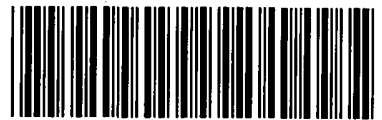


Paperchase Products Limited

Report and Financial Statements

For the 52 weeks ended 28 January 2017

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Company information

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 28 January 2017.

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 including a £14m revolving credit facility from Lloyds Banking Group. 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 cash flow forecasts.

Developments in the period

Trading results for the period reflected the 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, as well as the Brand's appeal.

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 12 standalone stores and three concession stores during the period. The group also opened one new franchise store in the Middle East. During the same period four unprofitable UK concessions were closed.

The company will continue to look to grow its sales and profit in the UK through delivering higher sales density in its existing portfolio and adding new standalone and concessions 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 footfall
- Customer conversion rate
- Average transaction value
- 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)

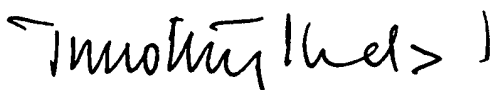
The directors consider the following to be the key financial performance indicators:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000	Change %
Turnover	119,196	114,285	4%
Other operating income	1,665	1,951	-15%
EBITDA	7,761	10,266	-27%
Profit before tax	613	5,230	-88%
Gross profit margin	16%	18%	-2%
EBITDA excluding exceptional items	9,091	10,846	-16%
EBITDA excluding exceptional items as a % of turnover	8%	9%	-1%
Profit before tax and interest excluding exceptional items	3,521	5,587	-37%

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.

The company grew turnover in a challenging retail environment and invested in further growth which impacted profit and EBITDA levels.

On behalf of the Board



Timothy Melgund
Director

25 JUL 2017

Directors' Report

The directors present their report and financial statements for the 52 weeks ended 28 January 2017.

Results and dividends

The profit for the period after taxation amounted to £793,000 (52 weeks ended 30 January 2016 – profit of £4,331,000). The directors did not declare or pay any dividends in the year (52 weeks ended 30 January 2016 – £11,995,000). The directors do not recommend a final dividend (52 weeks ended 30 January 2016 – £nil).

Future developments

The directors of the company aim to continue the strategy that has resulted in the company's growth so far, taking into account market conditions including political and economic uncertainty. This involves further investment in new standalone and concession stores in the UK underpinned by the successful Treat Me loyalty programme, 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 of the Paperchase group have carefully considered the group's forecast performance and cash flows for the next 12 months, and the requirements to meet a number of financial covenants related to the group's borrowing. These have been appraised in the light of the current economic climate and on a number of forecast scenarios. Key assumptions include the levels of forecast revenue, the level of profitability and working capital performance. The group have used a combination of long term trends and internal analysis for this assessment.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility and covenants. The directors have a reasonable expectation that the group 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's financial statements.

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 £285,594 (52 weeks ended 30 January 2016 – £296,783) in connection with sale of charity greeting cards.

On behalf of the Board



Timothy Melgund
Director

25 JUL 2017

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 28 January 2017 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 28 January 2017 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 (continued)

to the members of Paperchase Products Limited

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or 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.

Ernst & Young LLP

Christine Chua (Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London

25/7/17

Income statement

for the period ended 28 January 2017

		Trading profit £000	Store opening and closure costs £000	Exceptional items £000 (note 9)	Total profit £000
52 weeks ended 28 January 2017	Note				
Turnover	2	119,196	-	-	119,196
Cost of sales		(99,297)	(571)	(659)	(100,527)
Gross Profit		19,899	(571)	(659)	18,669
Other operating income		1,665	-	-	1,665
Distribution costs		(5,299)	-	-	(5,299)
Administrative expenses		(12,744)	-	(100)	(12,844)
Operating Profit	3	3,521	(571)	(759)	2,191
Finance income	6	63	-	-	63
Finance costs	7	(1,641)	-	-	(1,641)
Profit on ordinary activities before taxation		1,943	(571)	(759)	613
Tax on profit on ordinary activities	8	180	-	-	180
Profit for the financial period		2,123	(571)	(759)	793
52 weeks ended 30 January 2016 (restated)	Note	£000	£000	£000	£000
Turnover	2	114,285	-	-	114,285
Cost of sales		(93,061)	(261)	(227)	(93,549)
Gross Profit		21,224	(261)	(227)	20,736
Other operating income		1,951	-	-	1,951
Distribution costs		(4,877)	-	-	(4,877)
Administrative expenses		(12,711)	-	(92)	(12,803)
Operating Profit	3	5,587	(261)	(319)	5,007
Finance income	6	462	-	-	462
Finance costs	7	(239)	-	-	(239)
Profit on ordinary activities before taxation		5,810	(261)	(319)	5,230
Tax on profit on ordinary activities	8	(899)	-	-	(899)
Profit for the financial period		4,911	(261)	(319)	4,331

