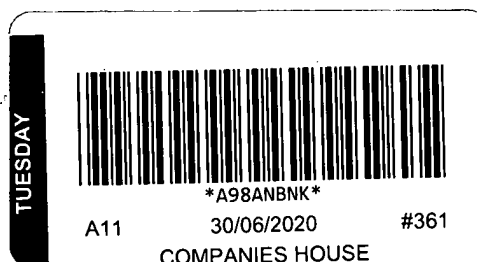


# **Paragon Group UK Limited**

## **Report and Financial Statements**

**30 June 2019**



**Directors**

P J Crean  
L T Salmon  
S A Shine

**Secretary**

R J Cahill

**Auditor**

Grant Thornton UK LLP  
Chartered Accountants & Senior Statutory Auditor  
30 Finsbury Square  
London  
EC2A 1AG

**Bankers**

Credit Agricole  
Centre-Loire  
Centre D'affaires 45  
26 Rue de la Godde  
45 800 St Jean de Braye  
France

Credit Lyonnais  
Orleans SDC Centre  
7 Place du Martroi  
45000 Orleans  
France

Barclays Bank plc  
25 James Street  
Harrogate HG1 1ZT

**Solicitors**

Ward Hadaway  
102 The Quayside  
Newcastle upon Tyne NE1 3DX

Shakespeare Martineau LLP  
Park House  
Friar Lane  
Nottingham NG1 6DN

**Registered Office**

Pallion Trading Estate  
Sunderland  
Tyne and Wear SR4 6ST

Registered No. 00551336

## Strategic report

The directors present their strategic report for the year ended 30 June 2019.

### Principal activities and review of the business

2019 has been another strong sales year for Paragon Group UK Limited ("PGUK"), with an increase in turnover (including discontinued activities) of 24% to £77,735,000 (2018 - £62,490,000). However, with the Company going into a consolidation of its activities and simplification of its structure, PGUK suffered a drop in underlying EBITDA to £292,000 (2018 - £6,746,000).

Underlying revenue of the continuing activities performed strongly, supported by the recently acquired Kingswood and Service Graphics businesses. Turnover increased to £42,733,000 (2018 - £23,661,000) with underlying EBITDA of £1,042,000 (2018 - loss of £560,000).

The Directors expect that the Company will return to strong EBITDA once it completes its consolidation.

On 5 December 2018, the company entered into a sales purchase agreement (SPA) regarding the acquisition of the trade and certain assets of Debenhams Retail plc's Magenta Print & Display division (Debenhams). On 18 January 2019, the company also entered into a sales purchase agreement (SPA) regarding the acquisition of the trade and certain assets of Service Graphics Limited in Administration. Both acquired companies are providers of large format graphic and signage fitting well within the company's strategy in the UK Graphics sector and trade as part of the same division of the Company. The combined estimated annual impact of the acquisitions had they been made at the start of the financial year would have been revenue of £31,700,000 and EBITDA of £2,000,000.

In May 2019 and June 2019, the Company sold several of its subsidiaries and investments as part of the overall reorganisation of Paragon Group, generating a total of £12,127,000 profit on its disposals as follows: sale of trade and assets at Sunderland and Rotherham and the sale of Paperhat Communications trade and assets (profit of £4,158,000), sale of trade and assets at Rugeley (profit of £4,833,000), sale of entire shareholding of Global Documents Systems Limited (profit of £2,265,000) and sale of shareholding in Paragon Romania SRL (profit of £871,000).

### We help transform the way our customers do business

Our approach is always to help our clients improve how they operate; how they communicate both externally and internally, how they manage their information and the processes they follow. We add value to our clients' activities through innovation, supporting their sales growth and improving efficiencies.

Following PGUK's divestment from some of its subsidiaries, its business is made up of two units as follows:

#### ***Service Graphics Print & Design***

Provides digital reprographics, managed print solutions and software as a service for a whole variety of verticals from construction, legal, education, architects to individuals walking in the door. It has over 40 digital hubs (branches) and Facilities Management sites providing large and small format digital print, and onsite digital print and mail room services across the UK. Its strong IT platforms provide software as a service, with solutions such as Project Vault, artwork and asset management, scanning and retrieval systems, and a CGI studio producing high quality 3D images for industry.

#### ***Service Graphics Display***

Division resulting from the acquisitions of Service Graphics Limited and Debenhams Retail plc's Magenta Print & Display division (Debenhams), provides large and extra-large format graphic and signage to companies across the UK. It has 3 digital factories geographically spread across the UK and each with specific specialties servicing a diverse client base covering construction, high street retail, events and exhibitions and a number of large multi-national organisations both in the UK and the Middle East. The service offering covers initial design through to fit out and installation of signage and other large format content such as printed materials.

**We help transform the way our customers do business (continued)****Strategic direction**

We continue to grow our business through developing our offering and transforming our own business in line with our customers' transformation.

**Brexit**

The UK's decision to leave the EU is likely to result in a short to medium term period of economic and political uncertainty and complexity. There is a risk that this uncertainty could reduce demand in the UK market and could adversely impact the financial performance of the Company.

The Company is working with the wider Paragon group to identify and mitigate potential risks and actively manages its business to ensure minimal disruption to its operation by working closely with suppliers and customers to ensure timely material supply.

