

Company number 03414540

**Strategic Report, Directors' Report and
Financial Statements for the Year Ended 31 December 2016
for
Hallmark Cards Plc**

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Hallmark Cards Plc

**Company Information
for the Year Ended 31 December 2016**

DIRECTORS:

R M Campbell
S P Wright
D J Hall Jr
Mrs P M Gardiner
T M Busby

SECRETARY:

Mrs P M Gardiner

REGISTERED OFFICE:

Hallmark House
Bingley Road
Bradford
West Yorkshire
BD9 6SD

REGISTERED NUMBER:

03414540 (England and Wales)

AUDITOR:

KPMG LLP
Chartered Accountants
1 Sovereign Square
Leeds
West Yorkshire
LS1 4DA

SOLICITORS:

Eversheds
Cloth Hall Court
Infirmary Street
Leeds

**Strategic Report
for the Year Ended 31 December 2016**

Principal activities

The principal activity of the Company continues to be the design, production and sale of greeting cards.

Business review and results

Turnover for the year was £150m, a 7.7% increase on the previous year. The Company posted an operating profit of £3.9m (2015: £2.2m loss). These results reflect some significant customer account wins and the business's ability to grow the category for its existing customers. Additionally, the business sold its retail stores, in order to focus activities on supply into retail.

After the Brexit vote, the pound has fallen significantly against other major currencies and this is expected to have a negative impact on profitability. Various strategies have been put in place to limit the effects of exchange rate fluctuations including the hedging of foreign currency exposure where appropriate.

The Company is to close its offices at the Bingley Road site and consolidate activities on to the Dawson Lane site in Bradford, enabling closer collaboration between teams as well as realising a reduction in costs. Extensive renovations are being made at the Dawson Lane site to create a fresh new environment and the move will be completed during 2017.

The Company continues to make further significant investments in improving infrastructure, and in strategic initiatives. Despite this, the Company finished the year in a strong cash position with £17.4m of cash at bank (2015: £18.2m). The Company remains free of external debt.

Hallmark continues to maintain its ISO9001 and ISO14001 Quality and Environmental management systems for the scope of UK manufacturing and distribution activities. The Company is also proud to be able to display the Forest Stewardship Council (FSC) trademark on our products, demonstrating our commitment to responsible sourcing.

Employees

The Company conforms to health and safety arrangements as required under the Health and Safety at Work Act 1974 as well as The Management of Health and Safety at Work Regulations 1999, and has drawn to the attention of employees the Company's policy in that respect.

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.

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

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the group has been continued through 'Town Hall Meetings' and regular updates on the Company's intranet site. Employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Hallmark is committed to employee diversity as disclosed in our diversity policy, available on the employee intranet. As the policy states, the Company aims to foster an environment of dignity and respect for everyone. Discrimination based on gender, marital status, race, ethnic origin, colour, nationality, disability, sexual orientation, religion or age is not considered acceptable. The policy complies with the Equality Act 2010.

**Strategic Report
for the Year Ended 31 December 2016**

KPI's

Key financial performance indicators include the monitoring of management of working capital. Key non-financial performance indicators include the monitoring of consumer awareness of the brand.

<u>Financial</u>	2016	2015	Measure
Return on assets	10.8%	4.7%	EBITDA/tangible assets plus current assets less inter-company items
Stock turnover	5.3	6.4	Turnover / stock
Sales per FTE employee	£117k	£105k	Turnover / average no. of full time equivalent employees
Turnover growth	7.7%	(10.5)%	Turnover current year - turnover prior year / turnover prior year
<u>Non-financial</u>			
Market share	25.2%	23.4%	Turnover at estimated retail value / estimated total market retail value
Reportable accident rate	0.0039	0.0038	Reportable accidents/average no. of FTE employees

**Strategic Report
for the Year Ended 31 December 2016**

Principal risks and uncertainties

Cash flow risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company monitors short, medium and long term exchange rates and has a policy of hedging against currency fluctuations relating to its transactions.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Customer counterparty risk is closely monitored by the Company.

Strong relationships are maintained with each of its key customers and well established and rigorous credit control parameters are in place to reduce the concentration of credit risk where applicable. Appropriate credit terms are agreed with all customers and these are closely managed.

