

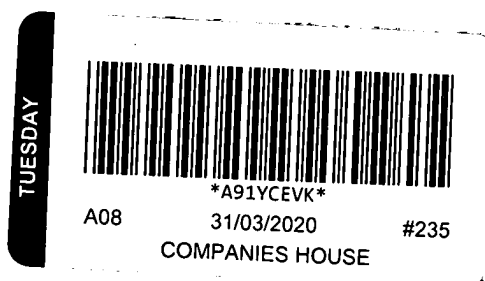
## **Paperchase Products Limited**

**Directors' report and financial statements**

**Financial period ended**

**2 February 2019**

**Company Number 03185938**



**Paperchase Products Limited**  
**Report and Financial Statements**  
**for the financial period ended 2 February 2019**

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**Directors**

T Melgund  
D Gibson  
M Woodcock

**Secretary and registered office**

M Woodcock  
  
12 Alfred Place, London, WC1E 7EB

**Company number**

03185938

**Bankers**

Lloyds Banking Group, 25 Gresham Street, London, EC2V 7HN

**Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU

# Paperchase Products Limited

## Strategic report for the financial period ended 2 February 2019

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### Principal activity

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

### Business review

As is well documented, the UK retail sector has been subjected to a number of material headwinds in recent years, namely reducing customer footfall in stores and material increases in costs, particularly rent, rates and staffing. Paperchase has been impacted by these for a number of years resulting in declining results since 2015.

In 2018 new leadership was brought in. The new company strategy is to focus on sustainable profit growth; by addressing costs and operational inefficiencies, refinancing the company, focus on improving product appeal and driving three sales channels; stores, digital and franchise and wholesale.

In the year to 2 February 2019 turnover declined to £125.3m (2018: £131.2m) impacted by the general market headwinds highlighted above. The operating loss excluding store opening & closure costs of £278k and exceptional items of £7.3m was £4.7m (2018: loss of £1.1m). The costs labelled as exceptional relate principally to fixed asset impairments (£4m), provisioning against intercompany balances receivable (£2.3m) and other restructuring costs (£1.1m) which are outside of the business' normal trading activities. After taking into account these exceptional items as well as the store opening & closure costs the operating loss was £12.3m (2018: loss of £4.2m).

During the year 3 UK standalone stores were opened and 3 were closed along with 11 concessions opened (partially offset by 4 concession closures).

The loss for the year £11m (2018: loss of £5.5m) was the key contributor to the reduction in the company's net assets to £2.8m (2018: £13.8m).

### Group structure

Paperchase Products Limited is the principal trading entity of the Paperchase Group.

Paperchase Products Limited's immediate parent undertaking is Paperchase Worldwide Group Limited (registered in England and Wales with company number 07289222).

Paperchase Worldwide Group Limited is 100% owned by Paperchase Worldwide Holdings Limited (registered in England and Wales with company number 07289204). Paperchase Worldwide Holdings Limited is the consolidating parent of the Paperchase Group.

Paperchase Worldwide Holdings is 84% owned by Primary Capital III Nominees Limited (registered in England and Wales with company number 05673183).

### Company Voluntary Agreement (CVA) post balance sheet event

The biggest cost line for Paperchase is store rent and rates and in the year to 2 February 2019 a number of stores were unprofitable.

On 22 March 2019, as part of the strategy to reduce operational costs, creditors approved plans to enter a CVA which allowed the business to exit loss making stores and reduce the fixed rent commitment in other locations (generally in exchange for turnover linked rent).

# Paperchase Products Limited

## Strategic report for the financial period ended 2 February 2019 (continued)

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### Financial restructuring (post balance sheet event)

Third party debt within the Paperchase Group sits in both Paperchase Products Limited and its immediate parent company Paperchase Worldwide Group Limited. As part of the CVA process, Paperchase's main debt provider, Permira Credit Solutions agreed with the Directors and Primary Capital III Nominees Limited to provide an additional £16m funding to support the turnaround strategy (of which £11m was to replace facilities previously provided by Lloyds/Bank of Scotland and £2m was to repay the balances outstanding at the period end). A further £5m has subsequently been committed by Permira to facilitate investments in both the store portfolio and the digital arm of the business.