In addition, there is an ongoing review by the Paragon Group of any new information and policy indications from the UK Government and the EU in relation to Brexit, in order to manage the risks associated with Brexit.

**Coronavirus**

Further to the recent global outbreak of Coronavirus disease (COVID-19), the directors of the Company continue to assess the situation across key markets and the potential risk to the operation of the business daily. At the time of signing the accounts, there has been no unmanageable impact on either the Revenue, Customers or Employees within the Company.

The directors have taken all necessary measures as advised by the NHS, WHO, the UK government and equivalent local authorities across our offices, including promoting hygiene standards and providing facilities to enable this; and firmly insisting all employees to work from home where possible.

The Paragon Group and the Company have vital activities within the communications and financial sectors and was consequently given the "key worker status" during the outbreak. Both feel reasonably confident that they will retain a sufficient level of trading activity to sustain the business during the crisis.

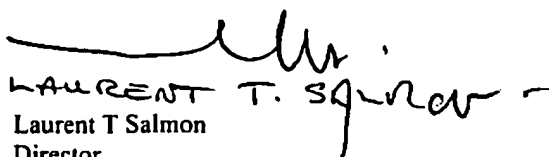
The directors believe that appropriate strategies have been, and are being further developed, to ensure the Company can reduce and manage the possible impacts of adverse developments which could affect the Company's ability to continue trading.

**Future Developments**

The current focus of the company is on organic growth, realising opportunities to cross sell solutions within our existing customer base. In light of the expansion of the Paragon Group internationally, we see significant opportunities to cross-sell the Group offering in the UK. This will allow us to continue to service our international blue-chip customer base. Equally, our local community presence allows us to remain close to our SME customer base which remains an important element of our future development.

We will continue to pursue selective acquisitions in the UK, we maintain an active target list and have a dedicated mergers and acquisitions team which pursues strategic acquisitions.

On behalf of the Board

  
LAURENT T. SALMON  
Director  
30 June 2020

Registered No. 00551336

## Directors' report

The directors present their report and financial statements for the year ended 30 June 2019.

### Results and dividends

The company is a wholly owned subsidiary of Paragon Graphics Limited. The ultimate parent is Paragon Group Limited. The results for the year show an operating loss of £4,717,000 (2018 – profit of £2,993,000) and a retained profit of £8,201,000 (2018 – profit of £3,846,000).

Following the sale of trade and assets of divisions in PGUK and investments in connection with the reorganisation of Paragon Group, the Directors recommended paying an exceptional interim dividend of £7,200,000 by means of an assignment of part of the loan owned to Paragon Graphics Limited. The transaction was completed within the financial year.

The directors recommend not paying any further dividends (2018 – £nil).

### Directors

The directors who served the company during the year and to the date of approval of the financial statements were as follows:

P J Crean  
L T Salmon  
S A Shine

### Employment policies

The policies in operation throughout the company have been developed to comply in terms of non-discrimination on the grounds of sex, race, creed, colour, age or disability and compare favourably in every other respect with recognised good employment practices.

The company recognises the importance of good communications and relations with employees and endeavours to keep employees informed of all relevant matters and topics of interest.

### Policy regarding payment to suppliers

The company's policy regarding the payment of suppliers is either to agree terms of payment at the start of business with each supplier or ensure that the supplier is made aware of the payment terms and, in either case, to pay in accordance with its contractual or other legal obligations.

### Going concern

The directors have reviewed the company's budgets and forecasts for the next 12 months from the date of this report, its liquid resources (including support available from its ultimate parent company), medium term plans, and the potential impact of the recent outbreak of the Coronavirus disease. The Paragon Group have also performed a downside scenario analysis which, while considered highly unlikely, demonstrates that the Group will have sufficient cash resources for a period of at least one year, even in the event of prolonged lock down period of around 3- 6 months. Given the fact that the Group has vital activities within the communication and financial sectors and was consequently given the "key worker status" during this outbreak, the Group feel confident that the support outlined by the government, such as tax deferral schemes and state aid/loan guarantee schemes can also be utilised, to assist in keeping its trading activities running at a sustainable level. The above statement does not protect the business from events that are out of its control and could potentially deeply change the outcome of its future activities. Nonetheless, the Directors have, at the date of signing of the accounts, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing their financial statements.

**Disabled employees**

The company gives full consideration to applications for employment from disabled persons where disabled persons can adequately fulfil the requirements of the job.

Where existing employees become disabled, it is the company policy wherever practicable to provide continuing employment under normal terms and conditions and provide training, career development and promotion wherever appropriate.


**Disclosure of information to the auditor**

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

**Re-appointment of the auditor**

In accordance with section 485 of the Companies act 2006, a resolution to reappoint Grant Thornton UK LLP as auditor will be put to the members at the Annual General Meeting.

On behalf of the Board

  
LAURENT T. SALMON

Laurent T Salmon  
Director  
30 June 2020

## Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditors' report

to the members of Paragon Group UK Limited

### Opinion

We have audited the financial statements of Paragon Group UK Limited (the 'company') for the year ended 30 June 2019, which comprise the Income statement, the Statement of other comprehensive income, the Balance sheet, the Statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### *The impact of uncertainties arising from the UK exiting the European Union on our audit*

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

### Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



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

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions, and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

#### Other information

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

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

We have nothing to report in this regard.