All amounts relate to continuing activities.

Statement of comprehensive income

for the period ended 28 January 2017

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £793,000 in the 52 weeks ended 28 January 2017 (52 weeks ended 30 January 2016 – profit of £4,331,000).

Statement of financial position**at 28 January 2017**

		28 January 2017	30 January 2016
	Notes	£000	£000 (restated)
Fixed assets			
Property, plant and equipment	10	23,719	24,302
		<u>23,719</u>	<u>24,302</u>
Current assets			
Inventories	12	17,458	16,098
Debtors: amounts falling due after more than one year	13	2,526	2,945
Debtors: amounts falling due within one year	13	6,517	7,065
Cash and cash equivalents		7,893	6,036
		<u>34,394</u>	<u>32,144</u>
Creditors: amounts falling due within one year	14	(28,495)	(25,505)
Net current assets		<u>5,899</u>	<u>6,639</u>
Total assets less current liabilities		<u>29,618</u>	<u>30,941</u>
Creditors: amounts falling due after more than one year	14	(9,636)	(11,675)
Provisions for liabilities	15	(576)	(636)
Net assets		<u>19,406</u>	<u>18,630</u>
Capital and reserves			
Called up share capital	16	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		12,640	11,864
Total equity		<u>19,406</u>	<u>18,630</u>

Approved by the board and signed on its behalf


Timothy Melgund
Director

25 JUL 2017

Statement of changes in equity

at 28 January 2017

	Share capital	Share capital premium account	Capital contribution reserve	Other reserves	Profit and loss account	Total shareholder's funds
	£000	£000	£000	£000	£000 (restated)	£000
At 31 January 2015	100	2,095	1,229	3,342	19,113	25,879
Profit for the period	–	–	–	–	4,331	4,331
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>11,864</u>	<u>18,630</u>
Profit for the period	–	–	–	–	793	793
Share based payment	–	–	–	–	(17)	(17)
At 28 January 2017	<u>100</u>	<u>2,095</u>	<u>1,229</u>	<u>3,342</u>	<u>12,640</u>	<u>19,406</u>

Statement of cash flows

for the period ended 28 January 2017

		52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
	Notes	£000	£000
Net cash inflow from operating activities	18(a)	7,409	17,143
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(5,360)	(6,355)
Cash flows from financing activities			
Interest paid		(192)	(186)
Dividend paid		-	(11,995)
Increase/(decrease) in cash		<u>1,857</u>	<u>(1,393)</u>
Cash and cash equivalents at January 2016		<u>6,036</u>	<u>7,429</u>
Cash and cash equivalents at January 2017		<u>7,893</u>	<u>6,036</u>

Notes to the financial statements

28 January 2017

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 28 January 2017 (2016 - 52 weeks ended 30 January 2016). 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.

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

28 January 2017

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

28 January 2017

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

28 January 2017

1. Accounting policies (continued)

Correction of prior period errors

The prior period has been corrected and restated. The depreciation balance at 30 January 2016 has been restated due to an error in the calculation performed in prior year to reassess the useful economic lives of Paperchase fixed assets. The total adjustment is a decrease to the depreciation balance of £1,116,000, with £267,000 of this adjustment falling into the period to 30 January 2016, and the remaining £849,000 falling into periods up to 31 January 2015 and earlier. The prior year deferred taxation creditor and deferred tax charge have also been restated due to the effect of this error.