In exchange for this additional investment, Permira have been granted a call option to purchase the entire share capital of Paperchase Worldwide Group Limited from Paperchase Worldwide Holdings Limited (the ultimate parent company) for £1. The Directors anticipate this option will be exercised in the near future but at the date of signing of these financial statements this option has yet to be exercised.

Following the exercise of the call option, it is anticipated that Paperchase Worldwide Holdings Limited will be liquidated. However, there will be no impact upon the day to day operations of the principal trading entity, Paperchase Products Limited or its immediate parent undertaking Paperchase Worldwide Group Limited.

### Outlook and strategic progress

Encouraging progress has been made on the new strategy. Operating costs have been materially reduced, trading and performance KPIs are improving, the new leadership team is now fully in place and EBITDA before exceptional items has significantly improved in 2019/20.

Whilst there is further work to deliver on all aspects of the strategy, the Board of Directors believe that these improvements, in conjunction the financial restructuring (including the further £5m committed by Permira to facilitate capital expenditure) will secure the long term success of the business.

Permira Credit Solutions (the main debt provider) are fully aligned with this view and the turnaround strategy in place.

### Principal risks and uncertainties

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

The principal risks and uncertainties are broadly grouped as follows:

#### Commercial risks

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

#### Currency risks

Foreign currency exposure is due to the international expansion of the company's operations and inventory purchases from overseas. The Company aims to manage its assets and liabilities denominated in foreign currency to minimise foreign exchange risk and to ensure sufficient availability of working capital. The Company engages in a number of forward currency contracts up to 18 months in advance to limit the risk of exposure to foreign currencies on future inventory purchases.

# Paperchase Products Limited

## Strategic report for the financial period ended 2 February 2019 (*continued*)

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### Principal risks and uncertainties (*continued*)

#### **Coronavirus/Covid-19**

In addition to the day-to-day principal risks and uncertainties faced by the Company, at the date of signing these financial statements, the Company is also facing uncertainty due to the ongoing impact from Coronavirus. Given the fast-moving pace of the impact of this, it is not possible to predict the full impact of the pandemic. Specific risks and uncertainties to the Company include:

- **Supply Chain:** The Company works with a number of international suppliers, including some based in China. The emergence and spread of Coronavirus has delayed some stock production and delivery to date, and has the potential to further delay this. To mitigate this risk the Directors are continually reviewing stock supply and orders so as to minimise potential business disruption.
- **Trading:** As Coronavirus has spread, there has been an impact on store footfall; however we are seeing and expect to continue to see growth in our online channel throughout the pandemic. We will continue to review our cost base, and have placed a freeze on any discretionary spending.
- **Cash/Covenants:** The Directors have modelled the impact of reduced sales and also identified mitigating actions available to the Company to reduce costs which include reducing product purchases to match the lower demand, delaying planned capital expenditure and reducing variable costs. See Directors' report for further details.

#### **Liquidity, interest rate, and cash flow risks**

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

# Paperchase Products Limited

## Strategic report for the financial period ended 2 February 2019 (continued)

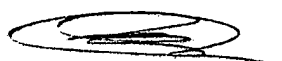
### Key performance indicators

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

	52 weeks ended 2 February 2019 £'000	53 weeks ended 3 February 2018 £'000
Turnover	125,337	131,153
Gross profit excluding exceptional items and store opening and closing costs	14,027	17,982
Gross profit	7,435	15,426
EBITDA excluding exceptional items and store opening and closing costs	353	4,473
EBITDA	(7,218)	1,408
Operating loss excluding exceptional items and store opening and closing costs	(4,746)	(1,101)
Operating loss	(12,317)	(4,166)

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items and store opening and closing costs is calculated by adjusting for, costs associated with the closure of a number of stores and concessions, pre-opening occupancy costs relating to new stores, impairment and onerous lease provisions for underperforming stores, intercompany receivable provisions and restructuring costs (including costs related to the CVA project and one-off stock provisions). These exceptional items are of a non-recurring and material nature and are therefore presented separately to give a clearer presentation and understanding of the Company's results.

On behalf of the board



M Woodcock  
Director

26 March 2020

# Paperchase Products Limited

## Report of the directors' for the financial period ended 2 February 2019

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The Directors present their report and financial statements for the financial period ended 2 February 2019.