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

#### Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

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

**Responsibilities of directors for the financial statements**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Grant Thornton UK LLP*

**Anthony Thomas**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

**London**

30th June 2020

# Income statement

for the year ended 30 June 2019

	Notes	2019 Continuing Operations £000	2019 Discontinued Operations £000	2019 Total £000	2018 Total £000
<b>Revenue from sale of goods &amp; services</b>		42,733	35,002	77,735	62,490
Material costs		17,964	19,791	37,755	26,370
Payroll	4	16,682	11,897	28,579	21,075
Other operating costs		9,040	7,078	16,118	12,052
Operating costs		43,686	38,766	82,452	59,497
<b>Operating (loss) / profit (EBIT)</b>	2	(953)	(3,764)	(4,717)	2,993
Profit on disposal of business	5	12,127	-	12,127	920
Profit on disposal of fixed assets		-	30	30	28
Net finance costs	6	(110)	(161)	(271)	(139)
Dividend received from associate		-	525	525	-
<b>Profit / (loss) before tax</b>		11,064	(3,370)	7,694	3,802
Income tax (charge) / credit	7	(154)	661	507	44
<b>Profit / (loss) for the year</b>		10,910	(2,709)	8,201	3,846
<b>Supplementary Information:</b>					
EBITDA from continuing operations		241	(1,485)	(1,244)	5,740
Exceptional net losses	2	801	735	1,536	1,006
<b>Underlying EBITDA</b>		1,042	(750)	292	6,746

EBITDA is defined in note 1.

## Statement of other comprehensive income

for the year ended 30 June 2019


		2019	2019	2019	2018
		Continuing	Discontinued	Total	Total
	Note	Operations	Operations		
		£000	£000	£000	£000
Profit / (loss) for the year		10,910	(2,709)	8,201	3,846
Actuarial (loss) / gain recognised on pension scheme		(103)	-	(103)	218
Deferred tax arising thereon	7	-	-	-	(44)
<b>Total comprehensive income for the year</b>		<b>10,807</b>	<b>(2,709)</b>	<b>8,098</b>	<b>4,020</b>

# Balance sheet

at 30 June 2019

	Notes	2019 £000	2018 £000
<b>Fixed assets</b>			
Intangible assets	10	3,233	6,919
Tangible assets	11	5,356	5,883
<b>Other non-current assets</b>			
Investments	12	-	3,950
Debtors: Amounts falling due after more than one year	14	9,292	-
Retirement benefit pension scheme surplus	23	628	712
Deferred tax asset	20	499	247
		<u>19,008</u>	<u>17,711</u>
<b>Current assets</b>			
Inventories	13	986	1,396
Trade and other receivables	14	24,093	15,501
Cash and cash equivalents	14	4,258	4,460
		<u>29,337</u>	<u>21,357</u>
<b>Creditors: amounts falling due within one year</b>	15	(33,002)	(25,626)
<b>Net current liabilities</b>		<u>(3,665)</u>	<u>(4,269)</u>
<b>Total assets less current liabilities</b>		15,343	13,442
<b>Creditors: amounts falling due after more than one year</b>	16	(2,659)	(1,656)
<b>Net assets</b>		<u>12,684</u>	<u>11,786</u>
<b>Capital and reserves</b>			
Share capital	19	6,144	6,144
Retained earnings		6,540	5,642
<b>Total equity</b>		<u>12,684</u>	<u>11,786</u>

These financial statements were approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

  
**LAURENT T. SALMON**  
 Laurent T Salmon  
 Director

## Statement of changes in equity

for the year ended 30 June 2019

	<i>Share Capital £000</i>	<i>Retained Earnings £000</i>	<i>Total Equity £000</i>
At 1 July 2017	6,144	1,622	7,766
Profit for the year	-	3,846	3,846
Other comprehensive income for the year	-	174	174
At 1 July 2018	6,144	5,642	11,786
Profit for the year	-	8,201	8,201
Other comprehensive loss for the year	-	(103)	(103)
Dividends paid to Paragon Graphics Limited	-	(7,200)	(7,200)
At 30 June 2019	6,144	6,540	12,684

# Notes to the financial statements

at 30 June 2019

## 1. Accounting policies

### *Basis of preparation*

The company is a private company, limited by shares, and is incorporated and domiciled in the UK. The address of its registered office is Pallion Trading Estate, Sunderland, Tyne & Wear, SR4 6ST. The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company's financial statements are presented in British sterling and all values are rounded to the nearest thousand British pounds sterling (£'000) except where otherwise indicated. The results of Paragon Group UK Limited are included in the consolidated financial statements of Paragon Group Limited, which are available from its registered office at Lower Ground Floor, Park House, 16 / 18 Finsbury Circus, London, England, EC2M 7EB. The principal accounting policies adopted by the company are set out below.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1; and
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 118(e) of IAS 38 Intangible Assets
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