The prior year inventory balance has been also restated to reflect increased level of accuracy over timing of stock ownership for stock in transit. The prior year inventory balance has been increased by £566,000.

Going concern

The directors of the Paperchase group have carefully considered the group's forecast performance and cash flows for the next 12 months, and the requirements to meet a number of financial covenants related to the group's borrowing. These have been appraised in the light of the current economic climate and on a number of forecast scenarios. Key assumptions include the levels of forecast revenue, the level of profitability and working capital performance. The group have used a combination of long term trends and internal analysis for this assessment.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility and covenants. The directors have a reasonable expectation that the group 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's financial statements

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 28 January 2017 £000	52 weeks ended 30 January 2016 £000
United Kingdom	119,154	113,925
Denmark	42	360
	<u>119,196</u>	<u>114,285</u>

Notes to the financial statements

28 January 2017

3. Operating profit

This is stated after charging/(crediting):

		52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Auditor's remuneration	– audit of the financial statements	110	56
	– audit fees for FRS 102 transition work	-	21
	– taxation compliance services	8	8
	– audit related assurance services	10	12
	– other non audit services	-	32
Depreciation (note 9)		5,570	5,259
Operating lease rentals	– land and buildings	20,614	19,242
	– Plant and machinery	144	126
Loss on disposal of fixed assets		73	20
Impairment of fixed assets		300	280
Onerous lease provision		(60)	(54)
Foreign exchange loss/(gain)		346	(561)

Other operating income of £1,665,000 represents amounts receivable in relation to overseas franchising and wholesale arrangements.

Notes to the financial statements

28 January 2017

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 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Total key management remuneration in respect of qualifying services	1,746	1,521

Value of company pension contributions to money purchase schemes	31	150
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	No.	No.
Members of money purchase pension schemes	12	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 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Remuneration	339	295

Value of company pension contributions to money purchase schemes	5	55
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No directors accrued benefits under defined benefit schemes in the current or prior period.

Notes to the financial statements

28 January 2017

5. Staff costs

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Wages and salaries	24,280	22,936
Social security costs	1,580	1,435
Staff pension contributions	262	379
	<u>26,122</u>	<u>24,750</u>

Included in wages and salaries is a total credit of share-based payments of £17,000 (2016 – expense of £415,000) 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 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Purchasing and stock control	90	78
Administration and finance	145	132
Sales and display	1,729	1,716
	<u>1,964</u>	<u>1,926</u>

Notes to the financial statements

28 January 2017

6. Finance income

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Revaluation of foreign currency derivatives	-	409
Bank interest receivable	22	20
Interest receivable from other group companies	41	33
Total interest receivable and similar income	63	462

7. Finance cost

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Revaluation of foreign currency derivatives	1,386	-
Bank interest payable	254	235
Other interest payable	1	4
Total interest payable and similar charges	1,641	239

Notes to the financial statements

28 January 2017

8. Tax

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

The tax (credit)/charge is made up as follows:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Current tax:		
UK corporation tax on the profit for the period	608	543
Group relief	(608)	(494)
Adjustments relating to prior periods	-	34
Total current tax	-	83
Origination and reversal of timing differences (note 8(c))	(180)	816
Tax (credit)/charge on ordinary activities	(180)	899

(b) Factors affecting total tax (credit)/ charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 20% (52 weeks ended 30 January 2016 –20.2%). The differences are explained below:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Profit on ordinary activities before tax	613	5,230
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 20% (52 weeks ended 30 January 2016 – 20.2%)	123	1,056
Effects of:		
Expenses not deductible for tax purposes	293	342
Group relief	(608)	(494)
Effect of decreased tax rate on deferred tax balance	12	(39)
Adjustments relating to prior periods	-	34
Total tax (credit)/expense for the period (note 8(a))	(180)	899

Notes to the financial statements

28 January 2017

8. Tax (continued)

(c) Deferred tax

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

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Included in creditors (note 13)	(114)	(294)
Depreciation in excess of capital allowances	35	(119)
Other timing differences	(149)	(175)
Deferred tax liability	(114)	(294)
		£000
At 31 January 2016		(294)
Deferred tax credit in the profit and loss account arising during the period		180
At 28 January 2017		(114)

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 Finance (No2) Act 2015 reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. Finance Act 2016 enacted a further reduction in the main rate to 17% with effect from 1 April 2020. These changes have been incorporated into the balance sheet calculations at 28 January 2017.

