

Paperchase Products Limited

Report and Financial Statements

For the 52 weeks ended 30 January 2016

SATURDAY



A5IMWOQB

A20

29/10/2016

#303

COMPANIES HOUSE

Directors

D Bateman
T Melgund
R Warden

Secretary

K Heath

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Lloyds Banking Group
25 Gresham Street
London EC2V 7HN

National Westminster Bank Plc
PO Box 8032
3 Upper Street
London N1 6QF

Registered Office

12 Alfred Place
London WC1E 7EB

Registered Number

03185938

Strategic Report

The directors present their report and financial statements for the 52 weeks ended 30 January 2016.

Principal activity and strategic review of the business

The company's principal activity is the design and retail of greeting cards, stationery, gifts, wrap and art materials.

Principal risks and uncertainties

The risk exposure of the company is monitored by the Board. The company has established risk and financial management procedures to identify and, where possible, mitigate the risks to the business.

The principal risks and uncertainties are broadly grouped as follows:

Commercial risks

The company is exposed to general fluctuations in the consumer retail environment and increasing levels of competition. The company continues to manage this risk through the offer of innovative designs and products, high levels of customer service and efficient management of its cost base. Any risk of a sales downturn would be managed to minimise its impact on profit.

Currency risks

Foreign currency exposure is due to the international expansion of the company's operations and inventory purchases from overseas. The company aims to manage its assets and liabilities denominated in foreign currency to minimise foreign exchange risk and to ensure sufficient availability of working capital. The company engages in a number of forward currency contracts up to 24 months in advance to limit the risk of exposure to foreign currencies on future inventory purchases.

Liquidity and interest rate risks

In October 2015 the Paperchase group secured a new six-year refinancing consisting of a term loan of £32m from Permira Credit Solutions and a £14m revolving credit facility from Lloyds Banking Group. The majority of the term loan has been used to repay shareholder loan notes from Primary Capital, held in Paperchase Worldwide Group Limited, the company's parent. The revolving credit facility continues to support working capital requirements with capital expenditure funded by cash generated by the business.

The company monitors cash flow on a daily basis and the board considers cash flow forecasts on a monthly basis to ensure the correct facilities are available to be drawn upon as necessary. There are a number of covenants in place as part of the new financing arrangements; these are regularly monitored on an actual and forecast basis with quarterly reporting of the covenants to the lenders. The interest obligations are monitored and forecast alongside the cashflow forecasts.

Developments in the period

The directors of Paperchase Products Limited are pleased with the trading results for the period in what continued to be a challenging economic environment. The ongoing development of the business is built on the effectiveness of the management team and staff, who performed well in testing conditions.

Cash generation remains robust with the majority of those funds re-invested in the continued growth of the business.

Strategic Report

Developments in the period (continued)

The company continued its UK expansion by opening 13 standalone stores and one concession store during the period, as well as two franchise stores in the Middle East. During the same period one UK station store was closed (due to station refurbishment), as well as two UK concessions.

The company will continue to look to grow in the UK through delivering higher sales density in its existing portfolio and adding new standalone stores when the opportunities arise. Further international opportunities continue to be explored through potential partnerships and franchises. The company is also focused on realising the potential of multi-channel retailing and utilising new technology to support growth.

Key performance indicators

The company uses a range of performance measures in order to monitor and manage the business. These measures comprise both financial and non-financial aspects and are utilised on a daily basis in the operation of the business and include:

- Total turnover growth
- Like for like sales growth
- Other operating income growth (wholesale and franchise)
- Store sales per square foot
- Customer conversion rate
- Profit before tax
- EBITDA (Earnings before interest, tax, depreciation and amortisation)
- EBITDA as a percentage of turnover
- Cash generation
- Product margin by store, region and product category
- Stock turn and aged stock profile
- Staff turnover
- Investment reviews and new store payback periods

Strategic Report

Key performance indicators (continued)

The directors consider the following to be the key financial performance indicators:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 (restated) £000	Change %
Turnover	114,285	102,626	11%
Other operating income	1,951	2,158	-10%
EBITDA	10,266	8,455	21%
Profit/(loss) before tax	4,963	5,253	-6%
Gross profit margin	18%	17%	1%
EBITDA excluding exceptional items	10,846	8,708	25%
EBITDA excluding exceptional items as a % of turnover	9%	8%	1%
Profit before tax and interest excluding exceptional items	5,320	3,753	42%

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding operating exceptional items is calculated by adjusting for costs associated with the closure of a number of concessions, pre-opening occupancy costs relating to new stores and impairments for underperforming stores. These exceptional items are of a non-recurring and material nature and are therefore presented separately to give a clearer presentation and understanding of the company's results.

