

**Strategic Report, Directors' Report and
Financial Statements for the Year Ended 31 December 2013**
for
Hallmark Cards Plc



Hallmark Cards Plc

**Company Information
for the Year Ended 31 December 2013**

DIRECTORS:

R M Campbell
S P Wright
D J Hall Jr
Ms A Shiels
Mrs P M Gardiner
T M Busby
M T Young

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 The Embankment
Leeds
West Yorkshire
LS1 4DW

SOLICITORS:

Eversheds
Cloth Hall Court
Infirmary Street
Leeds

Hallmark Cards Plc

Strategic Report for the Year Ended 31 December 2013

Principal activities

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

Business review and results

The results for the year were in line with the directors' expectations. Turnover was £171m for the year, a 3% decrease compared to prior year, reflecting the continued challenging economic environment in our markets and strategic decisions made in relation to marginal business. Offsetting some of this impact, the Company had the full year benefit of prior year contract wins with national grocers.

Management have continued their review of internal systems and processes and are making significant changes to restore on-going profitability. As a result the Company reduced operating costs substantially during the year. Excluding one-off restructuring costs (note 5), the restricted pension surplus (note 21) and goodwill amortisation (note 10), the Company delivered an operating profit of £3.92m, compared to an operating loss in the prior period. In addition the Company finished the year with a strong cash position. Interest income continued to be low as the interest rate environment remained poor. The Company continues to follow a strategy of discretionary investment in strategic initiatives to benefit the long term future of the business.

As part of tightening control over direct costs, the Company has introduced a continuous improvement approach. This has resulted in process and efficiency improvements constantly being developed and realised, across the UK business.

The Company has again retained its Platinum status in the Business in the Community Corporate Responsibility Index for the 4th year running in recognition of its corporate responsibility achievements. It was also awarded the Big Tick status, the highest ranking in the Business in the Community 2013 Corporate Responsibility Index.

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.

	2013	2012	Measure
<u>Financial</u>			
Return on assets	4.5%	1.3%	EBITDA/tangible assets plus current assets less inter-company items
Stock turnover	8.3	9.0	Turnover / stock
Sales per FTE employee	£102k	£97k	Turnover / average no. of full time equivalent employees
Turnover growth	(3.1)%	(3.4)%	Turnover current year - turnover prior year / turnover prior year
<u>Non-financial</u>			
Market share	24.0%	24.7%	Turnover at estimated retail value / estimated total market retail value
Reportable accidents per FTE employee	0.0089	0.0055	Reportable accidents/average no. of full time equivalent employees

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.

Hallmark Cards Plc

Strategic Report for the Year Ended 31 December 2013

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 1.

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:



Mr S P Wright - Director

28 February 2014

Hallmark Cards Plc

Directors' Report for the Year Ended 31 December 2013

The directors present their report with the financial statements of the Company for the year ended 31 December 2013.

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 2013 the Group had cash on hand of £19.0 million (31 December 2012 - £23.7 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 (2012: £nil).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2013 to the date of this report.

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

Other changes in directors holding office are as follows:

D C Dean - resigned 3 January 2013
M T Young - appointed 2 January 2013

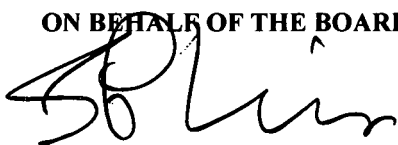
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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:



Mr S P Wright - Director

28 February 2014

Hallmark Cards Plc

Statement of Directors' Responsibilities in respect of the Strategic Report and the Directors' Report and the financial statements for the Year Ended 31 December 2013

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).

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.



KPMG LLP

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

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 2013 set out on pages 7 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).