The prior year deferred taxation creditor and deferred tax charge have been restated. This is due to the deferred tax effect of a restatement of fixed asset depreciation balances in prior years. This is further discussed in note 9. The taxation reconciliation has also been restated.

Notes to the financial statements

28 January 2017

9. Exceptional items

The exceptional items disclosed on the face of the profit and loss account are as follows:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Impairments	(299)	(227)
Onerous lease provision	60	-
Lakeside store provision	(420)	-
Restructuring provision	(100)	-
Transition costs	-	(92)
	<u>(759)</u>	<u>(319)</u>

10. Property, plant and equipment

	Leasehold improvements, furniture, fixtures and fittings £000	Computer hardware and software £000	Total £000
Cost:			
At 30 January 2016	49,218	9,722	58,940
Additions	4,183	1,177	5,360
Disposals	(498)	(2,403)	(2,901)
At 28 January 2017	<u>52,903</u>	<u>8,496</u>	<u>61,399</u>
Depreciation:			
At 30 January 2016 (restated)	27,373	7,265	34,638
Provided during the period	4,071	1,499	5,570
Disposals	(425)	(2,403)	(2,828)
Impairments	300	-	300
At 28 January 2017	<u>31,319</u>	<u>6,361</u>	<u>37,680</u>
Net book value:			
At 28 January 2017	<u>21,584</u>	<u>2,135</u>	<u>23,719</u>
At 30 January 2016	<u>21,845</u>	<u>2,457</u>	<u>24,302</u>

Notes to the financial statements

28 January 2017

10. Property, plant and equipment (continued)

The impairment charge of £300,000 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.

The depreciation balance at 30 January 2016 has been restated. This is due to an error in the calculation performed in prior year to reassess the useful economic lives of Paperchase fixed assets. The total adjustment is a decrease to the depreciation balance of £1,116,000, with £267,000 of this adjustment falling into the period to 30 January 2016, and the remaining £849,000 falling into periods up to 31 January 2015 and earlier. All affected balances in the prior year comparatives have been restated.

11. Investments

At 28 January 2017 and 30 January 2016 the company held investments in the following principal dormant subsidiary undertakings:

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

The following company is incorporated in the USA:

Paperchase Retail Incorporated	USD1 ordinary	USD10,000	100%
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The principal activities of Paperchase Retail Limited are the retail sale of gifts, stationery, greeting cards and art materials in the USA.

Notes to the financial statements

28 January 2017

12. Inventories

	28 January 2017 £000	30 January 2016 £000 (restated)
Consumables	295	262
Finished goods	13,333	12,873
Stock in transit	3,830	2,963
	<u>17,458</u>	<u>16,098</u>

The stock in transit balance has increased on prior year due to the timing of Chinese New Year.

The prior year balance has been restated to reflect increased level of accuracy over timing of stock ownership for stock in transit. The prior year inventory balance has been increased by £566,000.

13. Debtors

Amounts falling due within one year:

	28 January 2017 £000	30 January 2016 £000 (restated)
Trade debtors	568	731
Other debtors	48	65
Prepayments and accrued income	5,299	4,360
Payments on account	39	70
Derivative financial instruments (note 19)	103	1,489
Corporation tax	460	350
	<u>6,517</u>	<u>7,065</u>

Amounts falling due after one year:

	28 January 2017 £000	30 January 2016 £000
Amounts owed by group undertakings	<u>2,526</u>	<u>2,945</u>

Notes to the financial statements

28 January 2017

14. Creditors

Amounts falling due within one year:

	28 January 2017 £000	30 January 2016 £000 (restated)
Trade creditors	11,223	10,511
Other taxation and social security costs	1,663	1,253
Other creditors	438	382
Accruals and deferred income	14,522	13,021
Pension accrual	35	44
Deferred taxation (note 8(c))	114	294
Bank facility	500	—
	<u>28,495</u>	<u>25,505</u>

The prior year trade creditor balance has been restated to reflect increased level of accuracy over timing of stock ownership for stock in transit.