This year has seen another strong year of growth with new store openings and like-for-like sales growth contributing to the 11% increase in turnover and 25% increase in underlying EBITDA.

On behalf of the Board



David Bateman
Director
19th August 2016

Directors' Report

The directors present their report and financial statements for the 52 weeks ended 30 January 2016.

Results and dividends

The profit for the period after taxation amounted to £4,085,000 (52 weeks ended 31 January 2015 – profit of £4,255,000). The directors declared and paid an interim dividend of £11,995,000 in the year (52 weeks ended 31 January 2015 – £nil). The directors do not recommend a final dividend (52 weeks ended 31 January 2015 – £nil).

Future developments

The directors of the company aim to continue the strategy that has resulted in the company's growth so far. This involves further investment in new standalone stores in the UK, the growing online retail channel, overseas retail opportunities and the central infrastructure to underpin this expansion. This strategy is consistent with previous years and is wholly aligned with the wishes of Primary Capital, the principal investors in the business.

The directors believe the company to be well-positioned to continue its growth both in the UK and internationally.

Directors

The directors who served the company during the period and up to the date of signing this annual report were as follows:

D Bateman
T Melgund
R Warden

Going concern

The directors have carefully considered the company's cash flows and banking covenants for the next 12 months. These have been appraised in the light of the current economic climate and on a number of forecast scenarios. As such, conservative assumptions on profitability and working capital performance have been used to determine the level of financial resources available to Paperchase and to assess liquidity risk. The company has used a combination of long term trends and internal analysis for this assessment.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facility and covenants. The directors have a reasonable expectation that Paperchase has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the company financial statements.

Accounting and reporting developments

During the year, the company transitioned to reporting its statutory results under Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') having previously reported under UK GAAP. Detailed explanations of the effect of this transition are included in the financial statements and supporting note 24. Prior year comparatives have been restated accordingly.

Directors' Report (continued)

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 are available to disabled employees for training, career development and promotion.

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

Employee involvement

Paperchase seeks to provide employees systematically with information on matters of concern to them and consults on a regular basis so their views can be taken into account. Head office and store management bonuses and incentive schemes are performance related and there is regular communication to encourage awareness of the financial and economic factors affecting the performance of the company.

Creditors payment policy

Paperchase greatly values its relationships with suppliers and recognises the financial importance of paying invoices in a timely manner, particularly those of smaller businesses. It is the company's practice to agree terms with all suppliers when entering into contracts. We negotiate with suppliers on an individual basis and are committed to meeting our obligations accordingly. The company does not follow any specific published code or standard on payment practice outside of our own framework of responsibility for treating suppliers fairly.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

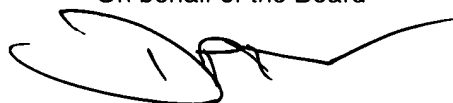
Auditors

A resolution under section 485 of the Companies Act 2006 to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Political and charitable contributions

During the period, the company made charitable contributions totalling £296,783 (52 weeks ended 31 January 2015 – £248,203) in connection with sale of charity greeting cards.

On behalf of the Board



David Bateman
Director
19th August 2016

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Independent auditor's report

to the members of Paperchase Products Limited

We have audited the financial statements of Paperchase Products Limited for the 52 weeks ended 30 January 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24. 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), including FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 January 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report

to the members of Paperchase Products Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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