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 5, 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 Financial Reporting Council'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 2013 and of its loss 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- 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
Chartered Accountants
1 The Embankment
Leeds
West Yorkshire
LS1 4DW
Date: 28 February 2014

Hallmark Cards Plc

Profit and Loss Account for the Year Ended 31 December 2013

	Notes	31.12.13 £'000	31.12.12 £'000
TURNOVER	2	171,344	176,827
Cost of sales		<u>(102,228)</u>	<u>(118,702)</u>
GROSS PROFIT		69,116	58,125
Distribution costs		<u>(11,918)</u>	<u>(12,875)</u>
Administrative expenses		<u>(63,086)</u>	<u>(54,445)</u>
		(5,888)	(9,195)
Other operating income		<u>929</u>	<u>1,497</u>
OPERATING LOSS	5	(4,959)	(7,698)
Profit/(loss) on sale of tangible fixed assets		<u>(391)</u>	<u>(168)</u>
		(5,350)	(7,866)
Interest receivable and similar income	7	33	11
Other finance income	21	<u>694</u>	<u>591</u>
		(4,623)	(7,264)
Interest payable and similar charges	8	<u>(64)</u>	<u>(105)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(4,687)	(7,369)
Tax on loss on ordinary activities	9	<u>(959)</u>	<u>1,594</u>
LOSS FOR THE FINANCIAL YEAR		<u><u>(5,646)</u></u>	<u><u>(5,775)</u></u>

CONTINUING OPERATIONS

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

Hallmark Cards Plc

**Statement of Total Recognised Gains and Losses
for the Year Ended 31 December 2013**

	31.12.13	31.12.12
	£'000	£'000
LOSS FOR THE FINANCIAL YEAR	(5,646)	(5,775)
Actuarial losses on pension scheme	(5,607)	(3,996)
Pension surplus restriction	(158)	-
Deferred tax thereon	<u>1,341</u>	<u>919</u>
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u>(10,070)</u>	<u>(8,852)</u>

The notes form part of these financial statements

Balance Sheet
31 December 2013

	Notes	31.12.13 £'000	31.12.12 £'000
FIXED ASSETS			
Intangible assets	10	26,590	29,914
Tangible assets	11	32,477	37,742
Investments	12	<u>12,946</u>	<u>12,946</u>
		<u>72,013</u>	<u>80,602</u>
CURRENT ASSETS			
Stocks	13	15,551	15,854
Debtors: amounts falling due within one year	14	259,743	261,704
Debtors: amounts falling due after more than one year	14	90,000	90,087
Cash at bank		<u>19,003</u>	<u>23,708</u>
		384,297	391,353
CREDITORS			
Amounts falling due within one year	15	<u>(285,433)</u>	<u>(294,418)</u>
NET CURRENT ASSETS		<u>98,864</u>	<u>96,935</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		170,877	177,537
CREDITORS			
Amounts falling due after more than one year	16	(68,000)	(68,000)
PENSION LIABILITY	21	<u>(3,790)</u>	<u>(380)</u>
NET ASSETS		<u>99,087</u>	<u>109,157</u>
CAPITAL AND RESERVES			
Called up share capital	19	4,035	4,035
Profit and loss account	20	<u>95,052</u>	<u>105,122</u>
SHAREHOLDERS' FUNDS	26	<u>99,087</u>	<u>109,157</u>

The financial statements were approved by the Board of Directors on 28 February 2014 and were signed on its behalf by:



Mr S P Wright - Director

The notes form part of these financial statements

**Notes to the Financial Statements
for the Year Ended 31 December 2013**

1. 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 company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement, on the grounds that a parent undertaking, Hallmark Cards (Holdings) Limited, includes the company in its own published consolidated financial statements.

The financial statements of Hallmark Cards (Holdings) Limited are available to the public.

As the Company is a wholly owned subsidiary of Hallmark Cards (Holdings) Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of that group. The consolidated financial statements of Hallmark Cards (Holdings) Limited, within which this company is included, can be obtained from the address given in note 22.

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 4, 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.

Turnover

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

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 any impairment, where considered necessary.

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.

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.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2013**

1. ACCOUNTING POLICIES - continued

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 19.

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

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

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.

Segmental reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

Based on the sources of risk and returns impacting the Company's activities, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment being the sale of greeting cards and associated gifts. The disclosures for the primary segment are therefore given by the primary financial statements and related notes.

Substantially all of the Company's business operations are conducted in the United Kingdom and Republic of Ireland so a geographical segment report is not required.

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

2. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the Company.