The prior year deferred taxation creditor has also been restated. This is due to the deferred tax effect of a restatement of fixed asset depreciation balances in prior years. This is further discussed in note 9.

Amounts falling due after one year:

	28 January 2017 £000	30 January 2016 £000
Bank facility	2,500	3,000
Amounts owing to group undertakings	7,136	8,675
	<u>9,636</u>	<u>11,675</u>

Notes to the financial statements

28 January 2017

15. Provisions

	28 January 2017 £000	30 January 2016 £000
Onerous lease provisions	576	636

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.

16. Issued share capital

	No.	28 January 2017 £000	No.	30 January 2016 £000
Allotted, called up and fully paid				
Class BB ordinary shares of £1 each	100,000	100	100,000	100

17. Dividends

	28 January 2017 £000	30 January 2016 £000
<i>Declared and paid during the year</i>		
Interim for 2015	—	11,995

Notes to the financial statements

28 January 2017

18. Notes to the statement of cash flows

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

	28 January 2017 £000	30 January 2016 £000 (restated)
Profit for the period before tax	613	5,230
Depreciation of fixed assets	5,570	5,259
Loss on disposal of fixed assets	73	20
Share based payment	(17)	415
Impairment of fixed assets	300	280
Net finance costs	1,578	(223)
(Increase) in inventories	(1,360)	(2,617)
(Increase) in debtors	(309)	(1,562)
Increase in creditors	1,131	11,314
(Decrease) in provisions	(60)	(54)
Corporation tax paid	(110)	(919)
Net cash inflow from operating activities	<u>7,409</u>	<u>17,143</u>

(b) Cash and cash equivalents

	28 January 2017 £000	30 January 2016 £000
Cash at bank in hand	<u>7,893</u>	<u>6,036</u>

Notes to the financial statements

28 January 2017

19. Financial instruments

	28 January 2017 £000	30 January 2016 £000 (restated)
<i>Financial assets at fair value through profit and loss</i>		
Foreign currency forward contracts	103	1,489
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Trade debtors	568	731
Other debtors	48	65
<i>Financial liabilities measured at amortised cost</i>		
Trade creditors	11,223	10,511
Other creditors	438	382
Bank facility	3,000	3,000

20. 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:

	28 January 2017 £000	30 January 2016 £000
Forward foreign currency contracts	103	1,489

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

28 January 2017

21. 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. No shares vested in the current period (period ended 30 January 2016: 35,988 shares vested). There were 10,668 shares forfeited in the current period (period ended 30 January 2016: 10,668 shares forfeited).

During the period the vesting date of the remaining shares was reviewed and extended to May 2019 (period ended 30 January 2016: vesting date of the remaining shares was reviewed and extended to July 2017).

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

The total credit recognised during the period for share-based payments was £17,000 (period ended 30 January 2016: expense of £415,000). The credit was due to shares forfeited in the year as well as an extension of the vesting period in the year.

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.

22. Other financial commitments

At 28 January 2017 the company had outstanding commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	28 January 2017		30 January 2016	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	19,416	117	20,081	104
In two to five years	56,122	161	62,980	202
Over five years	24,397	–	31,156	–
	<u>99,935</u>	<u>278</u>	<u>114,217</u>	<u>306</u>

Notes to the financial statements

28 January 2017

23. 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 28 January 2017 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 III (Nominees) Limited:				
At 28 January 2017	–	55	–	–
At 30 January 2016	–	56	–	–
Esteem Holdings Limited:				
At 28 January 2017	–	355	–	–
At 30 January 2016	–	265	–	–

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

Esteem Holdings Limited are owned by Primary Capital II (Nominees) Limited a fund managed by Primary Capital Limited.

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.

24. 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 81% owned by Primary Capital III (Nominees) Limited, which is a nominee company which holds the legal title to shares on behalf of Primary III A LP and Primary III B LP, which together own the beneficial interest in those shares and together constitute the Primary III 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.