## 1. Accounting policies (continued)

### *Fundamental accounting concept*

The financial statements have been prepared on a going concern basis. The directors have reviewed the company's budgets and forecasts for the next 12 months, its liquid resources (including support available from its ultimate parent company), medium term plans, and the potential impact of the recent outbreak of the Coronavirus disease. The Paragon Group have also performed a downside scenario analysis which, while considered highly unlikely, demonstrates that the Group will have sufficient cash resources for a period of at least one year, even in the event of prolonged lock down period of around 3- 6 months. Given the fact that the Group has vital activities within the communication and financial sectors and was consequently given the "key worker status" during this outbreak, the Group feel confident that the support outlined by the government, such as tax deferral schemes and state aid/loan guarantee schemes can also be utilised, to assist in keeping its trading activities running at a sustainable level. The above statement does not protect the business from events that are out of its control and could potentially deeply change the outcome of its future activities. Nonetheless, the Directors have, at the date of signing of the account, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

### *Significant accounting policies*

#### *Property, plant and equipment*

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing when the assets are brought into operational use, of each asset evenly over its useful economic life as follows:

Freehold buildings	–	10-40 years
Leasehold buildings	–	over the life of the lease
Machinery and equipment	–	2-20 years
Fixtures and fittings	–	5-10 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

#### *Investments*

Investments are stated at cost less provision for diminution in value.

#### *Intangible assets*

##### *Goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the company amortised goodwill a period of 20 years would have been chosen as the useful life for goodwill.



## 1. Accounting policies (continued)

### *Intangible assets*

#### *Goodwill*

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### *Other intangible assets – computer software*

Computer software that is not integral to an item of property, plant or equipment is classified as an intangible asset and is held on the Balance Sheet at cost. These assets are amortised over their estimated useful lives, which is generally three years.

#### *Licence fees*

The cost of the licence fee payable to the parent undertaking for the utilisation of the Paragon brand over a ten year term is classified as an intangible asset on the balance sheet and written off over the term of the licence fee agreement. The carrying value of the asset is reviewed on an annual basis and at other times if events or changes in circumstances indicate that it may not be recoverable.

#### *Impairment*

The carrying amounts of the Company's intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at each balance sheet date.

An impairment charge is recognised in the Income Statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

## 1. Accounting policies (continued)

### *Impairment*

#### *Calculation of recoverable amount*

The recoverable amount of assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

#### *Reversals of impairment*

An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

A reversal of an impairment loss is recognised as income immediately in the Income Statement.

### *Retirement benefits*

The Company operated a defined benefit pension scheme. For this scheme, the amount charged to the income statement in respect of pension costs is the service cost of providing the benefits accrued in the period plus interest payable on pension scheme liabilities. The amount credited to the income statement is the return on pension assets. The scheme was frozen to future accruals from 3 August 2005.

The Company operates a number of defined contribution schemes. Contributions are charged in the income statement in the period in which they are incurred.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct materials and, where applicable, direct labour costs and those production overheads that have been incurred in bringing the inventories to their present location and condition. Cost is valued on a first in, first out ('FIFO') basis. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in selling and distribution.

### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

## 1. Accounting policies (continued)

### **Leases**

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

Rental costs under operating leases are charged to the Income Statement in equal amounts over the terms of the lease.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, the present value of the minimum lease payments; each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

### **Research and development**

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

### **Government grants**

Amounts receivable from government grants are presented in the financial statements only when there is reasonable assurance that the Group fulfils the necessary conditions and that the grants will be received.

Government grants in relation to income are credited in the Income Statement for the year. Government grants in relation to property, plant and equipment are credited to deferred income and released to income on the same basis that the related asset is depreciated.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

#### **Trade receivables**

Trade receivables do not carry any interest and are initially stated at fair value then held at amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. Allowances are recognised in the Income Statement when there is objective evidence that the asset is impaired.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits.

#### **Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded as the proceeds receivable, net of direct issue costs. Finance charges are accounted for on an accruals basis to the Income Statement using the effective interest rate method and are included in creditors to the extent that they are not settled in the period in which they arise.

#### **Trade payables**

Trade payables are not interest bearing and are initially stated at fair value then held at amortised cost.

## 1. Accounting policies (continued)

### *Taxation*

The tax expense in the Income Statement comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable profit for the period. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit. Deferred tax is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise on goodwill or from the initial recognition (other than business combinations) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is undiscounted.

### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

## 1. Accounting policies (continued)

### *Judgements and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

#### *Forecasts and discount rates*

The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the Company's operations which, in some circumstances, are discounted to arrive at a net present value. Assessment for impairment involves comparing the book value of an asset with its recoverable amount (being the higher of value in use and fair value less costs to sell).

Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty.

#### *Carrying value of property, plant and equipment*

The carrying value of the Company's investment in property, plant and equipment represents a key area of management judgement. This includes assumptions in respect of the use of fair values as well as estimation in respect of useful lives and impairments.

#### *Deferred tax assets*

The realisation of deferred tax assets is dependent on the generation of sufficient future taxable profits. The Company recognises deferred tax assets to the extent that it is probable that sufficient taxable profits will be available in the future. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Retirement benefit obligations*

The calculation of retirement benefits obligations requires estimates to be made of discount rates, inflation rates, future salary and pension increases and mortality.

### **EBITDA**

This is operating profit before depreciation and amortisation. It also includes all restructuring and exceptional items and any gains / (losses) arising on or from acquisitions (including gains on bargain purchases). Underlying EBITDA is stated after adjusting for items which are exceptional due to their nature, size or incidence. Exceptional items are further explained within Note 2 below.

