,029

### 20 Finance lease obligations

	2019 £'000	2018 £'000
Future minimum lease payments due under finance leases:		
Within one year	71	39
In two to five years	167	140
	238	179

Finance lease payments represent rentals payable by the company for certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### 21 Secured debts

The following secured debts are included within creditors:

	2019 £'000	2018 £'000
Hire purchase contracts	238	179

Hire purchase contracts are secured against the assets to which they relate.

### 22 Provisions for liabilities

	2019 £'000	2018 £'000
<b>Onerous Contracts</b>		
Within one year	98	124
Between one and five years	207	247
	305	371

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 22 Provisions for liabilities

(Continued)

Movements on provisions:

	£'000
At 1 January 2019	371
Utilisation of provision	(66)
At 31 December 2019	<u>305</u>

### 23 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets 2019 £'000	Assets 2018 £'000
<b>Balances:</b>		
Depreciation in excess of capital allowances	221	462
Other short term timing differences	12	10
Pension asset	372	323
	<u>605</u>	<u>795</u>
<b>Movements in the year:</b>		<b>2019 £'000</b>
Asset at 1 January 2019		(795)
Charge to profit or loss		118
Credit to other comprehensive income		(45)
Effect of change in tax rate - profit or loss		(13)
Effect of change in tax rate - other comprehensive income		6
Prior year		124
Asset at 31 December 2019		<u>(605)</u>

Deferred taxation has been provided to the extent that the directors have concluded on the basis of reasonable assumptions and the intentions of management that it is probable that sufficient future profits will arise against which to offset the asset.

No provision has been made for taxation which would become payable in circumstances where the company's freehold property was disposed of at the amount of the valuation included in these financial statements, since the directors have no intention of disposing of the building.

## DALER-ROWNEY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 24 Retirement benefit schemes

	2019	2018
Defined contribution schemes	£'000	£'000
Charge to profit or loss in respect of defined contribution schemes	148	124
	<u>      </u>	<u>      </u>

#### Daler-Rowney Group Life Assurance Scheme

As from the 1 July 2012 the company operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in funds under the control of trustees. The company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £149,000 (2018: £124,000) represents contributions payable to the scheme by the company at rates specified in the rules of the plan. As at 31 December 2019 there were no contributions due in respect of the current reporting period that had not been paid over to the scheme.

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 24 Retirement benefit schemes

(Continued)

#### Defined benefit schemes

The company operates a defined benefit scheme for qualifying employees. The scheme is closed to future accrual on 30 June 2012.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 6 April 2018 and updated to 31 December 2019 by a qualified independent actuary Stephen Kilgannon of First Actuarial LLP, a Fellow of the Institute of Actuaries.

The major assumptions used by the actuary were:

	2019	2018
<i>Key assumptions</i>	%	%
Discount rate	1.9	2.7
RPI Inflation	2.8	3.3
CPI Inflation	1.9	2.2
Pension Increases		
Pensions accrued before 6 April 1997	1.8	2.0
Pensions accrued between 5 April 1997 and 6 April 2009	2.8	3.2
Pension accrued after 6 April 2009	2.1	2.3
	<u>          </u>	<u>          </u>
Mortality	100% males and 100% females of the S2PxA birth year tables; improvements in line with the CMI_2018 Core Projection model; 1.0% pa long-term improvement rate	100% males and 100% females of the S2PxA birth year tables; improvements in line with the CMI_2017 Core Projection model; 1.0% pa long-term improvement rate
<i>Mortality assumptions</i>	2019	2018
Assumed life expectations on retirement at age 65:	Years	Years
Life expectancy for beneficiaries currently aged 65		
- Males	21.5	21.8
- Females	23.2	23.7
	<u>          </u>	<u>          </u>
Life expectancy at 65 for beneficiaries currently aged 45		
- Males	22.5	22.8
- Females	24.3	23.1
	<u>          </u>	<u>          </u>

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 24 Retirement benefit schemes

(Continued)

Cash commutation	On average 75% of members take the maximum allowable tax free cash lump sum at retirement age	On average 75% of members take the maximum allowable tax free cash lump sum at retirement age
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The scheme is closed to new entrants. In accordance with FRS 102 the present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

In these circumstances the use of this method can now lead to the contribution rate underlying the current service cost increasing in future years. The actual pension deficit was £2,187,000 (2018 - £1,901,000).

	2019 £'000	2018 £'000
<i>Amounts recognised in the profit and loss account</i>		
Net interest on net defined benefit liability/(asset)	51	(21)
Past service costs	-	458
Total costs	51	437

The net interest has been restricted due to a proportion of the scheme asset not being recoverable. The restricted net interest recognised in the Profit and loss account is £51,000 (2018 - (£21,000)).