An analysis of turnover by geographical market is given below:

	31.12.13	31.12.12
	£'000	£'000
United Kingdom and ROI	168,075	173,339
Rest of Europe	2,040	1,310
Other	<u>1,229</u>	<u>2,178</u>
	<u>171,344</u>	<u>176,827</u>

3. STAFF COSTS

	31.12.13	31.12.12
	£'000	£'000
Wages and salaries	42,207	44,939
Social security costs	3,751	4,107
Other pension costs (see note 21)	<u>2,762</u>	<u>2,813</u>
	<u>48,720</u>	<u>51,859</u>

As part of the restructuring exercise, redundancy costs of £2.1m were incurred during the year and are not included in the staff costs figures above. They are included within the restructuring costs of £3.8m included within note 5.

The average FTE number of employees during the year, including directors, was as follows:

	31.12.13	31.12.12
Production	297	303
Distribution and marketing	724	811
Administration	<u>665</u>	<u>712</u>
	<u>1,686</u>	<u>1,826</u>

4. DIRECTORS' EMOLUMENTS

	31.12.13	31.12.12
	£	£
Directors' remuneration	911,000	942,000
Directors' pension contributions to money purchase schemes	<u>160,000</u>	<u>182,000</u>

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

	6	-
Money purchase schemes	6	-
Defined benefit schemes	<u>-</u>	<u>6</u>

Information regarding the highest paid director is as follows:

	31.12.13	31.12.12
	£	£
Emoluments etc	217,000	209,000
Pension contributions to money purchase schemes	<u>43,000</u>	<u>46,000</u>

The accrued pension entitlement under the group's defined benefit scheme of the highest paid director at 31 December 2013 was £54,609 (2012: £46,707).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

5. NOTES TO THE PROFIT AND LOSS ACCOUNT

Loss on ordinary activities before taxation is stated after charging:

	31.12.13	31.12.12
	£'000	£'000
Hire of plant and machinery – operating leases	1,814	1,117
Other operating leases	837	824
Depreciation - owned assets	6,697	5,863
Loss on disposal of fixed assets	391	168
Goodwill amortisation*	3,324	3,324
Pension surplus restriction*	1,774	-
Restructuring costs (see below)*	<u>3,781</u>	<u>-</u>

*Added back to the operating loss for the adjusted operating profit referred to in the Strategic Report. One-off restructuring costs consist of redundancy costs (see note 3), project team costs and other expenses incurred in the year.

6. AUDITORS' REMUNERATION

	31.12.13	31.12.12
	£'000	£'000
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	114	128
Other services relating to taxation	<u>30</u>	<u>33</u>

Amounts receivable by the company's auditor and its associates in respect of the audit of financial statements of associated pension schemes is £10,000 (2012: £9,000).

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	31.12.13	31.12.12
	£'000	£'000
Deposit account interest	<u>33</u>	<u>11</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	31.12.13	31.12.12
	£'000	£'000
Bank interest	<u>64</u>	<u>105</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

9. TAXATION

Analysis of the tax charge/(credit)

The tax charge/(credit) on the loss on ordinary activities for the year was as follows:

	31.12.13 £'000	31.12.12 £'000
Current tax:		
Adjustment in respect of prior periods	(18)	-
Foreign tax on income for the year	<u>175</u>	<u>37</u>
Total current tax	<u>157</u>	<u>37</u>
Deferred tax (see note 18):		
Origination of timing differences	91	(472)
Effect of decreased tax rate	484	32
Adjustment in respect of prior periods	<u>227</u>	<u>(1,191)</u>
Total deferred tax	<u>802</u>	<u>(1,631)</u>
Tax on loss on ordinary activities	<u>959</u>	<u>(1,594)</u>

Factors affecting the tax charge

The tax assessed for the year is higher (2012: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	31.12.13 £'000	31.12.12 £'000
Loss on ordinary activities before tax	<u>(4,687)</u>	<u>(7,369)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 - 24.50%)	(1,090)	(1,805)
Effects of:		
Expenses not deductible for tax purposes	433	404
Depreciation in excess of capital allowances	200	888
Tax losses carried forward	(111)	340
Other short term timing differences	122	262
Additional pension contributions	(327)	(982)
Goodwill amortisation	773	814
UK Tax not at standard rate	175	37
Adjustment in respect of prior periods	(18)	-
Effect of decreased tax rate	<u>-</u>	<u>79</u>
Current tax charge	<u>157</u>	<u>37</u>