### Results and dividends

The loss for the financial period after taxation amounted to £11,009,000 (53 weeks ended 3 February 2018: loss of £5,544,000). The Directors did not declare or pay any dividends in the period (53 weeks ended 3 February 2018: £Nil). The Directors do not recommend a final dividend (53 weeks ended 3 February 2018: £Nil).

Further commentary on the results and the future development of the business is included in the Strategic report.

### Post balance sheet events

As disclosed in the Strategic report, the Paperchase Group entered into a Creditors Voluntary Agreement on 22 March 2019 and has subsequently carried out a Financial Restructuring.

### Principal risks and uncertainties

The principal risks and uncertainties are disclosed in the Strategic report.

### Directors

The Directors of the company during the period were:

T Melgund	
D Gibson	
R Warden	(resigned 1 August 2018)
D Bateman	(resigned 1 August 2018)
K Heath	(resigned 19 July 2019)

M Woodcock was appointed as a Director of the company subsequent to the year-end on 2 September 2019.

### Directors' insurance and indemnities

The Company has maintained throughout the year Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

### Employees

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

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

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

The company's accounting records are maintained at the company's registered office at 12 Alfred Place, London, WC1E 7EB.

# Paperchase Products Limited

## Report of the directors' for the financial period ended 2 February 2019 (*continued*)

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### Creditors payment policy

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

### Disclosure of information to the auditors

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

### Auditors

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

### Political and charitable contributions

During the period, the company made charitable contributions totalling £239,507 (53 weeks ended 3 February 2018: £199,954) in connection with sale of charity greeting cards.

### Going concern

Following the completion of the CVA (note 23) and subsequent refinancing (see Strategic report), the Directors prepared detailed cash-flow projections extending to April 2021 to support their assessment of the company's going concern. These forecasts were subjected to sensitivity analysis which modelled reasonably possible changes in the key variables. The Directors also worked closely with Permira, the group's lenders, to ensure the binding commitment of additional funding required within these projections (£5m) and to set suitable covenant thresholds and interest payment terms for the same period for both the new and existing debt.

In light of this original analysis, the confirmed loan facilities and payment terms thereon, the Directors concluded that the company had adequate resources to continue in operational existence for at least the 12 months following the signing of the financial statements.

The impact of the recent COVID-19 outbreak has however required an update to the company's going concern analysis and this has been considered by modelling the impact on the company's cashflow for the 12 months to April 2021. The UK's response to the virus has escalated in recent weeks and as a result the company has seen a decline in consumer demand, and with all retail stores having to close on 23 March 2020. The online retail platform remains operational.

The directors have modelled the impact on the company assuming the store closures remain in place for a period of 3 months and then sales gradually return to the budgeted levels over the next 3 months with a return to the original forecast plan for the peak Christmas trading period. These projections also incorporate mitigating actions the company will take to reduce costs, including reducing product purchases to match the lower demand, delaying planned capital expenditure and reducing variable costs, as well as incorporating government support initiatives, including a 12 month business rates waiver, short term working capital loan finance and the furloughing of a significant number of its workforce. This analysis indicates that owing to the exceptional circumstances the business will need to agree a covenant waiver with its main debt provider Permira, but providing this is agreed and the various mitigating steps occur then the company is able to operate within its committed facilities and meet its liabilities as they fall due for the 12 months following the signing of the financial statements.



# Paperchase Products Limited

## Report of the directors' for the financial period ended 2 February 2019 *(continued)*

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### Going concern *(continued)*

However it is difficult to estimate how the COVID-19 outbreak will impact the company's trading and for how long, the directors consider this as the key uncertainty over which they have no control. In the event store closures were for longer than the 3 months modelled, the covenant waiver was not agreed or the short term government support for a working capital loan is not available as forecast then the company would need to seek alternative financial support from its main debt provider Permira, whilst there are no binding commitments Permira have historically been supportive and the directors remain in a close dialogue with them. Given the associated uncertainty within this forecast a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

### On behalf of the board

  
D Gibson  
Director

26 March 2020

# Paperchase Products Limited

## Statement of Directors' responsibilities for the financial period ended 2 February 2019 (*continued*)

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### 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.