The credit risk on liquid funds and derivative financial instruments is considered to be insignificant because the counterparties are banks with high credit-ratings.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Company uses a mixture of long-term and short-term finance. The Company regularly reviews its cash flow forecasts against its current facilities and continues to have a good working relationship with its bankers.

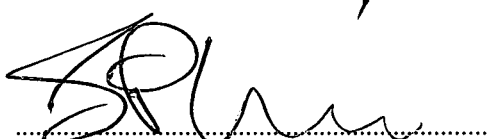
Inventory risk

The Company continues to use lean manufacturing techniques to improve the efficiency of its manufacturing operations and to reduce the risk of holding obsolete stock. Stock levels are regularly reviewed and where obsolete stock is identified, a provision is made against the relevant products. Further details can be found in note 2.

Pension risk

Funding of pension liabilities is split between equities and other assets in line with projected benefit obligations for each scheme. The Company is subject to funding risks, principally poor performance of the equity investments and increased longevity of the members.

ON BEHALF OF THE BOARD:



S P Wright - Director

Date: 15-3-17

Directors' Report
for the Year Ended 31 December 2016

The directors present their report with the financial statements of the Company for the year ended 31 December 2016.

In accordance with section 414C(11) of the Companies Act, information required in the Directors' Report has been set out in the Company's Strategic Report in respect of the Company's principal activities, business review and results, key performance indicators and principal risks and uncertainties.

Going Concern

At 31 December 2016 the Company had cash on hand of £17.4 million (31 December 2015 - £18.2 million), leaving it in a net funds position.

Overall, the directors believe the Company is well placed to manage its business risks successfully.

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 facilities. The Directors have considered the Company's position, together with the Company's budgets and positive net current assets, and after making appropriate enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis for the preparation of the financial statements.

DIVIDENDS

The directors have not declared a dividend (2015: £nil).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

R M Campbell
S P Wright
D J Hall Jr
Mrs P M Gardiner
T M Busby

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

ON BEHALF OF THE BOARD:



S P Wright - Director

Date: 15-3-17

**Statement of Directors' Responsibilities
for the Year Ended 31 December 2016**

The directors are responsible for preparing the Strategic Report and 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including the Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102).

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:

- o select suitable accounting policies and then apply them consistently;
- o make judgments and estimates that are reasonable and prudent;
- o state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- o 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Hallmark Cards Plc

We have audited the financial statements of Hallmark Cards Plc for the year ended 31 December 2016 on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102 '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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- o give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- o have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- o have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

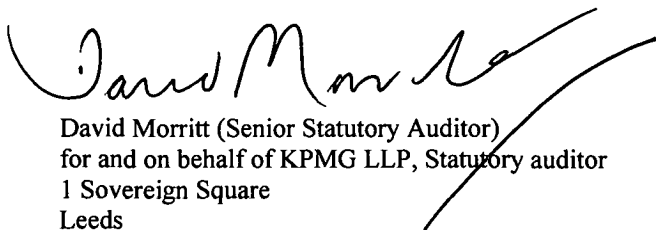
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- o we have not identified material misstatements in those reports; and
- o in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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:

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



David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory auditor
1 Sovereign Square
Leeds
West Yorkshire
LS1 4DA

Date: 16 March 2017

Hallmark Cards Plc

Profit and Loss Account for the Year Ended 31 December 2016

	Notes	31.12.16 £'000	31.12.15 £'000
TURNOVER	3	150,280	139,528
Cost of sales		<u>(84,740)</u>	<u>(79,884)</u>
GROSS PROFIT		65,540	59,644
Distribution costs		(7,039)	(5,629)
Administrative expenses		<u>(55,179)</u>	<u>(57,114)</u>
		3,322	(3,099)
Other operating income		<u>549</u>	<u>913</u>
OPERATING PROFIT/(LOSS)		3,871	(2,186)
Interest receivable and similar income	6	<u>6</u>	<u>6</u>
		3,877	(2,180)
Interest payable and similar charges	7	(24)	(47)
Other finance costs	20	<u>(348)</u>	<u>(183)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	8	3,505	(2,410)
Tax on profit/(loss) on ordinary activities	10	<u>(1,631)</u>	<u>(957)</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>1,874</u>	<u>(3,367)</u>

The notes on pages 12 to 26 form part of these financial statements

Hallmark Cards Plc**Statement of Other Comprehensive Income
for the Year Ended 31 December 2016**