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

## 2. Operating profit

This is stated after charging / (crediting):

	2019 £000	2018 £000
<b><i>Intangible assets amortisations</i></b>		
Amortisation of customer relationships	1,203	800
Amortisation of software	95	190
Amortisation of development costs	100	201
	<u>1,398</u>	<u>1,191</u>
 Amortisation of government grant	-	(64)
Exchange gain	-	(5)
Auditors' remuneration – audit services	53	41
– non-audit services - taxation	-	-
Depreciation of property, plant and equipment	2,070	1,620
Operating leases – land and buildings	1,573	1,495
– other	563	82
 <b><i>Non-recurring items comprise:</i></b>		
Redundancy costs	388	82
Other provisions and charges	413	924
	<u>801</u>	<u>1,006</u>

## 3. Directors' remuneration

No remuneration was paid to the Directors in respect of their services to the Company during the year. The Directors do not believe it is practical to apportion their remuneration received for services to the Group, across subsidiaries.

The Directors are considered to be the only key management personnel of the Company.

**4. Staff costs**

	2019	2018
	£000	£000
Wages and salaries	15,027	18,976
Social security costs	1,334	1,632
Pension costs – defined contributions	321	466
	<u>16,682</u>	<u>21,075</u>

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

	2019	2018
	No.	No.
Manufacturing	303	492
Administration	148	199
	<u>451</u>	<u>691</u>

**5. Profit on disposal of business**

On 28 June 2019, the Company entered into a sale agreement to dispose of its trade and assets at Sunderland and Rotherham as well as the Paperhat Communications trade and assets, to Paragon Customer Communication (London) Limited, for a consideration of £5,100,000 with a profit of £4,158,000.

On 28 June 2019, the Company also entered into a sale agreement to dispose of its trade and assets at Rugeley, to Paragon Customer Communications (Bristol) Limited, for a consideration of £7,200,000 with a profit of £4,833,000.

On 16 May 2019, the Company entered into a sale agreement for the entire issued share capital of Global Documents Systems Limited, to Paragon Graphics Limited, for a consideration of £2,769,000, generating a profit of £2,265,000 for the Company.

On 21 May 2019, the Company entered into an agreement with Paragon Customer Communications Global Limited and Paragon Transaction UK Limited for the sale of the 39.9% of issued ordinary share capital it held of Paragon Romania SRL. The sale was made for a consideration of €5,240,000, resulting in a profit of £871,000 for the Company.

**6. Net finance costs**

	2019	2018
	£000	£000
Interest on bank loans	120	85
Net interest income on pension scheme assets and liabilities (note 23)	(19)	(13)
Interest payable to / (receivable) from group undertaking	(96)	(11)
Finance charges payable under finance leases and hire purchase contracts	105	78
	<u>110</u>	<u>139</u>

**7. Income tax credit****(a) Tax on profit**

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

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
<b>Current tax:</b>		
Current tax credit at 19% (2018 – 19%)	-	-
Total current tax credit	-	-
<b>Deferred tax:</b>		
Deferred tax credit for the year	17	44
Adjustment in respect of prior years	490	-
Total deferred tax credit	507	44
<b>Total income tax credit (note 7(b))</b>	<b>507</b>	<b>44</b>
Tax (charge) / credit attributable to continuing operations	(154)	44
Tax credit attributable to discontinued operations	661	-
	507	44



## (b) Factors affecting tax for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019 £000	2018 £000
Profit from continuing operations	11,064	3,802
Profit from discontinued operations	(3,370)	-
Profit before tax	7,694	3,802
Profit / (loss) multiplied by standard rate of corporation tax in the UK of 19% (2018 – 19%)	1,462	722
<b>Effects of:</b>		
Non-taxable income	(2,117)	(175)
Permanent differences	249	153
Effect of unused losses from the current year	-	-
Effect of unused losses from prior year	(661)	(713)
Group relief	560	(31)
Total tax for the year (note 7(a))	(507)	(44)

## (c) Factors that may affect future tax charges

There are trading tax losses carried forward at 30 June 2019 of £nil (2018 – approx. £4,747,000). These are available for offset against future taxable trading profits.

In his summer budget of 8 July 2015, the Chancellor of the Exchequer proposed a decrease in the rate of the UK corporation taxation from 20% to 18%, falling by 1% in 2018 and a further 1% in 2020. The impact of the reduction in the rates is not considered material.

**8. Analysis of loss for the year from discontinued operations**

The following operations were discontinued in June 2019:

- Operations at Rotherham and Rugeley
- Operations of Paperhat Communication Limited
- Operations of Global Document Systems Limited
- Operations of the Irish branch

The results of these discontinued operations included in the profit for the year are included in the Income Statement set below.