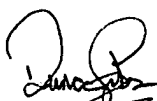
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice including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

In preparing these financial statements, the Directors are required to:

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

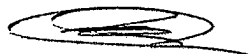
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

### On behalf of the board



B Gibson  
Director

26 March 2020



M Woodcock  
Director

26 March 2020

# Paperchase Products Limited

## Independent auditor's report for the financial period ended 2 February 2019

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### INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF PAPERCHASE PRODUCTS LIMITED

#### Opinion

We have audited the financial statements of Paperchase Products Limited ("the Company") for the 52 weeks ended 2 February 2019 which comprise the income statement, statement of financial position, statement of changes in equity and 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 102 *The Financial Reporting Standard 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 2 February 2019 and of its loss for the period 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.

#### Material uncertainty related to going concern

In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosure in note 1 to the financial statements concerning the company's ability to continue as a going concern.

The directors have considered the impact of the recent COVID-19 outbreak as part of the company's going concern analysis.

The directors have modelled the impact of reduced sales and also mitigating actions available to the company to reduce costs. The projections also incorporate a number of government support initiatives recently announced and assume the company will agree a covenant waiver over its existing loans owing to the exceptional circumstances. This analysis indicates the company has adequate resources to continue in operational existence for a period of 12 months following the signing of the financial statements. However in the event store closures were for longer than the 3 months modelled, the covenant waiver was not agreed or the short term government working capital support are not available as forecasted then the company would need to seek alternative financial support from its main debt provider Permira.

Owing to the uncertainty as to how the COVID-19 outbreak may impact upon the company's projected cashflows a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

# Paperchase Products Limited

## **Independent auditor's report for the financial period ended 2 February 2019 (continued)**

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### **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 Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

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

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 and Director's report.

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.

# Paperchase Products Limited

## Independent auditor's report for the financial period ended 2 February 2019 (*continued*)

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### Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, 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 at the Financial Reporting Council's website at: <https://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.

*BDO LLP*

Diane Campbell (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

Date 27 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Paperchase Products Limited

## Income statement for the financial period ended 2 February 2019

	Note	Trading result 2019 £'000	Store opening and closure costs 2019 £'000	Exceptional items 2019 £'000	Total result 2019 £'000
Turnover	2	125,337	-	-	125,337
Cost of sales		(111,310)	(278)	(6,314)	(117,902)
<b>Gross profit</b>		<b>14,027</b>	<b>(278)</b>	<b>(6,314)</b>	<b>7,435</b>
Distribution costs		(5,568)	-	-	(5,568)
Administrative expenses		(13,205)	-	(979)	(14,184)
<b>Operating loss</b>	3	<b>(4,746)</b>	<b>(278)</b>	<b>(7,293)</b>	<b>(12,317)</b>
Finance income	6	2,408	-	-	2,408
Finance costs	7	(423)	-	-	(423)
<b>Loss on ordinary activities before taxation</b>		<b>(2,761)</b>	<b>(278)</b>	<b>(7,293)</b>	<b>(10,332)</b>
Tax on loss on ordinary activities	8	(677)	-	-	(677)
<b>Loss for the financial year</b>		<b>(3,438)</b>	<b>(278)</b>	<b>(7,293)</b>	<b>(11,009)</b>

	Note	Trading result 2018 £'000	Store opening and closure costs 2018 £'000	Exceptional items 2018 £'000	Total result 2018 £'000
Turnover	2	131,153	-	-	131,153
Cost of sales		(113,171)	(136)	(2,420)	(115,727)
<b>Gross profit</b>		<b>17,982</b>	<b>(136)</b>	<b>(2,420)</b>	<b>15,426</b>
Distribution costs		(5,203)	-	-	(5,203)
Administrative expenses		(13,880)	-	(609)	(14,389)
<b>Operating loss</b>	3	<b>(1,101)</b>	<b>(136)</b>	<b>(2,929)</b>	<b>(4,166)</b>
Finance income	6	70	-	-	70
Finance costs	7	(2,240)	-	-	(2,240)
<b>Loss on ordinary activities before taxation</b>		<b>(3,271)</b>	<b>(136)</b>	<b>(2,929)</b>	<b>(6,336)</b>
Tax on loss on ordinary activities	8	792	-	-	792
<b>Loss for the financial year</b>		<b>(2,479)</b>	<b>(136)</b>	<b>(2,929)</b>	<b>(5,544)</b>

All amounts relate to continuing operations.