	Notes	31.12.16 £'000	31.12.15 £'000
PROFIT/(LOSS) FOR THE YEAR		1,874	(3,367)
OTHER COMPREHENSIVE LOSS			
Actuarial losses on pension schemes		(8,416)	(6,629)
Deferred tax thereon		<u>1,515</u>	<u>1,193</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		<u>(6,901)</u>	<u>(5,436)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(5,027)</u>	<u>(8,803)</u>

The notes on pages 12 to 26 form part of these financial statements

Balance Sheet
31 December 2016

	Notes	31.12.16 £'000	31.12.15 £'000
FIXED ASSETS			
Intangible assets	11	19,337	23,498
Tangible assets	12	21,250	22,183
Investments	13	<u>12,769</u>	<u>12,769</u>
		<u>53,356</u>	<u>58,450</u>
CURRENT ASSETS			
Stocks	14	21,321	16,066
Debtors	15	448,470	447,662
Cash at bank		<u>17,396</u>	<u>18,173</u>
		487,187	481,901
CREDITORS			
Amounts falling due within one year	16	<u>(451,464)</u>	<u>(450,853)</u>
NET CURRENT ASSETS		<u>35,723</u>	<u>31,048</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		89,079	89,498
PENSION LIABILITY	20	<u>(13,029)</u>	<u>(8,421)</u>
NET ASSETS		<u>76,050</u>	<u>81,077</u>
CAPITAL AND RESERVES			
Called up share capital	19	4,035	4,035
Retained earnings		<u>72,015</u>	<u>77,042</u>
SHAREHOLDERS' FUNDS		<u>76,050</u>	<u>81,077</u>

The financial statements were approved by the Board of Directors on 15/03/2017 and were signed on its behalf by:



S P Wright - Director

Hallmark Cards Plc

**Statement of Changes in Equity
for the Year Ended 31 December 2016**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	4,035	85,845	89,880
Changes in equity			
Total comprehensive loss	<u>-</u>	<u>(8,803)</u>	<u>(8,803)</u>
Balance at 31 December 2015	<u>4,035</u>	<u>77,042</u>	<u>81,077</u>
Changes in equity			
Total comprehensive loss	<u>-</u>	<u>(5,027)</u>	<u>(5,027)</u>
Balance at 31 December 2016	<u><u>4,035</u></u>	<u><u>72,015</u></u>	<u><u>76,050</u></u>

The notes on pages 12 to 26 form part of these financial statements

**Notes to the Financial Statements
for the Year Ended 31 December 2016**

1. STATUTORY INFORMATION

Hallmark Cards Plc is a private Company, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparation

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

The financial statements are prepared in pounds sterling which is the functional currency and are rounded to the nearest £000.

Going concern

The Company's business activities, together with the factors likely to affect its future performance and position are set out in the Business review which forms part of the Strategic report.

As explained on page 5, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

FRS 102 - reduced disclosure exemptions

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the following disclosure exemptions as permitted by FRS 102

- The requirements to prepare a statement of cash flows and related notes
- The requirements relating to certain disclosures in respect of key management personnel compensation
- The requirements relating to certain disclosures in respect of related party disclosures.

Preparation of consolidated financial statements

The financial statements contain information about Hallmark Cards Plc as an individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its parent, Hallmark Cards (Holdings) Limited.

Related party exemption

The Company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

2. ACCOUNTING POLICIES - continued

Intangible fixed assets

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired in a business combination) is capitalised and amortised over the Directors' estimate of its useful economic life of 20 years. Provision is made for impairment, where considered necessary.

Software

Capitalised software is considered to have a useful economic life of five years. The cost less estimated residual value is amortised on a straight line basis at 20% per year.

Tangible fixed assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	2%
Plant & machinery	10% - 33%
Motor vehicles	25%

No depreciation is provided on freehold land.

Due to the operational nature of the assets held under 'Assets Under Construction', depreciation is applied to these assets from the date of capitalisation over their estimated useful economic life, in line with the rates of depreciation above.

Investments in subsidiaries

Investments in subsidiary undertakings are recognised at cost less any provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2016**

2. ACCOUNTING POLICIES - continued

Foreign currencies

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

Hire purchase and leasing commitments

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The Company operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Company in an independently administered fund.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension schemes' net deficit is recognised in full. The movement in the schemes' net deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Company also operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the financial year.