Sandra Thompson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London

19 August 2016

Income statement

for the periods ended 30 January 2016 and 31 January 2015

		Trading profit £000	Store opening and closure costs £000	Exceptional items £000	Total profit £000
52 weeks ended 30 January 2016	Note				
Turnover	2	114,285	–	–	114,285
Cost of sales		(93,328)	(261)	(227)	(93,816)
Gross Profit		20,957	(261)	(227)	20,469
Other operating income		1,951	–	–	1,951
Distribution costs		(4,877)	–	–	(4,877)
Administrative expenses		(12,711)	–	(92)	(12,803)
Operating Profit	3	5,320	(261)	(319)	4,740
Finance income	6	462	–	–	462
Finance costs	7	(239)	–	–	(239)
Profit on ordinary activities before taxation		5,543	(261)	(319)	4,963
Tax on profit on ordinary activities	8	(878)	–	–	(878)
Profit for the financial period		4,665	(261)	(319)	4,085
52 weeks ended 31 January 2015	Note	£000	£000	£000	£000
Turnover	2	102,626	–	–	102,626
Cost of sales		(85,027)	(192)	(61)	(85,280)
Gross Profit		17,599	(192)	(61)	17,346
Other operating income	3	2,158	–	–	2,158
Distribution costs		(4,316)	–	–	(4,316)
Administrative expenses		(11,688)	–	–	(11,688)
Operating Profit		3,753	(192)	(61)	3,500
Finance income	6	1,979	–	–	1,979
Finance costs	7	(226)	–	–	(226)
Profit on ordinary activities before taxation		5,506	(192)	(61)	5,253
Tax on profit on ordinary activities	8	(998)	–	–	(998)
Profit for the financial period		4,508	(192)	(61)	4,255

All amounts relate to continuing activities.

Statement of comprehensive income

for the period ended 30 January 2016

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £4,085,000 in the 52 weeks ended 30 January 2016 (52 weeks ended 31 January 2015 – profit of £4,255,000).

Statement of financial position**at 30 January 2016**

		30 January 2016 £000	31 January 2015 £000
	Notes		
Fixed assets			
Property, plant and equipment	9	23,186	22,657
		<u>23,186</u>	<u>22,657</u>
Current assets			
Inventories	11	15,532	13,481
Debtors: amounts falling due after more than one year	12	2,945	1,748
Debtors: amounts falling due within one year	12	7,069	6,576
Cash and cash equivalents		6,036	7,429
		<u>31,582</u>	<u>29,234</u>
Creditors: amounts falling due within one year	13	(24,809)	(23,058)
Net current assets		<u>6,773</u>	<u>6,176</u>
Total assets less current liabilities		<u>29,959</u>	<u>28,833</u>
Creditors: amounts falling due after more than one year	13	(11,675)	(3,000)
Provisions for liabilities	14	(636)	(690)
Net assets		<u>17,648</u>	<u>25,143</u>
Capital and reserves			
Called up share capital	15	100	100
Share premium account		2,095	2,095
Capital contribution reserve		1,229	1,229
Other reserves		3,342	3,342
Profit and loss account		10,882	18,377
Total equity		<u>17,648</u>	<u>25,143</u>

Approved by the board and signed on its behalf



David Bateman
Director
19th August 2016

Statement of changes in equity

at 30 January 2016

	Share capital	Share capital premium account	Capital contribution reserve	Other reserves	Profit and loss account	Total shareholder's funds
	£000	£000	£000	£000	£000	£000
At 1 February 2014	100	2,095	1,229	3,342	13,989	20,755
Profit for the period	—	—	—	—	4,255	4,255
Share based payment	—	—	—	—	133	133
At 31 January 2015	<u>100</u>	<u>2,095</u>	<u>1,229</u>	<u>3,342</u>	<u>18,377</u>	<u>25,143</u>
Profit for the period	—	—	—	—	4,085	4,085
Share based payment	—	—	—	—	415	415
Dividends paid	—	—	—	—	(11,995)	(11,995)
At 30 January 2016	<u>100</u>	<u>2,095</u>	<u>1,229</u>	<u>3,342</u>	<u>10,882</u>	<u>17,648</u>

Statement of cash flows

for the period ended 30 January 2016

		52 weeks ended 30 January 2016	52 weeks ended 31 January 2015
	Notes	£000	£000
Net cash inflow from operating activities	18(a)	17,143	8,654
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(6,355)	(5,656)
Cash flows from financing activities			
Interest paid		(186)	(189)
Dividend paid		(11,995)	–
(Decrease)/increase in cash		<u>(1,393)</u>	<u>2,809</u>
Cash and cash equivalents at 1 Feb 2015		<u>7,429</u>	<u>4,620</u>
Cash and cash equivalents at 30 January 2016		<u>6,036</u>	<u>7,429</u>

Notes to the financial statements

30 January 2016

1. Accounting policies

Basis of preparation

Paperchase Products Limited is a limited liability company incorporated in England. The registered office is 12 Alfred Place, London, WC1E 7EB.