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £9,278,000 (53 weeks ended 3 February 2018 – loss of £5,544,000).

The notes on pages 15 to 33 form part of these financial statements

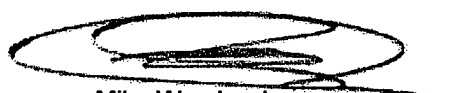
# Paperchase Products Limited

## Statement of financial position at 2 February 2019

<b>Company number 03185938</b>	<b>Note</b>	<b>2 February 2019 £'000</b>	<b>2 February 2019 £'000</b>	<b>3 February 2018 £'000</b>	<b>3 February 2018 £'000</b>
<b>Fixed assets</b>					
Property, plant and equipment	10		14,493		20,712
<b>Current assets</b>					
Inventories	12	16,447		16,690	
Debtors:	13				
- amounts falling due after more than one year		712		2,800	
- amounts falling due within one year		7,006		7,212	
Cash and cash equivalents		2,163		4,636	
		26,328		31,338	
<b>Creditors: amounts falling due within one year</b>	14	(32,475)		(29,855)	
<b>Net current (liabilities)/assets</b>			(6,147)		1,483
<b>Total assets less current liabilities</b>			8,346		22,195
<b>Creditors: amounts falling due after more than one year</b>	14		(4,796)		(7,060)
<b>Provision for liabilities</b>	15		(720)		(1,289)
<b>Net assets</b>			2,830		13,846
<b>Capital and reserves</b>					
Share capital	16		100		100
Share premium account			2,095		2,095
Capital contribution reserve			1,229		1,229
Other reserves			3,342		3,342
Profit and loss account			(3,936)		7,080
			2,830		13,846

The financial statements were approved by the Board of Directors and authorised for issue on 26 March 2020.

  
D Gibson  
Director

  
Mike Woodcock  
Director

The notes on pages 15 to 33 form part of these financial statements.

# Paperchase Products Limited

## Statement of changes in equity for the financial period ended 2 February 2019

	Share capital £000	Share premium account £000	Capital contribution reserve £000	Other reserves £000	Profit and loss account £000	Total equity £000
<b>At 28 January 2017</b>	100	2,095	1,229	3,342	12,640	19,406
Loss for the period	-	-	-	-	(5,544)	(5,544)
Share based payment	-	-	-	-	(16)	(16)
<b>At 3 February 2018</b>	100	2,095	1,229	3,342	7,080	13,846
Loss for the period	-	-	-	-	(11,009)	(11,009)
Share based payment	-	-	-	-	(7)	(7)
<b>At 2 February 2019</b>	100	2,095	1,229	3,342	(3,936)	2,830

The notes on pages 15 to 33 form part of these financial statements.



# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019

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### 1 Accounting policies

#### General information

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

#### Basis of preparation

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, and the Companies Act 2006. The financial statements represent the 52 week period ended 2 February 2019 (2018 - 53 weeks ended 3 February 2018).

The information included in the consolidated financial statements of Paperchase Worldwide Holdings Limited as at 2 February 2019 and these financial statements may be obtained from 12 Alfred Place, London, WC1E 7EB.

The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

#### Group financial statements

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

#### *Financial reporting standard 102 - reduced disclosure exemptions*

As a result of being a qualifying subsidiary, the Company has taken advantage of the following disclosure exemptions as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

- The requirements of Section 3 Financial Statement Presentation paragraph 3.17(d); and
- The requirements of Section 7 Statement of Cash Flows

#### Revenue recognition

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

#### Foreign currency translation

Transactions in foreign currencies are recorded at the monthly exchange rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement within cost of sales. The company's functional and presentational currency is GBP.