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

10. INTANGIBLE FIXED ASSETS

	Goodwill £'000
COST	
At 1 January 2013	
and 31 December 2013	<u>71,054</u>
AMORTISATION	
At 1 January 2013	41,140
Amortisation for year	<u>3,324</u>
At 31 December 2013	<u>44,464</u>
NET BOOK VALUE	
At 31 December 2013	<u>26,590</u>
At 31 December 2012	<u>29,914</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.

11. TANGIBLE FIXED ASSETS

	Freehold land & buildings £'000	Plant and machinery £'000	Assets under construction £'000	Motor vehicles £'000	Totals £'000
COST					
At 1 January 2013	33,652	55,530	1,955	1,167	92,304
Additions	-	435	1,451	-	1,886
Assets capitalised in the year	122	1,119	(1,241)	-	-
Disposals	<u>-</u>	<u>(9,233)</u>	<u>-</u>	<u>-</u>	<u>(9,233)</u>
At 31 December 2013	<u>33,774</u>	<u>47,851</u>	<u>2,165</u>	<u>1,167</u>	<u>84,957</u>
DEPRECIATION					
At 1 January 2013	14,328	38,931	136	1,167	54,562
Charge for year	1,131	5,333	233	-	6,697
Assets capitalised in the year	9	276	(285)	-	-
Eliminated on disposal	<u>-</u>	<u>(8,779)</u>	<u>-</u>	<u>-</u>	<u>(8,779)</u>
At 31 December 2013	<u>15,468</u>	<u>35,761</u>	<u>84</u>	<u>1,167</u>	<u>52,480</u>
NET BOOK VALUE					
At 31 December 2013	<u>18,306</u>	<u>12,090</u>	<u>2,081</u>	<u>-</u>	<u>32,477</u>
At 31 December 2012	<u>19,324</u>	<u>16,599</u>	<u>1,819</u>	<u>-</u>	<u>37,742</u>

Freehold land and buildings includes land of £3,023,000 (2012: £3,023,000) on which no depreciation has been charged. Included in the total net book value of tangible fixed assets is £nil (2012: £nil) in respect of assets held under finance leases. Depreciation for the year on these assets was £nil (2012: £nil).

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Notes to the Financial Statements - continued for the Year Ended 31 December 2013

12. FIXED ASSET INVESTMENTS

	Shares in group undertakings £'000	Unlisted investments £'000	Totals £'000
COST			
At 1 January 2013 and 31 December 2013	<u>13,946</u>	<u>246</u>	<u>14,192</u>
PROVISIONS			
At 1 January 2013 and 31 December 2013	<u>1,000</u>	<u>246</u>	<u>1,246</u>
NET BOOK VALUE			
At 31 December 2013	<u>12,946</u>	<u>-</u>	<u>12,946</u>
At 31 December 2012	<u>12,946</u>	<u>-</u>	<u>12,946</u>

The companies in which the company's interest at the year end is more than 20% are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage of ordinary shares held
Hambledon Studios Limited	England & Wales	Dormant	100%
Unique Images Limited	England & Wales	Dormant	100%
Britannia Products Limited	England & Wales	Dormant	100%
Tigerprint Limited	England & Wales	Dormant	100%
Creative Products Limited	England & Wales	Dormant	100%

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.

The shares in Hambledon Studios Limited, Tigerprint Limited and Creative Products Limited are held indirectly.