	<i>2019</i>
	<i>£000</i>
<b>Revenue from sale of goods &amp; services</b>	<b>35,002</b>
Material costs	19,791
Payroll	11,897
Other operating costs	7,078
Operating costs	38,766
<b>Operating loss (EBIT)</b>	<b>(3,764)</b>
Profit on disposal of fixed assets	30
Net finance costs	(161)
Dividend received from associate	525
<b>Profit / (loss) before tax</b>	<b>(3,370)</b>
Income tax (charge) / credit	661
<b>Loss for the year from continuing operations</b>	<b>(2,709)</b>
<b>Supplementary Information:</b>	
EBITDA from discontinued operations	(1,485)
Exceptional net losses	735
<b>Underlying EBITDA</b>	<b>(750)</b>

## 9. Acquisitions

On 5 December 2018, the Group acquired the trade and certain assets of the Debenhams Retail plc's Magenta Print & Display division. On 18 January 2019, the Group acquired the trade and certain assets of Service Graphics Ltd in Administration.

The Company's strategy in the Graphics UK market is to grow through a combination of organic growth and acquisitions. As such both the Magenta Print & Display and Service Graphics transactions are excellent fits within the UK Graphics sector. Both provide large and extra-large format graphic signage.

In calculating the goodwill arising on these acquisitions, the fair value of the assets and liabilities has been assessed and adjustments to book value have been made where necessary. The fair values of assets and liabilities are summarised in the following table.

	<i>Magenta P&amp;D</i>	<i>Service Graphics</i>
	<i>Fair Value</i>	<i>Fair Value</i>
	<i>£000</i>	<i>£000</i>
<b>Fixed assets</b>		
Intangible assets - Customer List	400	700
Tangible assets	1,368	442
	<u>1,768</u>	<u>1,142</u>
<b>Current assets</b>		
Inventories	450	316
Trade and other receivables	43	-
	<u>493</u>	<u>316</u>
<b>Total assets</b>	<u>2,261</u>	<u>1,458</u>
<b>Liabilities</b>		
Obligations under finance leases	(240)	(393)
Trade and other payables	(96)	(468)
	<u>(336)</u>	<u>(861)</u>
<b>Net assets</b>	<u>1,925</u>	<u>597</u>
Fair value of consideration	2,471	858
<b>Goodwill on acquisition (note 8)</b>	<u>546</u>	<u>261</u>

The estimated annual impact of these acquisitions had they been made at the start of the financial year would have been revenue of £31,700,000 and EBITDA of £2,000,000.

**10. Intangible assets**

	<i>Licence fees</i>	<i>Customer relation- ships</i>	<i>Goodwill</i>	<i>Software</i>	<i>Develop- ment costs</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Cost:</b>						
At 1 July 2018	4,000	4,447	2,131	1,048	995	12,621
Acquisitions	-	1,100	807	-	-	1,907
Additions	-	926	-	46	-	972
Disposals	(4,000)	-	-	-	-	(4,000)
Transfer	-	(5,074)	(839)	(1,016)	(995)	(7,924)
At 30 June 2019	-	1,399	2,099	78	-	3,576
<b>Accumulated Amortisation:</b>						
At 1 July 2018	4,000	800	317	340	245	5,702
Charge for the year	-	1,203	-	95	100	1,398
Disposals	(4,000)	-	-	-	-	(4,000)
Transfer	-	(2,003)	-	(409)	(345)	(2,757)
At 30 June 2019	-	-	317	26	-	343
<b>Net book value:</b>						
At 30 June 2018	-	3,647	1,814	708	750	6,919
At 1 July 2019	-	1,399	1,782	52	-	3,233

Goodwill acquired through business combinations has been allocated to one cash-generating unit. This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board covering a three-year period.

**11. Tangible assets**

	<i>Freehold land and buildings £000</i>	<i>Leasehold land and buildings £000</i>	<i>Machinery and equipment £000</i>	<i>Fixtures and machinery £000</i>	<i>Total £000</i>
<b>Cost:</b>					
At 1 July 2018	4,901	1,125	14,482	1,184	21,692
Additions	-	149	2,620	242	3,011
Disposals	-	(40)	(342)	(42)	(424)
Transfer	-	-	(9,619)	(1,215)	(10,834)
At 30 June 2019	4,901	1,234	7,141	169	13,445
<b>Depreciation:</b>					
At 1 July 2018	3,144	481	11,312	872	15,809
Provided during the year	100	209	1,492	269	2,070
Disposals	-	(28)	(341)	(42)	(411)
Transfer	-	-	(8,382)	(997)	(9,379)
At 30 June 2019	3,244	662	4,081	102	8,089
<b>Net book value:</b>					
At 1 July 2018	1,757	644	3,170	312	5,883
At 30 June 2019	1,657	572	3,060	67	5,356

The net book value of assets held under finance leases at 30 June 2019 is £572,000 (2018 – £644,000).

**12. Investments**

	<i>£000</i>
Cost at 1 July 2018	3,950
Disposal of investment in Paragon Romania SRL.	(3,807)
Disposal of Global Document Systems Limited	(143)
Cost at 30 June 2019	-

On 16 May 2019, the Company entered into a sale agreement for the entire issued share capital of Global Documents Systems Limited, to Paragon Graphics Limited, for a consideration of €2,769,000, generating a profit of £2,265,000 for the Company.

On 21 May 2019, the Company entered into an agreement with Paragon Customer Communications Global Limited and Paragon Transaction UK Limited for the sale of the 39.9% of issued ordinary share capital it held of Paragon Romania SRL. The sale was made for a consideration of €5,240,000, resulting in a profit of £871,000 for the Company.