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019

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### 1 Accounting policies (*continued*)

#### **Current and deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### **Share-based payments**

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

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

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

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

#### **Pension costs**

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

#### **Derivative instruments**

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

#### **Interest-bearing loans and borrowings**

All interest-bearing loans and borrowings are initially recognised at fair value, being their issue proceeds net of transaction costs incurred. At subsequent reporting dates long-term borrowings are held at amortised cost using the effective interest rate method, with changes in value recognised through the consolidated income statement. Transaction costs are recognised in the consolidated income statement over the period of the borrowings using the effective interest rate method.

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 1 Accounting policies (continued)

#### Property, equipment and IT assets

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

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

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

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

#### Investments

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

#### Inventories

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

#### Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

#### Short-term debtors and creditors

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

#### Leasing commitments

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

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (*continued*)

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### 1 Accounting policies (*continued*)

#### Going concern

Following the completion of the CVA (note 23) and subsequent refinancing (see Strategic report), the Directors prepared detailed cash-flow projections extending to April 2021 to support their assessment of the company's going concern. These forecasts were subjected to sensitivity analysis which modelled reasonably possible changes in the key variables. The Directors also worked closely with Permira, the group's lenders, to ensure the binding commitment of additional funding required within these projections (£5m) and to set suitable covenant thresholds and interest payment terms for the same period for both the new and existing debt.

In light of this original analysis, the confirmed loan facilities and payment terms thereon, the Directors concluded that the company had adequate resources to continue in operational existence for at least the 12 months following the signing of the financial statements.

The impact of the recent COVID-19 outbreak has however required an update to the company's going concern analysis and this has been considered by modelling the impact on the company's cashflow for the 12 months to April 2021. The UK's response to the virus has escalated in recent weeks and as a result the company has seen a decline in consumer demand, and with all retail stores having to close on 23 March 2020. The online retail platform remains operational.

The directors have modelled the impact on the company assuming the store closures remain in place for a period of 3 months and then sales gradually return to the budgeted levels over the next 3 months with a return to the original forecast plan for the peak Christmas trading period. These projections also incorporate mitigating actions the company will take to reduce costs, including reducing product purchases to match the lower demand, delaying planned capital expenditure and reducing variable costs, as well as incorporating government support initiatives, including a 12 month business rates waiver, short term working capital loan finance and the furloughing of a significant number of its workforce. This analysis indicates that owing to the exceptional circumstances the business will need to agree a covenant waiver with its main debt provider Permira, but providing this is agreed and the various mitigating steps occur then the company is able to operate within its committed facilities and meet its liabilities as they fall due for the 12 months following the signing of the financial statements.

However it is difficult to estimate how the COVID-19 outbreak will impact the company's trading and for how long, the directors consider this as the key uncertainty over which they have no control. In the event store closures were for longer than the 3 months modelled, the covenant waiver was not agreed or the short term government support for a working capital loan is not available as forecast then the company would need to seek alternative financial support from its main debt provider Permira, whilst there are no binding commitments Permira have historically been supportive and the directors remain in a close dialogue with them. Given the associated uncertainty within this forecast a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 *(continued)*

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### 1 Accounting policies *(continued)*

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

In preparing these financial statements, the directors have made the following judgements, estimates and assumptions that effect 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.

#### **Fixed assets**

The tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Where there are indicators of impairment of individual assets, the company performs impairment tests based on a value in use calculation. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

#### **Provision for inventories**

Inventories include a provision for slow-moving and obsolete items. The calculation of the provision is based on a combination of historical trends and forecast sales.

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 1 Accounting policies (continued)

### Lease provisions

Onerous lease provisions are recognised where the liabilities under a store lease outweigh the expected benefits. The provisions are calculated using a discounted cash flow model to the end of the lease. The provision includes judgements over the discount rate used for the discounted cash flow model as well as the expected future cash flows.