13. STOCKS

	31.12.13 £'000	31.12.12 £'000
Raw materials and consumables	491	713
Work-in-progress	1,419	889
Finished goods	<u>13,641</u>	<u>14,252</u>
	<u>15,551</u>	<u>15,854</u>

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

14. DEBTORS

	31.12.13 £'000	31.12.12 £'000
Amounts falling due within one year:		
Trade debtors	38,932	35,880
Amounts owed by group undertakings	215,313	219,954
Other debtors	522	421
Tax	197	126
Deferred tax asset (see below)	2,151	2,472
Prepayments	2,628	2,851
	<u>259,743</u>	<u>261,704</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	90,000	90,000
Deferred tax asset	-	87
	<u>90,000</u>	<u>90,087</u>
Aggregate amounts	<u>349,743</u>	<u>351,791</u>
Deferred tax asset		
	31.12.13 £'000	31.12.12 £'000
Accelerated capital allowances	1,593	1,761
Tax losses carried forward	-	305
Other timing differences	558	406
Deferred tax asset on pension liability (see note 21)	-	87
	<u>2,151</u>	<u>2,559</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.13 £'000	31.12.12 £'000
Trade creditors	9,073	11,525
Amounts owed to group undertakings	241,987	252,423
Social security and other taxes	8,683	10,513
Accrued expenses	25,690	19,957
	<u>285,433</u>	<u>294,418</u>

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

	31.12.13 £'000	31.12.12 £'000
Amounts owed to group undertakings	<u>68,000</u>	<u>68,000</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

17. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other operating leases	
	31.12.13	31.12.12	31.12.13	31.12.12
	£'000	£'000	£'000	£'000
Expiring:				
Within one year	176	67	226	174
Between one and five years	402	666	1,313	877
In more than five years	<u>110</u>	<u>110</u>	<u>-</u>	<u>-</u>
	<u>688</u>	<u>843</u>	<u>1,539</u>	<u>1,051</u>

Leases on land and buildings are subject to rent reviews.

18. DEFERRED TAX

	£'000
Balance at 1 January 2013	(2,559)
Total charge to profit and loss account during year (note 9)	802
Deferred tax charge to STRGL relating to pensions	<u>(1,341)</u>
Balance at 31 December 2013	<u>(3,098)</u>

The closing balance is recognised within debtors in note 14 (£2,151k) and against the pensions liability in note 21 (£947k).

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			31.12.13	31.12.12
Number:	Class:	Nominal value:	£'000	£'000
80,692,343	Ordinary	5p	<u>4,035</u>	<u>4,035</u>

20. RESERVES

	Profit and loss account £'000
At 1 January 2013	105,122
Deficit for the year	(5,646)
Actuarial loss recognised in the pension schemes	<u>(4,424)</u>
At 31 December 2013	<u>95,052</u>
Profit and loss account excluding pension liability	98,842
Pension deficit	<u>(3,790)</u>
Profit and loss account	<u>95,052</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2013**

21. 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 2011. A recovery plan for the period to 31 December 2019 is currently in place, in line with actuarial recommendations. In 2013 a contribution of £0.9m was made. The company expects to make additional contributions of £1.3m in 2014 and further yearly contributions thereafter until 2019.

Following a period of consultation, the plan was closed to future accrual on the 30th April 2013. The scheme had a £1.8m surplus as at 31 December 2013. This was written off to the profit and loss account in line with FRS 17 requirements.

Creative Publishing plc Group Pension Scheme

Certain employees of Hallmark Cards are eligible to become members of the Creative Publishing 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 2011. In 2013 a contribution of £0.9m was made. The company expects to make additional contributions of £1.3m in 2014 and further yearly contributions thereafter until 2019.

Following a period of consultation, the plan was closed to future accrual on the 30th April 2013. The scheme had a £0.16m surplus as at 31 December 2013. This was written off to the statement of recognised gains and losses, in line with FRS 17 requirements.

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 2009 and the total deficit of the fund was £484k. A recovery plan has been agreed with the trustees commencing 1 January 2010 and running until 31 December 2020. The Company will contribute £46k per annum.

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 2011 by independent actuaries. At this date, the total deficit of the fund was £135,000. A recovery plan has been agreed with the trustees. It commenced 1 July 2012 and run until 1 July 2017. The Company will contribute £50k per annum.