The financial statements are prepared in accordance with applicable accounting standards and the Companies Act 2006. The financial statements represent the 52 weeks ended 30 January 2016 (2015 - 52 weeks ended 31 January 2015). These financial statements are prepared in pound sterling, which is the functional currency of the company. Paperchase Products Limited is incorporated and domiciled in the UK.

The company transitioned to FRS 102 from previously extant UK GAAP as at 2 February 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 24. As a result of this transition, comparative information for the preceding financial year has been restated and this is indicated so in the financial statements and supporting notes.

Group financial statements

The company is exempt from the requirement to prepare group financial statements under section 400 of Companies Act 2006. The financial statements of the company and its subsidiary are included within the group financial statements of the consolidating parent entity, Paperchase Worldwide Holdings Limited, which are publicly available. Paperchase Worldwide Holdings Limited is incorporated in the UK.

Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the customer, it is probable that economic benefit will flow to the company and it is possible to measure the value of the revenue.

Other operating income

Other income represents amounts receivable in relation to overseas franchising and wholesale arrangements. Revenue from franchising arrangements is recognised when the company obtains the right to consideration in exchange for its performance, namely at the invoice date. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Exceptional items

Exceptional items are non-recurring material items that are outside the scope of the company's ordinary scope of business.

Foreign currencies

Transactions in foreign currencies are recorded at either the monthly exchange rate or spot rate at the date of the transaction depending on currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement within cost of sales.

Notes to the financial statements

30 January 2016

1. Accounting policies (continued)

Deferred taxation

Deferred taxation 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 right to pay less or to receive more, tax, with the following exception:

- 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.

Share-based payments

The company's ultimate parent, Paperchase Worldwide Holdings Limited, issued equity-settled share based payments to certain employees. They are measured at fair value at the date of grant and recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

The share based compensation is accounted for as equity-settled in the group financial statements of the parent, therefore the company is required to record an expense for such compensation, with a corresponding increase recognised in equity as a contribution from the parent.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest.

The company has chosen to apply the exemption under Section 35.10 (b) of FRS 102 not to apply Section 26 to equity instruments that were granted prior to the company's date of transition to FRS 102.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

Derivative instruments

The company purchases forward foreign currency contracts to reduce exposure to foreign exchange rates. These are recorded on the balance sheet at fair value and accounted for at fair value through profit and loss. Transaction costs are expensed immediately through profit and loss. A financial asset or liability is only recognised when the entity becomes a party to the contractual provisions of the instrument.

Notes to the financial statements

30 January 2016

1. Accounting policies (continued)

Property, equipment and IT assets

All property, equipment and IT assets are initially recorded at cost.

Depreciation is provided at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the date of acquisition, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold improvements, and furniture, fixtures and fittings	–	over 10 years for all standalone stores, Over 6 years for station stores, Over 6 years for UK concessions, Over 3 years for overseas concessions.
Warehouse furniture, fixtures and fittings	–	over 10 years
Head office furniture, fixtures and fittings	–	over 6 years
Computer hardware	–	over 3 years
Computer software	–	over 3 years

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment. Investments are reviewed for impairment when there are indicators that the carrying amount may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost excludes any expenditure, such as inbound freight and customs duty, incurred in bringing each product to its present location. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Leasing commitments

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Rent free incentives are spread over the term of the lease.

Notes to the financial statements

30 January 2016

2. Turnover

Turnover, which is stated net of value added tax, represents amounts received and receivable from the company's continuing principal activity, the sale of stationery and art materials.

An analysis of turnover by geographical market is given below:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
United Kingdom	113,925	102,169
Denmark	360	457
	<u>114,285</u>	<u>102,626</u>

3. Operating profit

This is stated after charging/(crediting):

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Auditor's remuneration – audit of the financial statements	56	50
– audit fees for FRS 102 transition work	21	–
– taxation compliance services	8	7
– audit related assurance services	12	13
– other non audit services	32	–
Depreciation (note 9)	5,526	4,955
Operating lease rentals – land and buildings	19,242	17,433
– Plant and machinery	126	250
Loss on disposal of fixed assets	20	62
Impairment of fixed assets	280	119
Onerous lease provision	(54)	(59)
Foreign exchange (gain)	<u>(561)</u>	<u>(116)</u>

Other operating income represents amounts receivable in relation to overseas franchising and wholesale arrangements.