## 2 Turnover

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

An analysis of turnover by geographical market is given below:

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
United Kingdom	125,337	131,153

## 3 Operating loss

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
This is arrived at after charging/(crediting):		
Auditors' remuneration:		
- audit of the financial statements	136	117
- taxation compliance service	21	21
- audit related assurance services	-	-
Depreciation (note 10)	5,099	5,574
Operating lease rentals:		
- land and buildings	21,891	22,697
- plant and machinery	170	174
Loss on disposal of fixed assets	105	1
Impairment of fixed assets	3,973	1,213
Movement in onerous lease provisions	(279)	713
Dilapidation provision	500	-
Foreign exchange gains	(42)	(378)
Provision against intercompany receivables	2,306	-

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 4 Remuneration of directors and key management

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

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Total key management remuneration in respect of qualifying services	1,878	1,912
Value of company pension contributions to money purchase schemes	39	31
	<b>Number</b>	<b>Number</b>
Members of money purchase pension schemes	9	10

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

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Remuneration	355	356
Value of company pension contributions to money purchase schemes	-	-

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

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 5 Employees

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Staff costs (including directors) consist of:		
Wages and salaries	25,500	25,762
Social security costs	1,803	1,814
Staff pension contributions	336	266
	<u>27,639</u>	<u>27,842</u>

Included in wages and salaries is a total credit of share-based payments of £7,000 (3 February 2018 – £16,000) arising from equity-settled, share-based payment transactions.

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

	52 weeks ended 2 February 2019 Number	53 weeks ended 3 February 2018 Number
Purchasing and stock control	110	86
Administration and finance	134	135
Sales and display	1,740	1,949
	<u>1,984</u>	<u>2,170</u>

## 6 Finance income

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Revaluation of foreign currency derivatives	2,347	-
Bank interest	26	32
Interest receivable from other group companies	35	38
	<u>2,408</u>	<u>70</u>
<b>Total interest receivable and similar income</b>		



# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (*continued*)

## 7 Finance cost

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Revaluation of foreign currency derivatives	-	1,983
Bank interest payable	422	251
Other interest payable	1	6
	<hr/>	<hr/>
Total interest payable and similar charges	423	2,240
	<hr/>	<hr/>

## 8 Taxation

Tax on loss on ordinary activities

The tax credit is made up as follows:

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
<i>Current tax</i>	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	677	(792)
	<hr/>	<hr/>
Tax charge / (credit) on ordinary activities	677	(792)
	<hr/>	<hr/>

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 8 Taxation (continued)

### Factors affecting total tax credit for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19.0 % (53 weeks 3 February 2018 – 19.2%). The differences are explained below:

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Loss on ordinary activities before tax	(10,332)	(6,336)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19.0% (53 weeks ended 3 February 2018 – 19.2%)	(1,963)	(1,217)
Effects of:		
Expenses not deductible for tax purposes	982	434
Group relief	(202)	(109)
Effect of decreased tax rate on deferred tax balance	129	100
Deferred tax not recognised	1,731	-
Total tax charge / (credit) for the period	677	(792)

### Deferred tax

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

	52 weeks ended 2 February 2019 £000	53 weeks ended 3 February 2018 £000
Included in debtors (note 13)	-	678
Depreciation in excess of capital allowances	-	805
Other timing differences	-	(127)
Deferred tax asset	-	678
		£000
At 3 February 2018		678
Deferred tax charge to the profit and loss account arising during the period		(678)
At 2 February 2019		-

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 8 Taxation (continued)

A deferred tax asset in relation to depreciation in excess of capital allowances (£1,731k) has not been recognised owing to the uncertainty of future taxable profits in the near term. Where deferred tax is recognised, it is on an undiscounted basis.

#### *Factors that may affect future tax charges*

The Finance (No2) Act 2015 reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. Finance Act 2016 enacted a further reduction in the main rate to 17% with effect from 1 April 2020. These changes have been incorporated into the balance sheet calculations at 2 February 2019 and 3 February 2018.

### 9 Exceptional items

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

The exceptional items disclosed on the face of the income statement are as follows:

	<b>52 weeks ended 2 February 2019 £000</b>	<b>53 weeks ended 3 February 2018 £000</b>
Impairments of fixed assets (note 10)	3,973	1,213
Onerous lease movements, dilapidation charges and lease surrender incentives	(364)	713
Provisioning against USA intercompany debtor	241	335
Provisioning against group intercompany debtor	2,306	-
Restructuring costs	1,137	668
	<hr/>	<hr/>
	7,293	2,929
	<hr/>	<hr/>

Restructuring costs in relation to staff redundancies, CVA expenses and other costs which were incurred as part of the turnaround strategy to drive three sales channels; stores, digital and franchise & wholesale.