Fixed asset investments

Fixed asset investments are stated at cost less provision for impairment where appropriate.

3. TURNOVER

The turnover and profit (2015 - loss) before taxation are attributable to the one principal activity of the Company.

An analysis of turnover by geographical market is given below:

	31.12.16	31.12.15
	£'000	£'000
United Kingdom and ROI	149,317	137,741
Rest of Europe	474	529
Other	489	1,258
	<u>150,280</u>	<u>139,528</u>

All turnover was generated by the sale of goods.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

4. EMPLOYEES AND DIRECTORS

The average monthly number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	31.12.16	31.12.15
Production	6	7
Distribution and marketing	767	697
Administration	<u>514</u>	<u>548</u>
	<u>1,287</u>	<u>1,252</u>

The aggregate payroll costs of these persons were as follows:

	31.12.16	31.12.15
	£'000	£'000
Wages and salaries	33,918	32,866
Social security costs	2,774	2,818
Other pension costs	<u>2,491</u>	<u>2,951</u>
	<u>39,183</u>	<u>38,635</u>

5. DIRECTORS' REMUNERATION

	31.12.16	31.12.15
	£	£
Directors' remuneration	1,144,812	1,450,049
Company contributions to money purchase pension schemes	<u>66,674</u>	<u>91,579</u>

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

Money purchase schemes	<u>4</u>	<u>5</u>
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Information regarding the highest paid director is as follows:

	31.12.16	31.12.15
	£	£
Emoluments etc	447,476	385,038
Pension contributions to money purchase schemes	<u>20,459</u>	<u>47,057</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	31.12.16	31.12.15
	£'000	£'000
Deposit account interest	<u>6</u>	<u>6</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	31.12.16	31.12.15
	£'000	£'000
Bank interest	<u>24</u>	<u>47</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

8. OPERATING PROFIT/(LOSS) BEFORE TAXATION

Operating profit (2015 - loss) is stated after charging/(crediting):

	31.12.16	31.12.15
	£'000	£'000
Operating lease rentals	1,358	1,912
Depreciation - owned assets	2,839	2,952
Profit on disposal of fixed assets	(1,329)	(148)
Goodwill amortisation	3,324	3,324
Computer software amortisation	837	628
Restructuring costs	-	3,586
Adjustment arising from agreement of historic trading balances	-	621
	<u> </u>	<u> </u>

9. AUDITOR'S REMUNERATION

	31.12.16	31.12.15
	£'000	£'000
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	107	107
Other services relating to taxation	<u>27</u>	<u>27</u>

Amounts receivable by the Company's auditor and its associates in respect of the audit of financial statements of associated pension schemes is £13,000 (2015: £12,000).

10. TAXATION

Analysis of the total tax charge in the profit and loss account, other comprehensive income and equity

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

	31.12.16	31.12.15
	£'000	£'000
Current tax:		
Adjustment in respect of prior periods	(47)	14
Current tax on income for the period	<u>49</u>	<u>131</u>
Total current tax	<u>2</u>	<u>145</u>
Deferred tax:		
Original and reversal of timing differences	1,341	271
Change in tax rate	101	416
Adjustment in respect of prior periods	<u>187</u>	<u>125</u>
Total deferred tax	<u>1,629</u>	<u>812</u>
Total tax charge in the profit and loss account	<u>1,631</u>	<u>957</u>

UK corporation tax has been charged at 20% (2015 - 20.25%).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

10. TAXATION - continued

Reconciliation of total tax charge included in profit and loss

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

	31.12.16 £'000	31.12.15 £'000
Profit/(loss) before tax	<u>3,505</u>	<u>(2,410)</u>
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.250%)	701	(488)
Effects of:		
Expenses not deductible for tax purposes	209	162
Adjustments to tax charge in respect of previous periods	140	139
Effect of tax rates in foreign jurisdictions	37	55
Reduction in tax rate on deferred tax balances	39	416
Goodwill amortisation	665	673
Capital losses not previously recognised in deferred tax	<u>(160)</u>	<u>-</u>
Total tax charge	<u>1,631</u>	<u>957</u>