**13. Inventories**

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Raw materials	721	403
Work in progress	265	37
Finished goods	-	956
	<u>986</u>	<u>1,396</u>

There is no significant difference between the replacement cost of the inventories and their carrying amounts.

**14. Trade and other receivables**

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
<b><i>Due after more than one year:</i></b>		
Amounts owed by group undertakings	9,292	-
<b><i>Due within one year:</i></b>		
Trade debtors	17,721	11,396
Amounts owed by group undertakings	3,427	3,158
Other debtors	874	312
Prepayments	2,017	635
Corporation tax	54	-
	<u>24,093</u>	<u>15,501</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

	2019	2018
	£000	£000
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	4,258	4,460

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair value.

#### 15. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Obligations under finance leases and hire purchase contracts (note 18)	551	487
Obligations under loans and mortgages (note 17)	12,005	7,211
Trade creditors	6,387	7,521
Amounts owed to group undertakings	7,035	4,626
Other taxes and social security costs	1,766	1,264
Other creditors	1,125	1,656
Accruals and deferred income	4,133	2,776
Corporation tax	-	85
	<u>33,002</u>	<u>25,626</u>

#### 16. Creditors: amounts falling due after more than one year

	2019	2018
	£000	£000
Obligations under finance leases and hire purchase contracts (note 18)	1,084	560
Accruals and deferred income	1,575	1,096
	<u>2,659</u>	<u>1,656</u>

Obligations under loans and mortgages combine both fixed term and other credit facilities and are secured by fixed charges over several of the Company's fixed assets and a floating charge over debtors.

Accruals and deferred income includes a government grant for freehold property. This is being amortised over a 40 year period on a straight-line basis.

**17. Loans**

	2019	2018
	£000	£000
Bank loans	12,005	7,211
	<u>12,005</u>	<u>7,211</u>

The borrowings are repayable as follows:

	2019	2018
	£000	£000
Within one year	12,005	7,211
Between two and five years	-	-
	<u>12,005</u>	<u>7,211</u>

Interest is charged at a rate of Base rate plus 1.4%.

**18. Obligations under finance leases**

The maturity of these amounts is as follows:

	2019		2018	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	£000	£000	£000	£000
<b>Amounts payable under finance leases:</b>				
Within one year	616	551	487	425
Between two to five years	1,305	1,084	560	534
	<u>1,921</u>	<u>1,635</u>	<u>1,047</u>	<u>959</u>
Less finance charges	(286)		(88)	
<b>Present value of lease obligations</b>	<u>1,635</u>		<u>959</u>	
Current	551		425	
Non-current	<u>1,084</u>		<u>534</u>	
	<u>1,635</u>		<u>959</u>	

**19. Issued share capital and reserves**

	2019		2018	
	No.	£000	No.	£000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	6,144,000	<u>6,144</u>	6,144,000	<u>6,144</u>

The retained earnings reserve represents cumulative comprehensive income less any dividends paid.



**20. Deferred tax**

An analysis of the deferred tax position is as follows:

	<i>Recognised</i>		<i>Not recognised</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Decelerated capital allowances	591	(330)	-	-
Pension scheme surplus	(92)	(111)	-	-
Acquisitions	-	247	-	-
Tax losses	-	441	-	465
	<u>499</u>	<u>247</u>	<u>-</u>	<u>465</u>

Reconciliation of opening to closing deferred tax asset position:

	<i>£000</i>
At 1 July 2018	247
Credit for the year in the Income Statement	507
Transfers	(255)
At 30 June 2019	<u>499</u>

**21. Events since the balance sheet date**

In January 2020, the company acquired the entire share capital of Image Factory Retail Graphics Limited and A.E. Tyler Limited.

The outbreak of the global coronavirus pandemic is considered to be a non-adjusting post balance sheet event. The Board have considered, and continue to so, the impact of the virus on the business and have included details in the strategic report and directors report. The directors of the Company continue to assess the situation across key markets and the potential risk to the operation of the business daily. At the time of signing the accounts, there has been no unmanageable impact on either the Revenue, Customers or Employees within the Company.

**22. Capital commitments**

Capital expenditure not provided for in the financial statements but authorised by the directors, amounts to £nil (2018 – £nil).

## 23. Retirement benefits

The Company operates a final salary defined benefit pension plan. No benefits have accrued since 3 August 2005. Pension benefits for deferred members are based on the members' final pensionable salaries and service at the date accrual ceased (or date of leaving if earlier).

The most recent formal actuarial valuation was carried out as at 30 June 2019. The pension plan has not invested in any of the Company's or Group's share capital.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2019 <i>Per annum</i>	2018 <i>Per annum</i>
Discount rate	2.2%	2.6%
Expected rate of inflation – RPI	3.2%	3.1%
Expected rate of inflation – CPI	2.2%	2.1%
Expected rate of salary increases	n / a	n / a
Rate of increase of pensions in payment	3.1%	3.0%
Rate of increase for deferred pensioners	2.2%	2.1%

### Demographic assumptions

	2019		2018	
Mortality (pre-retirement)	Nil deaths S2PMA / S2PFA CMI 2019		Nil deaths S2PMA / S2PFA CMI 2018	
Mortality (post retirement)				
	2019		2018	
	<i>Males</i>	<i>Females</i>	<i>Males</i>	<i>Females</i>
Life expectancy for a current 65 year old	21.5 years	23.4 years	21.9 years	23.8 years
Life expectancy at age 65 for current 45 year old	22.8 years	24.9 years	23.3 years	25.4 years

The amount recognised in the Balance Sheet in respect of the defined benefits scheme assets is as follows:

	2019 <i>£000</i>	2018 <i>£000</i>
Present value of funded obligations	(8,062)	(7,481)
Fair value of scheme assets	8,690	8,193
Pension surplus	628	712

The surplus has been recognised as the scheme rules of the plan state that the Company will be entitled to any surplus remaining if the plan is run on until the last member exits the plan.