Notes to the financial statements

30 January 2016

4. Remuneration of directors and key management

The key management team of the company is considered to consist of the company's directors and other senior members of the company's management, all of who attend board meetings of the company and its subsidiaries and are responsible for directing the chief planning, operating and financial decisions regarding the wider Paperchase business.

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Total key management remuneration in respect of qualifying services	1,521	1,562
Value of company pension contributions to money purchase schemes	150	143
	No.	No.
Members of money purchase pension schemes	10	10

The amounts in respect of the highest paid director, who is also the highest paid member of the key management team, are as follows:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Remuneration	295	270
Value of company pension contributions to money purchase schemes	55	50

No directors accrued benefits under defined benefit schemes in the current or prior period

Notes to the financial statements

30 January 2016

5. Staff costs

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Wages and salaries	22,936	20,609
Social security costs	1,435	1,378
Staff pension contributions	379	367
	<u>24,750</u>	<u>22,354</u>

Included in wages and salaries is a total credit of share-based payments of £415,000 (2015 – expense of £133,000) arising from equity-settled, share-based payment transactions.

The average monthly number of employees during the period was made up as follows:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Purchasing and stock control	78	84
Administration and finance	132	120
Sales and display	1,716	1,583
	<u>1,926</u>	<u>1,787</u>

Notes to the financial statements

30 January 2016

6. Interest receivable and similar income

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Finance income		
Revaluation of foreign currency derivatives	409	1,942
Bank interest receivable	20	10
Interest receivable from other group companies	33	27
Total interest receivable and similar income	462	1,979

7. Interest payable and similar charges

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Bank interest payable	235	226
Other interest payable	4	–
Total interest payable and similar charges	239	226

Notes to the financial statements

30 January 2016

8. Tax

(a) Tax on profit/(loss) on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Current tax:		
UK corporation tax on the profit/(loss) for the period	543	1,312
Group relief	(494)	(438)
Adjustments relating to prior periods	34	(6)
Total current tax	<u>83</u>	<u>868</u>
Deferred tax:		
Origination and reversal of timing differences (note 8(c))	<u>795</u>	<u>130</u>
Tax on charge on ordinary activities	<u>878</u>	<u>998</u>

Notes to the financial statements

30 January 2016

8. Tax (continued)

(b) Factors affecting total tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 20.2% (52 weeks ended 31 January 2015 – 21.3%). The differences are explained below:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Profit on ordinary activities before tax	4,963	5,253
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 20.2% (52 weeks ended 31 January 2015 – 21.3%)	1,003	1,119
Effects of:		
Expenses not deductible for tax purposes	359	330
Group relief	(494)	(438)
Effect of decreased tax rate on deferred tax balance	(24)	(7)
Adjustments relating to prior periods	34	(6)
Total tax expense for the period (note 8(a))	878	998

Notes to the financial statements

30 January 2016

8. Tax (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	52 weeks ended 30 January 2016 £000	52 weeks ended 31 January 2015 £000
Included in (creditors)/debtors (note 13/12)	(160)	635
Depreciation in excess of capital allowances	15	(76)
Other timing differences	(175)	711
Deferred tax (liability)/asset	(160)	635
		£000
At 1 February 2015		635
Deferred tax charge in the profit and loss account arising during the period		(795)
At 30 January 2016		(160)

Deferred tax is recognised on the basis that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is recognised on an undiscounted basis.

(d) Factors that may affect future tax charges

The UK Government enacted a rate decrease of 1% to reduce the main rate of corporation tax from 21% to 20% effective 1 April 2015. Further reductions were substantively enacted on 26 October 2015 reducing the rate of corporation tax to 19% at 1 April 2017, and to 18% at 1 April 2020. A further reduction to 17% at 1 April 2020 has been announced but not substantively enacted.

The deferred tax liability as at 30 January 2016 has been recognised at the substantively enacted future rate of 18% rate, when the asset is likely to unwind. Had the liability been calculated using the rate of 17% the difference would not be significant.