Tax effects relating to effects of other comprehensive income

	31.12.16		
	Gross £'000	Tax £'000	Net £'000
Actuarial losses on pension schemes	<u>(8,416)</u>	<u>1,515</u>	<u>(6,901)</u>
	<u>(8,416)</u>	<u>1,515</u>	<u>(6,901)</u>

	31.12.15		
	Gross £'000	Tax £'000	Net £'000
Actuarial losses on pension schemes	<u>(6,629)</u>	<u>1,193</u>	<u>(5,436)</u>
	<u>(6,629)</u>	<u>1,193</u>	<u>(5,436)</u>

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

11. INTANGIBLE FIXED ASSETS

	Goodwill £'000	Computer software £'000	Total £'000
COST			
At 1 January 2016			
and 31 December 2016	<u>71,054</u>	<u>4,184</u>	<u>75,238</u>
AMORTISATION			
At 1 January 2016	51,112	628	51,740
Amortisation for the year	<u>3,324</u>	<u>837</u>	<u>4,161</u>
At 31 December 2016	<u>54,436</u>	<u>1,465</u>	<u>55,901</u>
NET BOOK VALUE			
At 31 December 2016	<u>16,618</u>	<u>2,719</u>	<u>19,337</u>
At 31 December 2015	<u>19,942</u>	<u>3,556</u>	<u>23,498</u>

Goodwill arising on the group reorganisation on 31 December 2001 is being amortised over the directors' estimate of its useful economic life of 20 years. This has been reviewed under the guidelines of FRS 102 and the Directors deem the useful remaining life of the goodwill to be appropriate.

12. TANGIBLE FIXED ASSETS

	Freehold land & buildings £'000	Plant and machinery £'000	Assets under construction £'000	Motor vehicles £'000	Total £'000
COST					
At 1 January 2016	33,530	850	319	1,158	35,857
Additions	-	484	2,283	-	2,767
Assets capitalised in the year	-	144	(144)	-	-
Disposals	(668)	(774)	-	-	(1,442)
Impairment reversal of disposed assets	-	5,193	-	-	5,193
Reclassification	-	1,376	(239)	(1,137)	-
At 31 December 2016	<u>32,862</u>	<u>7,273</u>	<u>2,219</u>	<u>21</u>	<u>42,375</u>
DEPRECIATION					
At 1 January 2016	17,907	(5,424)	33	1,158	13,674
Charge for the year	1,034	1,805	-	-	2,839
Eliminated on disposal	(338)	(243)	-	-	(581)
Impairment reversal of disposed assets	-	5,193	-	-	5,193
Reclassification	-	1,170	(33)	(1,137)	-
At 31 December 2016	<u>18,603</u>	<u>2,501</u>	<u>-</u>	<u>21</u>	<u>21,125</u>
NET BOOK VALUE					
At 31 December 2016	<u>14,259</u>	<u>4,772</u>	<u>2,219</u>	<u>-</u>	<u>21,250</u>
At 31 December 2015	<u>15,623</u>	<u>6,274</u>	<u>286</u>	<u>-</u>	<u>22,183</u>

Freehold land and buildings includes land of £3,023,000 (2015: £3,023,000) on which no depreciation has been charged. None of the assets were held under finance leases.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

13. FIXED ASSET INVESTMENTS

	Shares in group undertakings £'000	Unlisted investments £'000	Total £'000
COST			
At 1 January 2016			
and 31 December 2016	<u>13,769</u>	<u>246</u>	<u>14,015</u>
PROVISIONS			
At 1 January 2016			
and 31 December 2016	<u>1,000</u>	<u>246</u>	<u>1,246</u>
NET BOOK VALUE			
At 31 December 2016	<u>12,769</u>	<u>-</u>	<u>12,769</u>
At 31 December 2015	<u>12,769</u>	<u>-</u>	<u>12,769</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