**23. Retirement benefits (continued)**

Amounts recognised in the Income Statement in respect of the defined benefit scheme are as follows:

	2019	2018
	£000	£000
Interest cost on obligation (note 6)	(190)	(198)
Expected return on scheme assets (note 6)	209	211
	<u>19</u>	<u>13</u>

Amounts recognised in other comprehensive income in respect of the defined benefit scheme are as follows:

	2019	2018
	£000	£000
Actuarial losses on defined benefit obligation	(725)	180
Actual return on assets	622	38
	<u>(103)</u>	<u>218</u>

Changes in the present value of defined benefits obligations are as follows:

	2019	2018
	£000	£000
Opening defined benefits obligation	7,481	7,771
Interest cost	190	198
Actuarial gains / (losses)	725	(180)
Benefits paid	(334)	(308)
Closing defined benefits obligation	<u>8,062</u>	<u>7,481</u>

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

	2019	2018
	£000	£000
Opening fair value of scheme assets	8,193	8,252
Interest income	209	211
Actuarial return on assets	622	38
Benefits paid	(334)	(308)
Closing fair value of scheme assets	<u>8,690</u>	<u>8,193</u>

## 23. Retirement benefits (continued)

The fair value of the scheme assets at the balance sheet date is analysed as follows:

	Value at 30 June 2019	Value at 30 June 2018
	£000	£000
Equity instruments	3,811	3,618
Gilts	2,622	2,447
Cash	2,257	2,128
	<u>8,690</u>	<u>8,193</u>

The last actuarial valuation of the plan was performed by the Actuary for the Trustees as at 30 June 2019. The valuation revealed a surplus in the plan, so no deficit contribution is due from the Company. The Company does not expect to make a payment to the plan during the accounting year beginning 1 July 2019 other than in respect to ongoing expenses. The actual return on assets in the year was £622,000 (2018 - £38,000.)

### Sensitivity analysis

	Change in assumption	Change in obligation
Discount rate	+0.5% / -0.5%	+9.0% / -8.0%
Expected rate of inflation	+0.5% / -0.5%	+4.0% / -5.0%
Assumed life expectancy	+ 1 year	+4.0%

### Risks

**Asset volatility:** the Plan's defined benefit obligation is calculated using a discount factor set with reference to corporate bond yields, however the Plan invests significantly in equities and other growth assets. These assets are expected to outperform corporate bonds in the long term but provide volatility and risk in the short term.

**Changes in bond yields:** a decrease in corporate bond yields would increase the Plan's defined benefit obligation, however this would be offset by an increase in the value of the Plan's Liability Driven Investment (LDI) holdings (other than in respect of changes in credit spreads).

**Inflation risk:** a significant proportion of the Plan's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). However, again this should be mostly offset by an increase in the Plan's LDI holdings.

**Life expectancy:** if Plan members live longer than expected, the Plan's benefit will need to be paid for longer, increasing the Plan's defined benefit obligation.

### Defined contribution scheme

The defined contribution scheme is funded by the payment of contributions to independently administered funds and the assets of the schemes are held separately from those of the Company. The pension cost charge for continuing operations for the year amounted to £321,000 (2018 - £466,000) (2019 including discontinued operations - £640,000).

Contributions totalling £138,000 (2018 - £81,000) were payable to the fund at the year-end and are included in creditors.

**24. Other financial commitments**

At 30 June, the Company had outstanding commitments for the future minimum lease payments under non-cancellable operating leases as follows:

	2019		2018		2019	2018
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Total</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000
Within one year	1,306	616	1,526	758	1,922	2,284
Between two and five years	1,540	460	2,461	1,198	2,000	3,659
After five years	157	51	269	113	208	382
	<u>3,003</u>	<u>1,127</u>	<u>4,256</u>	<u>2,069</u>	<u>4,130</u>	<u>6,325</u>

**25. Contingent liabilities**

In the directors' opinion there are no contingent liabilities.

**26. Related party transactions**

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 101 with reference to IAS24 'Related party disclosures' not to disclose transactions with other wholly owned subsidiaries within the group.

**27. Ultimate parent undertaking and controlling party**

The ultimate parent undertaking is Paragon Group Limited, which is incorporated in the UK. Paragon Group Limited has included the Company in its group financial statements. Copies of the group financial statements can be obtained from its registered office at Lower Ground Floor, Park House, 16 / 18 Finsbury Circus, London, England, EC2M 7EB.

The immediate parent undertaking is Paragon Graphics Limited, which is incorporated in the UK.

Copies of the financial statements can be obtained from its registered office.