The total pension charge for the period was £3,877,490 (2012: £2,478,000) and includes the regular cost of providing defined benefit pensions (net of the amortisation of surpluses over the average remaining working lives of members), the written off surplus from the Hallmark Group Pension Plan and the contributions payable to defined contribution schemes. The balance sheet includes accrued contributions of £nil (2012: £nil).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

21. **EMPLOYEE BENEFIT OBLIGATIONS - continued**

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. For a member who retires in 2033 at age 65 the assumptions are that they will live on average for a further 23.2 years after retirement if they are male and for a further 25.2 years if they are female. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

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 £2,328k. 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 latest funding valuations of the Hallmark Group Pension Plan, the Creative Publishing Group Pension Scheme, the Hallmark (1998) Retirement Benefits Scheme and the Hall of Cards Limited Pension and Life Insurance Scheme were carried out on 31 December 2011, 31 December 2011, 31 December 2009 and 1 July 2011 respectively. These valuations were updated at 31 December 2013 by independent qualified actuaries using assumptions consistent with the requirements of FRS 17.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in the balance sheet are as follows:

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Present value of funded obligations	(168,030)	(155,437)
Fair value of plan assets	<u>165,225</u>	<u>155,057</u>
	(2,805)	(380)
Pension surplus restriction	<u>(1,932)</u>	<u>-</u>
Deficit	(4,737)	(380)
Deferred tax asset	<u>947</u>	<u>-</u>
Net liability	<u>(3,790)</u>	<u>(380)</u>

The prior year deferred tax asset relating to pensions was disclosed within long-term debtors as not material.

The amounts recognised in profit or loss are as follows:

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Current service cost	469	1,481
Interest cost	7,034	7,140
Expected return on scheme assets	(7,728)	(7,731)
Past service cost	-	-
Pension surplus restriction	<u>1,774</u>	<u>-</u>
	<u>1,549</u>	<u>890</u>
Actual return on plan assets	<u>14,829</u>	<u>11,685</u>

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

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Opening defined benefit obligation	155,437	145,509
Current service cost	469	1,481
Contributions by scheme participants	3	8
Interest cost	7,034	7,140
Actuarial losses	12,708	7,950
Benefits paid	<u>(7,621)</u>	<u>(6,651)</u>
	<u>168,030</u>	<u>155,437</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2013

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Opening fair value of scheme assets	155,057	145,133
Contributions by employer	2,957	4,882
Contributions by scheme participants	3	8
Expected return on scheme assets	7,728	7,731
Actuarial gains	7,101	3,954
Benefits paid	<u>(7,621)</u>	<u>(6,651)</u>
	<u>165,225</u>	<u>155,057</u>

The amounts recognised in the statement of recognised gains and losses are as follows:

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Actuarial gains/(losses)	(5,607)	(3,996)
Pension surplus restriction	<u>(158)</u>	<u>-</u>
	<u>(5,765)</u>	<u>(3,996)</u>
Cumulative amount of actuarial losses	<u>(5,765)</u>	<u>(3,996)</u>

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

	Defined benefit pension plans	
	31.12.13	31.12.12
	£'000	£'000
Equities	1,593	85,040
Bonds	68,655	66,759
Cash	828	1,174
Funds	<u>94,149</u>	<u>2,084</u>
	<u>165,225</u>	<u>155,057</u>

The latest full funding valuations of the Hallmark Group Pension Plan, the Creative Publishing Group Pension Scheme, the Hallmark (1998) Retirement Benefits Scheme and the Hall of Cards Limited Pension and Life Insurance Scheme were carried out on 31 December 2011, 31 December 2011, 31 December 2009 and 1 July 2011 respectively. These valuations were updated at 31 December 2013 by independent qualified actuaries using assumptions consistent with the requirements of FRS 17.

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

21. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

	31.12.13	31.12.12
Discount rate	4.45%	4.45%
Expected return on scheme assets	5.44%	6.13%
Future salary increases	4.50%	3.07%
Future pension increases	2.40%	2.43%
Rate of price increase (CPI)	2.40%	2.20%
Rate of price increase (RPI)	3.35%	2.95%

Amounts for the current and previous four periods are as follows:

	31.12.13 £'000	31.12.12 £'000	31.12.11 £'000	31.12.10 £'000	31.12.09 £'000
Defined benefit pension plans					
Defined benefit obligation	(168,030)	(155,437)	(145,509)	(133,773)	(127,441)
Fair value of scheme assets	165,225	155,057	145,133	136,521	122,186
Surplus restriction	(1,932)	-	-	-	-
(Deficit)/Surplus	(4,737)	(380)	(376)	2,748	(5,255)
Experience adjustments on scheme liabilities	(86)	(4,590)	85	3,135	5,416
Experience adjustments on scheme assets	7,101	3,954	1,102	6,154	8,157

22. 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.