13. FIXED ASSET INVESTMENTS - continued

The companies in which the Company had an interest in at the year end are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage of ordinary shares held
Hambledon Studios Limited	England & Wales	Dormant	100%
Mansell Licensing Limited	England & Wales	Dormant	100%
Route One Limited	England & Wales	Dormant	100%
Wilson Brothers Limited	England & Wales	Dormant	100%
More Stripes Limited	England & Wales	Dormant	100%
Hall of Cards Concessions Limited	England & Wales	Dormant	100%
Remglade Limited	England & Wales	Dormant	100%
Plaintalk Limited	England & Wales	Dormant	100%
Macsel Greetings Cards Limited	England & Wales	Dormant	100%
Britannia Products Limited	England & Wales	Dormant	100%
Selective Limited	England & Wales	Dormant	100%
Selective Print Limited	England & Wales	Dormant	100%
Tigerprint Middle Limited	England & Wales	Dormant	100%
Tigerprint Limited	England & Wales	Dormant	100%
Creative Products Limited	England & Wales	Dormant	100%
Blue & White Limited	England & Wales	Dormant	100%
Duel Limited	England & Wales	Dormant	100%
Delgado Limited	England & Wales	Dormant	100%
Gallery Studios Limited	England & Wales	Dormant	100%
Greeting Cards House Limited	England & Wales	Dormant	100%
Flaxcase Limited	England & Wales	Dormant	100%
Hugo & Co Limited	England & Wales	Dormant	100%
Castle Cards Limited	England & Wales	Dormant	100%
Fine Art Graphics Limited	England & Wales	Dormant	100%
Wilson Brothers Greetings Cards Limited	England & Wales	Dormant	100%
Metador Paper Mills Limited	England & Wales	Dormant	100%
Image Arts Limited	England & Wales	Dormant	100%
Raphael Tuck & Sons Limited	England & Wales	Dormant	100%
Wilson Investment Co. Limited	England & Wales	Dormant	100%
Liberta IMEX Limited	England & Wales	Dormant	100%
The Britannia Gift Company Limited	England & Wales	Dormant	100%
Connoisseur Cards Limited	England & Wales	Dormant	100%
Paws for Thought Limited	England & Wales	Dormant	100%
Unique Images Limited	England & Wales	Dormant	100%

The registered address of all the above companies is: Hallmark House, Bingley Road, Bradford, West Yorkshire, BD9 6SD.

The Company has not prepared group financial statements as it is exempt from the requirement to do so by Section 400 of the Companies Act 2006. These financial statements present information about the Company and not about its Group. In the opinion of the Directors, the aggregate value of the shareholdings is not less than the amount at which they are shown in the balance sheet.

14. STOCKS

	31.12.16 £'000	31.12.15 £'000
Raw materials and consumables	512	286
Finished goods	<u>20,809</u>	<u>15,780</u>
	<u>21,321</u>	<u>16,066</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.16	31.12.15
	£'000	£'000
Trade debtors	36,998	38,261
Amounts owed by group undertakings	405,906	403,099
Other debtors	797	698
Tax	300	251
Deferred tax asset	1,871	2,806
Prepayments	2,598	2,547
	<u>448,470</u>	<u>447,662</u>

	31.12.16	31.12.15
	£'000	£'000
Deferred tax asset		
Accelerated capital allowances	1,616	2,368
Tax losses carried forward	86	-
Other timing differences	169	438
	<u>1,871</u>	<u>2,806</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.16	31.12.15
	£'000	£'000
Trade creditors	10,463	10,630
Amounts owed to group undertakings	413,484	413,484
Social security and other taxes	7,916	7,321
Accrued expenses	19,601	19,418
	<u>451,464</u>	<u>450,853</u>

17. LEASING AGREEMENTS

Non-cancellable operating lease rentals are payable as follows:

	31.12.16	31.12.15
	£'000	£'000
Within one year	992	1,748
Between one and five years	1,315	3,091
In more than five years	343	83
	<u>2,650</u>	<u>4,922</u>

Leases on land and buildings are subject to rent reviews.

During the year £1,538k was recognised as an expense in the profit and loss account in respect of operating leases (2015: £1,912k).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £'000	Deferred tax on pensions £'000
Balance at 1 January 2016	(2,806)	(1,848)
Provided during year	935	695
Deferred tax charge to OCI relating to pensions	-	(1,515)
Balance at 31 December 2016	<u>(1,871)</u>	<u>(2,668)</u>

The closing deferred tax balance is recognised within debtors in note 15 (£1,871k) and against the pension liability in note 20 (£2,668k).

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	31.12.16 £'000	31.12.15 £'000
80,692,343	Ordinary	5p	<u>4,035</u>	<u>4,035</u>

20. EMPLOYEE BENEFIT OBLIGATIONS

The Company operates a number of pension schemes. The two major schemes, of the defined benefit type with assets held in separate trustee administered funds, are the Hallmark Group Pension Plan and the Creative Publishing Group Pension Scheme.