Notes to the financial statements

30 January 2016

9. Property, plant and equipment

	Leasehold improvements, furniture, fixtures and fittings £000	Computer hardware and software £000	Total £000
Cost:			
At 31 January 2015	44,670	8,016	52,686
Additions	4,649	1,706	6,355
Disposals	(101)	–	(101)
At 30 January 2016	49,218	9,722	58,940
Depreciation:			
At 31 January 2015	24,025	6,004	30,029
Provided during the period	4,265	1,261	5,526
Disposals	(81)	–	(81)
Impairments	280	–	280
At 30 January 2016	28,489	7,265	35,754
Net book value:			
At 30 January 2016	20,729	2,457	23,186
At 31 January 2015	20,645	2,012	22,657

The impairment charge of £280,000 is the result of asset value reduction in stores where cash generation no longer justifies the carrying value.

The impairment charge is included within cost of sales in the income statement.

Notes to the financial statements

30 January 2016

10. Investments

At 30 January 2016 and 31 January 2015 the company held investments in the following principal dormant subsidiary undertakings:

Company	Class of shares	Value	Percentage of ordinary shares held
Paperchase Limited (dormant)	£1 ordinary	£1	100%
Paperchase Designs Limited (dormant)	£1 ordinary	£1	100%

These companies are incorporated in the UK.

In addition, the following company is incorporated in the Republic of Ireland:

Paperchase Designs Ireland Limited	€1 ordinary	€1	100%
------------------------------------	-------------	----	------

The principal activities of Paperchase Designs Ireland Limited are the retail sale of gifts, stationery, greeting cards and art materials in the Republic of Ireland, the Netherlands, France, and Germany.

The following company is incorporated in Canada:

Paperchase Canada Retail Limited	CAD1 ordinary	CAD1	100%
----------------------------------	---------------	------	------

The principal activities of Paperchase Canada Retail Limited are the retail sale of gifts, stationery, greeting cards and art materials in Canada.

11. Inventories

	30 January 2016 £000	31 January 2015 £000
Consumables	262	197
Finished goods	15,270	13,284
	<u>15,532</u>	<u>13,481</u>

Notes to the financial statements

30 January 2016

12. Debtors

Amounts falling due within one year:

	30 January 2016 £000	31 January 2015 £000
Trade debtors	731	559
Other debtors	65	59
Prepayments and accrued income	4,360	4,145
Payments on account	74	98
Derivative financial instruments (note 19)	1,489	1,080
Corporation tax	350	—
Deferred taxation (note 8(c))	—	635
	<u>7,069</u>	<u>6,576</u>

Amounts falling due after one year:

	30 January 2016 £000	31 January 2015 £000
Amounts owed by group undertakings	<u>2,945</u>	<u>1,748</u>

Notes to the financial statements

30 January 2016

13. Creditors

Amounts falling due within one year:

	30 January 2016 £000	31 January 2015 £000
Trade creditors	9,949	8,719
Corporation tax	–	486
Other taxation and social security costs	1,253	1,341
Other creditors	382	246
Accruals and deferred income	13,021	12,223
Pension accrual	44	43
Deferred taxation (note 8(c))	160	–
	<u>24,809</u>	<u>23,058</u>

Amounts falling due after one year:

	30 January 2016 £000	31 January 2015 £000
Bank facility	3,000	3,000
Amounts owing to group undertakings	8,675	–
	<u>11,675</u>	<u>3,000</u>

14. Provisions

	30 January 2016 £000	31 January 2015 £000
Onerous lease provisions	<u>636</u>	<u>690</u>

The majority of the provisions balance relates to an onerous lease on the Paperchase standalone store in the Liverpool Met Quarter shopping centre. The provision was first recognised at 1 February 2014. The lease is due to expire in July 2021.