23. 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 2013 was £4,248,000 (2012: £3,775,000).

24. CAPITAL COMMITMENTS

	31.12.13 £'000	31.12.12 £'000
Contracted but not provided for in the financial statements	<u>205</u>	<u>217</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2013**

25. RELATED PARTY DISCLOSURES

Under the provisions of FRS 8 the company has taken advantage of the exemption from disclosing related party transactions between wholly owned subsidiaries of the same UK group.

The financial statements of the company's ultimate UK Holding company are available to the public as described in note 22.

Transactions and balances with group companies outside the UK group were as follows:

a) Sales to other group companies

	2013	2012
	£000	£000
Hallmark Cards Netherland BV	942	1,001
Hallmark Cards Belgium NV	1	2
Hallmark Cards Australia	470	495
Hallmark Cards Japan	1	5
Hallmark Cards Incorporated	-	74
	<hr/>	<hr/>
	<u>1,414</u>	<u>1,577</u>

b) Royalties received from other group companies

	2013	2012
	£000	£000
Hallmark Cards Australia Ltd	707	1,014
Hallmark Cards New Zealand Ltd	141	115
Hallmark Cards Netherland BV	23	259
Hallmark Cards Japan	27	26
Hallmark Cards Incorporated	60	78
	<hr/>	<hr/>
	<u>958</u>	<u>1,492</u>

c) Amounts charged for management services to other group companies

	2013	2012
	£000	£000
Hallmark Cards Australia Ltd	32	132
Hallmark Cards Netherland BV	135	302
Binney & Smith	301	302
Hallmark Cards Incorporated	2,094	1,975
Hallmark Cards Japan	-	1
	<hr/>	<hr/>
	<u>2,562</u>	<u>2,712</u>

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

25. RELATED PARTY DISCLOSURES - continued

d) Purchases from other group companies

	2013 £000	2012 £000
Hallmark Cards Hong Kong	41,465	45,785
Hallmark Cards Incorporated	-	74
	<u>41,465</u>	<u>45,859</u>

e) Royalties paid to other group companies

	2013 £000	2012 £000
Hallmark Cards Incorporated	<u>1,748</u>	<u>2,153</u>

f) Amounts paid for management services

	2013 £000	2012 £000
Hallmark Cards Australia Ltd	12	312
Hallmark Cards Incorporated	769	791
Hallmark Hong Kong	2,800	2,815
Hallmark Cards Netherland BV	28	-
Hallmark Cards Japan	11	-
	<u>3,620</u>	<u>3,918</u>

g) Amounts owed from other group companies

	2013 £000	2012 £000
Binney & Smith	-	15
Hallmark Cards Ireland Ltd	253	243
Hallmark Australia Ltd	-	85
Hallmark Cards Netherland BV	187	63
	<u>440</u>	<u>406</u>

Hallmark Cards Plc

Notes to the Financial Statements - continued for the Year Ended 31 December 2013

25. RELATED PARTY DISCLOSURES - continued

h) Amounts owed to other group companies

	2013 £000	2012 £000
Hallmark Cards Incorporated	304	1,139
Hallmark Cards Hong Kong	9,501	14,628
Hallmark Australia Ltd	2	5
Hallmark Cards Japan	11	-
	<u>9,818</u>	<u>15,772</u>

26. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31.12.13 £'000	31.12.12 £'000
Loss for the financial year	(5,646)	(5,775)
Other recognised gains and losses relating to the year (net)	<u>(4,424)</u>	<u>(3,077)</u>
Net reduction of shareholders' funds	(10,070)	(8,852)
Opening shareholders' funds	<u>109,157</u>	<u>118,009</u>
Closing shareholders' funds	<u>99,087</u>	<u>109,157</u>