Hallmark Group Pension Plan

Certain employees of the Company participate in the Hallmark Group Pension Plan, which is a defined benefit scheme. The assets of the plan are administered by trustees in a fund independent of the Company. Differences between amounts payable and amounts actually paid are shown as a separately identified asset or liability in the balance sheet. Rates of contributions are determined by the Company, in consultation with the trustees of the plan, in accordance with the recommendations of actuaries using the projected unit method, so as to spread the cost of the pensions over the employees' working lives with the Company.

Funding valuations are completed at least every three years. The last funding valuation of the plan was completed on 31 December 2014. A recovery plan for the period to 31 December 2019 is currently in place, in line with actuarial recommendations. In 2016 a contribution of £1.9m was made. The Company expects to make additional contributions of £1.9m in 2017 and further yearly contributions thereafter until 2019.

The plan was closed to future accrual on the 30th April 2013. As per the FRS 102 valuation, the scheme had a £5.3m deficit as at 31 December 2016.

Creative Publishing plc Group Pension Scheme

This is a defined benefit scheme, the assets of which are held in a separate trustee administered fund. Contributions are based on pension costs across all participating companies in the Creative Publishing Group Pension Scheme and upon the advice of a professionally qualified actuary. The last funding valuation of the plan was completed on 31 December 2014. In 2016 a contribution of £1.9m was made. The Company expects to make additional contributions of £1.9m in 2017 and thereafter until 2019.

The plan was closed to future accrual on the 30th April 2013. As per the FRS 102 valuation, the scheme had a £10.6m deficit at 31 December 2016.

Hallmark (1998) Retirement Benefits Scheme

A third scheme, the Hallmark (1998) Retirement Benefits Scheme, is a defined contribution scheme but with some remaining defined benefit elements. The defined benefit liabilities only apply to pensioners and some leavers who left before the defined contribution arrangements were introduced. The last full valuation of this scheme was carried out on 31st December 2014 and the total deficit of the fund was £60k. As per the FRS 102 valuation the plan was in surplus by £0.1m at 31 December 2016.

Hall of Cards Limited Pension and Life Insurance Scheme

This scheme is a defined benefit scheme which is closed to new members. The assets of the plan are administered by trustees in a fund independent of the Company. Funding valuations are completed at least every three years. A funding valuation of the plan was completed on 1 July 2014 by independent actuaries. At this date, the total deficit of the fund was £119K. A recovery plan has been agreed with the trustees. It commenced 1 July 2012 and will run until 1 July 2017. The Company will contribute £50k per annum.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

EMPLOYEE BENEFIT OBLIGATIONS - continued

On 8 July 2011 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. Following this, the Accounting Standards Board has issued UITF 48 Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits clarifying the required accounting treatment and indicating the use of CPI rather than RPI where the scheme rules allow. The Group has consulted with its advisors and based on review of certain clauses in the schemes' trust deeds, has concluded that this change will affect the schemes in the following way:

Hallmark Group Pension Plan	Increases to post-88 GMPs in payment and deferred excess pension revaluation rates
Creative Publishing plc Group Pension Scheme	Increases to post-88 GMPs in payment
Hallmark (1998) Retirement Benefits Scheme	The deferred valuations provided by the scheme (on benefits in excess of GMP) and Increases to post-88 GMPs in payment (although annual increases to total payments are at least 3% per scheme rules)

Where appropriate a charge has been made to the statement of total recognised gains and losses.

Hallmark Selections

This scheme is a defined contributions scheme. All applicable costs for the period have been accounted for in the profit and loss account. Employees that were affected by the closure of the Hallmark Group Pension Plan and the Creative Publishing Group Pension Scheme were invited to join the scheme. The cost for the period was £2.4m (2015: 2.9m). No contributions were outstanding at the balance sheet date.

Scheme assets and liabilities

The fair value of the four schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the four schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain.