Notes to the financial statements

30 January 2016

15. Issued share capital

	30 January 2016		31 January 2015	
Allotted, called up and fully paid	No.	£000	No.	£000
Class BB ordinary shares of £1 each	100,000	100	100,000	100

16. Dividends

	30 January 2016 £000	31 January 2015 £000
<i>Declared and paid during the year</i>		
Interim for 2015	11,995	—

17. Financial instruments

	30 January 2016 £000	31 January 2015 £000
<i>Financial assets at fair value through profit and loss</i>		
Foreign forward currency contracts	1,489	1,080
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Trade debtors	731	559
Other debtors	65	59
<i>Financial liabilities measured at amortised cost</i>		
Trade creditors	9,949	8,719
Other creditors	382	246
Bank facility	3,000	3,000

Notes to the financial statements

30 January 2016

18. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	30 January 2016 £000	31 January 2015 £000
Profit for the period	4,963	5,253
Depreciation of fixed assets	5,526	4,955
Loss on disposal of fixed assets	20	62
Share based payment	415	133
Impairment of fixed assets	280	119
Net finance costs	(223)	(1,753)
(Increase)/decrease in inventories	(2,051)	644
(Increase) in debtors	(1,566)	(475)
Increase in creditors	10,752	100
(Decrease) in provisions	(54)	(59)
Corporation tax paid	(919)	(325)
Net cash inflow from operating activities	<u>17,143</u>	<u>8,654</u>

(b) Cash and cash equivalents

	30 January 2016 £000	31 January 2015 £000
Cash at bank in hand	<u>6,036</u>	<u>7,429</u>

Notes to the financial statements

30 January 2016

19. Derivatives

The company purchases forward foreign currency contracts to manage currency risk. The fair value of the derivative held at the balance sheet date, determined by reference to the market value, is as follows:

	30 January 2016 £000	31 January 2015 £000
Forward foreign currency contracts	<u>1,489</u>	<u>1,080</u>

Forward foreign currency contracts are recorded on the balance sheet at their fair value, adjusted for transaction costs, and accounted for at fair value through profit and loss. Changes in the fair value are recognised in the consolidated income statement, along with transaction costs.

The fair values of the company's forward foreign currency contracts are determined using appropriate valuation techniques from observable data, including discounted cash flow analysis, as no active markets with quoted prices exist for the instruments held by the company. There were no significant inputs used in the valuation techniques that were unobservable. All derivative financial instruments are classified as Level 2 in the fair value hierarchy.

Notes to the financial statements

30 January 2016

20. Share-based payments

On 20 November 2013, the company's ultimate parent, Paperchase Worldwide Holdings Limited granted shares to senior management of Paperchase Products Limited.

No amounts were paid or payable by the senior management on grant of the shares. The shares carry similar rights to the existing shares in Paperchase Worldwide Holdings Limited. The shares vest fully on a sale of the shares; the shares are forfeited if the employee leaves the company before this date.

There were no shares granted in the current or prior period. There were 35,988 shares vested in the current period (period ended 31 January 2015: none). There were 10,668 shares forfeited in the current period (period ended 31 January 2015: none).

During the period the vesting date of the remaining shares was reviewed and extended to July 2017 (period ended 31 January 2015: no change in vesting period).

The fair value per share is £2.24 as at the grant date and the vesting date.

The total expense recognised during the period for share-based payments was £415,000 (period ended 31 January 2015: expense of £133,000).

The shares are measured at fair value at the date of grant and recognised as an expense over the vesting period. The shares are not publicly traded and hence were valued at an estimated market price based on EBITDA multiples. There are no market conditions or non-vesting conditions affecting the fair value.

21. Other financial commitments

At 30 January 2016 the company had outstanding commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	30 January 2016		31 January 2015	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	20,081	104	18,562	79
In two to five years	62,980	202	63,683	193
Over five years	31,156	–	34,355	–
	<u>114,217</u>	<u>306</u>	<u>116,600</u>	<u>272</u>

Notes to the financial statements

30 January 2016

22. Related party transactions

During the period the company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 30 January 2016 are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed from related party £000	Amounts owed to related party £000
Primary Capital Ltd:				
At 30 January 2016	–	56	–	–
At 31 January 2015	–	56	–	–

Primary Capital Limited are the principal investors in Paperchase Worldwide Holdings Limited. The transactions between the company and Primary Capital relate to advisory fees.

Exemptions

The company has taken advantage of the exemption available under FRS 102, section 33.1A, not to disclose transactions with wholly owned members of the group headed by Paperchase Worldwide Holdings Limited.

23. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Paperchase Worldwide Group Limited, and its consolidating parent is Paperchase Worldwide Holdings Limited. Paperchase Worldwide Holdings is 78% owned by Primary Capital III (Nominees) Limited, which is one of the funds managed by Primary Capital Limited in their capacity as general partner of the fund.

The largest and smallest group in which the results of the company are consolidated is that headed by Paperchase Worldwide Holdings Limited, incorporated in the UK. The group financial statements of this company are available to the public and may be obtained from Companies House.

Notes to the financial statements

30 January 2016

24. Transition to FRS 102

The company transitioned to FRS 102 from previously extant UK GAAP as at 2 February 2014. The financial statements and supporting notes have been restated throughout.

The impact from the transition to FRS 102 is as follows:

Reconciliation of equity at 2 February 2014

	£000
Equity at 2 February 2014 under UK GAAP	20,758
Lease incentives	(3,460)
Derivatives	(862)
Restatement of foreign currency transactions	(102)
Depreciation of fixed assets	4,256
Holiday pay accrual	(200)
Deferred tax adjustments on transition	365
Equity at 2 February 2014 under FRS 102	<u>20,755</u>

Reconciliation of equity at 31 January 2015

	£000
Equity at 31 January 2015 under UK GAAP	23,687
Lease incentives	(4,262)
Derivatives	1,080
Restatement of foreign currency transactions	(158)
Depreciation of fixed assets	4,861
Holiday pay accrual	(213)
Deferred tax adjustments on transition	148
Equity at 31 January 2015 under FRS 102	<u>25,143</u>

Notes to the financial statements

30 January 2016

24. Transition to FRS 102 (continued)

Reconciliation of profit and loss for the year ended 31 January 2015

	£000
Profit for the year ended 31 January 2015 under UK GAAP	2,796
Lease incentives	(802)
Derivatives	1,942
Restatement of foreign currency transactions	(56)
Depreciation of fixed assets	605
Holiday pay accrual	(13)
Deferred tax adjustments on transition	(217)
Profit for the year ended 31 January 2015 under FRS 102	<u>4,255</u>

The following were changes in accounting policies arising from the transition to FRS 102:

Lease incentives

In accordance with FRS 102, the company has restated all lease incentives to be spread over the term of the lease on a straight line basis. Under UK GAAP these incentives were only spread over the period to the first rent review. The company has not elected to apply the exception available within FRS 102 to only restate leases with an inception date subsequent to the transition to FRS 102 and has instead chosen to restate all lease incentives from the earliest date at which relevant information exists.

The company has elected not to apply the requirements of IFRIC 4 on transition to FRS 102 when determining whether an arrangement contains a lease.

Derivatives

The company has chosen to adopt sections 11 and 12 of FRS 102 for its financial instruments rather than electing to apply IAS 39 and IFRS 9. Previously under UK GAAP derivatives were not recognised on the balance sheet.

Restatement of foreign currency transactions

Previously, under UK GAAP transactions involving the purchase of inventories denominated in US dollars were recognised at a fixed rate which represented the company's contracted rate at that time. Under FRS 102, these transactions have been restated using the spot rate in effect at the transaction date.

Notes to the financial statements

30 January 2016

24. Transition to FRS 102 (continued)

Depreciation of property, plant and equipment

FRS 102 requires an assessment of the useful economic life, residual value and depreciation method of all fixed assets. Due to extensive work undertaken during the FRS102 restatement, the company identified a prior period error, in that the real useful economic lives of fixed assets in Paperchase stores falls more in line with the length of the store leases (average 10 years), as opposed to the company depreciation policy under UKGAAP of 6 years. As a result of this review, the useful economic life of similar groups of fixed assets has been restated. Details of the re-assessed useful economic lives of these assets are included in note 1. The company considers the straight line method to continue to be the most appropriate method of depreciating these assets as it best represents the pattern of economic benefits flowing to the company over the life of the assets.

Holiday pay accrual

Under FRS 102, the company is required to accrue for all short-term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position. Although the company's financial year is to the end of January, the period for accruing annual leave is to the end of March. Under UK GAAP, the company had not made an accrual to recognise the effect of this timing difference.

Deferred tax

The impact on deferred tax from the adjustments resulting from the transition to FRS 102 has been calculated and is included as a difference to results reported in prior years as an accompanying transition adjustment.