	2019 £'000	2018 £'000
<i>Amounts taken to other comprehensive income</i>		
Actual return on scheme assets	(2,769)	1,573
Less: calculated interest element	843	814
Return on scheme assets excluding interest income	(1,926)	2,387
Actuarial changes related to obligations	2,145	(1,250)
Total costs	219	1,137

*Amounts recognised in statement of other comprehensive income*

	2019 £'000	2018 £'000
Actual return less expected return on pension scheme assets	1,926	(2,387)
Changes in financial assumptions underlying scheme assets	(2,161)	73
Actuarial (loss)/gain recognised in statement of other comprehensive income	(235)	(2,314)

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

### 24 Retirement benefit schemes

(Continued)

The amounts included in the balance sheet arising from the company's obligations in respect of defined benefit plans are as follows:

	2019 £'000	2018 £'000
Present value of defined benefit obligations	35,581	33,683
Fair value of plan assets	(33,394)	(31,782)
Deficit in scheme	<u>2,187</u>	<u>1,901</u>

	2019 £'000	2018 £'000
<i>Movements in the present value of defined benefit obligations</i>		
Liabilities at 1 January	33,683	33,605
Past service cost	-	458
Benefits paid	(1,157)	(1,100)
Actuarial gains and losses	2,145	(73)
Interest cost	894	793
Other	16	-
At 31 December	<u>35,581</u>	<u>33,683</u>

The defined benefit obligations arise from plans which are wholly unfunded.

	2019 £'000	2019 £'000
<i>Movements in the fair value of plan assets</i>		
Fair value of assets at 1 January	31,782	34,455
Interest income	843	814
Return on plan assets (excluding amounts included in net interest)	1,926	(2,387)
Benefits paid	(1,157)	(1,100)
At 31 December	<u>33,394</u>	<u>31,782</u>

The actual return on plan assets was £1,926,000 (2018 - £2,387,000).

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 24 Retirement benefit schemes

(Continued)

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

Fair value of plan assets at the reporting period end

	2019 %	2018 %	2019 £'000	2018 £'000
Equities and property	71	66	23,580	21,138
Gifts and bonds	-	14	-	4,361
Liability driven investment	18	9	5,985	2,765
Other	11	11	3,829	3,518
			<u>33,394</u>	<u>31,782</u>

The company contributions during the accounting year amounted to £Nil (2018: £Nil) and the best estimate of contributions to be paid to the scheme by the company for the year coming is £Nil.

The most recent triennial valuation of the company's pension scheme was carried out as at 6 April 2018. The Trustee is required to carry out an actuarial valuation every 3 years.

For the latest actuarial valuation, the company and trustees agreed that the funding objective is to ensure that the scheme is fully funded, using the assumptions that contain a margin for prudence.

History of assets, liabilities and actuarial gains and losses

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Present value of defined benefit obligations	(35,581)	(33,683)	(33,605)	(33,659)	(26,718)
Fair value of assets	33,394	31,782	34,455	32,743	27,795
	<u>(2,187)</u>	<u>(1,901)</u>	<u>850</u>	<u>(916)</u>	<u>1,077</u>

# DALER-ROWNEY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 25 Share capital

	2019 £'000	2018 £'000
Ordinary share capital Issued and fully paid 3,570,022 Ordinary shares of 5p each	179	179

### 26 Share premium account

	2019 £'000	2018 £'000
At the beginning of the year	9,004	1,568
Issue of new shares	-	7,436
At the end of the year	9,004	9,004

The share premium account represents the amount by which shares have been issued at a price greater than nominal value less issue costs.

### 27 Revaluation reserve

	2019 £'000	2018 £'000
At the beginning of the year	1,503	1,781
Transfer to retained earnings	(31)	(278)
At the end of the year	1,472	1,503

The revaluation reserve represents the unrealised gain generated on revaluation of freehold land and buildings. Excess depreciation is transferred from the revaluation reserve to profit and loss reserves in the statement of changes in equity.

### 28 Profit and loss reserves

	2019 £'000	2018 £'000
At the beginning of the year	8,635	8,125
Profit for the year	1,647	2,078
Transfer from revaluation reserve	31	278
Actuarial differences recognised in other comprehensive income	(235)	(2,314)
Tax on actuarial differences	49	468
At the end of the year	10,127	8,635

Profit and loss reserves represent accumulated realised earnings from prior and current periods as reduced by accumulated realised losses and dividends.



## DALER-ROWNEY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

#### 29 Financial commitments, guarantees and contingent liabilities

The company is registered with HM Customs & Excise as a member of a group for VAT purposes and, as a result, is jointly and severally liable on a continuing basis for amounts owing by other members of that group in respect of unpaid VAT.

The company has given a cross guarantee to secure the banking arrangements of F.I.L.A. group.

#### 30 Operating lease commitments

##### Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £'000	2018 £'000
Within one year	1,090	1,112
Between two and five years	3,427	3,531
In over five years	9,849	10,664
	<u>14,366</u>	<u>15,307</u>

#### 31 Ultimate controlling party

The immediate parent undertaking at the balance sheet date was Renoir Bidco Ltd, a company registered in England and Wales. The registered office is Daler-Rowney House, Peacock Lane, Southern Industrial Area, Bracknell, RG12 8SS, United Kingdom.

The group considers that F.I.L.A. — Fabbrica Italiana Lapis ed Affini S.p.A., a company quoted on the Milan stock exchange, is the ultimate parent company and controlling party.

The largest group of which Daler-Rowney Limited is a member and for which group financial statements are drawn up is that headed by F.I.L.A., whose financial statements are available to the public via its website [www.filagroup.it](http://www.filagroup.it).