The amounts recognised in profit or loss are as follows:

	Defined benefit pension plans	
	31.12.16	31.12.15
	£'000	£'000
Current service cost	-	300
Net interest from net defined benefit liability	348	183
Past service cost	-	31
Admin costs	528	164
	<u>876</u>	<u>678</u>
Actual return on plan assets	<u>23,107</u>	<u>(635)</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

20. EMPLOYEE BENEFIT OBLIGATIONS - continued

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans	
	31.12.16	31.12.15
	£'000	£'000
Opening defined benefit obligation	182,536	185,415
Past service cost	-	31
Interest cost	6,735	6,678
Actuarial losses/(gains)	25,116	(501)
Benefits paid	<u>(10,418)</u>	<u>(9,087)</u>
	<u>203,969</u>	<u>182,536</u>

Changes in the fair value of scheme assets are as follows:

	Defined benefit pension plans	
	31.12.16	31.12.15
	£'000	£'000
Opening fair value of scheme assets	172,267	178,585
Contributions by employer	3,844	3,857
Interest income on scheme assets	6,306	6,495
Actuarial gains/(losses)	16,801	(7,130)
Benefits paid	<u>(10,418)</u>	<u>(9,087)</u>
Administration costs incurred	<u>(528)</u>	<u>(453)</u>
	<u>188,272</u>	<u>172,267</u>

The amounts recognised in other comprehensive income are as follows:

	Defined benefit pension plans	
	31.12.16	31.12.15
	£'000	£'000
Actuarial gains/(losses)	<u>(8,416)</u>	<u>(6,629)</u>
	<u>(8,416)</u>	<u>(6,629)</u>

	Net defined benefit pension liability	
	31.12.16	31.12.15
	£'000	£'000
Total market value of scheme assets	188,272	172,267
Present value of scheme liabilities	<u>(203,969)</u>	<u>(182,536)</u>
	<u>(15,697)</u>	<u>(10,269)</u>
Deferred tax thereon	<u>2,668</u>	<u>1,848</u>
Defined benefit pension liability net of deferred tax	<u>(13,029)</u>	<u>(8,421)</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

20. EMPLOYEE BENEFIT OBLIGATIONS - continued

The major categories of scheme assets as amounts of total scheme assets are as follows:

	Defined benefit pension plans	
	31.12.16	31.12.15
	£'000	£'000
Bonds	25,198	21,516
Cash	1,108	2,568
Funds	117,968	103,415
Liability Driven Investments	43,998	44,768
	<u>188,272</u>	<u>172,267</u>

The latest full funding valuations of the Hallmark Group Pension Plan, the Creative Publishing Group Pension Scheme, and the Hallmark (1998) Retirement Benefits Scheme were carried out on 31 December 2014. The last full funding valuation for the Hall of Cards Limited Pension and Life Insurance Scheme was carried out on 01 July 2014. These valuations were updated at 31 December 2016 by independent qualified actuaries using assumptions consistent with the requirements of FRS 102.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	31.12.16	31.12.15
Discount rate	2.68%	3.75%
Future pension increases	2.30%	2.35%
Rate of price increase (CPI)	2.23%	2.13%
Rate of price increase (RPI)	3.25%	3.15%

The mortality assumptions are based on S2PXA mortality tables adjusted to allow for individual years of birth and individual scaling factors with improvements in line with the CMI 2015 projections and a long-term rate of improvement of 1.25% pa. The assumptions are that a member currently aged 65 will live on average for a further 22.1 years if they are male and for a further 23.5 years if they are female. For members currently aged 45 the assumptions are that when they reach 65, they will live on average for a further 23.4 years if they are male and a further 25.6 years if they are female.

21. ULTIMATE PARENT COMPANY

Hallmark Cards Inc (incorporated in United States of America.) is regarded by the directors as being the Company's ultimate parent company.

The largest group in which the results of the Company are consolidated is that headed by the ultimate parent company. The consolidated accounts of this company are not available to the public. The smallest group in which they are consolidated is that headed by Hallmark Cards (Holdings) Limited. The consolidated accounts of this group are available to the public and may be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.

22. CONTINGENT LIABILITIES

Banking arrangements

The Company and certain of its fellow group undertakings have entered into a cross guarantee at the request of the group's bankers. The amount of the contingent liability at 31 December 2016 was £4,930,000 (2015: £4,924,000).

23. CAPITAL COMMITMENTS

	31.12.16	31.12.15
	£'000	£'000
Contracted but not provided for in the financial statements	<u>43</u>	<u>105</u>