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 10 Property, plant and equipment

	Leasehold improvements furniture, fixtures and fittings £000	Computer hardware and software £000	Total £000
<i>Cost</i>			
At 3 February 2018	55,624	9,522	65,146
Additions	2,340	618	2,958
Disposals	(995)	(14)	(1,009)
	<hr/>	<hr/>	<hr/>
At 2 February 2019	56,969	10,126	67,095
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 3 February 2018	36,826	7,608	44,434
Charged during the period	4,010	1,089	5,099
Disposals	(890)	(14)	(904)
Impairments	3,970	3	3,973
	<hr/>	<hr/>	<hr/>
At 2 February 2019	43,916	8,686	52,602
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 2 February 2019	13,053	1,440	14,493
	<hr/>	<hr/>	<hr/>
At 3 February 2018	18,798	1,914	20,712
	<hr/>	<hr/>	<hr/>

The impairment charge of £3,973,000 is the result of asset value reduction in stores where cash generation no longer justifies the carrying value.

The impairment charge is included within cost of sales as an exceptional item in the income statement.

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 11 Investments

At 2 February 2019 and 3 February 2018 the company held investments in the following principal dormant subsidiary undertakings:

	Class of shares	Value	Percentage of ordinary shares held
Paperchase Limited (dormant)	£1 ordinary	£1	100%
Paperchase Designs Limited (dormant)	£1 ordinary	£1	100%
Paperchase Designs Ireland Limited	€1 ordinary	€1	100%
Paperchase Canada Retail Limited	CAD1 ordinary	CAD1	100%
Paperchase Retail Incorporated	USD1 ordinary	USD10,000	100%

Paperchase Limited and Paperchase Designs Limited are incorporated in the UK. The registered office for both companies is 12 Alfred Place, London, WC1E 7EB.

Paperchase Designs Ireland Limited is incorporated in the Republic of Ireland. The registered office for Paperchase Designs Ireland Limited is Fairyhouse Cottage, Fairyhouse Road, Ratoath, Co Meath, Republic of Ireland.

Paperchase Canada Retail Limited is incorporated in Canada. The registered office for Paperchase Canada Retail Limited is 2200 HSBC Building, 885 West Georgia Street, Vancouver, BC, Canada, V6C 3E8.

Paperchase Retail Incorporated is incorporated in the USA. The registered office for Paperchase Retail Incorporated is 500 West Madison, Suite 3700, Chicago, IL 60661, USA. Paperchase Retail Incorporated is non-trading.

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

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

### 12 Inventories

	2 February 2019 £000	3 February 2018 £000
Consumables	304	258
Finished goods	12,799	13,220
Stock in transit – finished goods	3,344	3,212
	<hr/>	<hr/>
	16,447	16,690
	<hr/>	<hr/>

During the period £144,000 of stock provision movements were credited to the income statement within cost of sales (period ended 3 February 2018 - £505,000).

There are no material differences between the replacement cost of stock and its balance sheet carrying value.

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 13 Debtors

	2 February 2019 £000	3 February 2018 £000
Amounts falling due within one year:		
Trade debtors	829	1,151
Other debtors	152	59
Prepayments and accrued income	5,266	5,041
Payments on account	233	223
Derivative financial instruments (note 18)	466	-
Corporation tax	60	60
Deferred taxation (note 8)	-	678
	<u>7,006</u>	<u>7,212</u>
Amounts falling due after more than one year		
Amounts owed by group undertakings	712	2,800
	<u>712</u>	<u>2,800</u>

## 14 Creditors

	2 February 2019 £000	3 February 2018 £000
Bank overdraft	1,184	-
Trade creditors	10,448	9,894
Other taxation and social security costs	4,280	1,738
Other creditors	438	443
Accruals and deferred income	13,316	14,863
Pension accrual	59	37
Derivative financial instruments (note 18)	-	1,880
Bank facility	2,750	1,000
	<u>32,475</u>	<u>29,855</u>
Amounts falling due after one year:		
	2 February 2019 £000	3 February 2018 £000
Bank facility	750	1,500
Amounts owing to group undertakings	4,046	5,560
	<u>4,796</u>	<u>7,060</u>

# Paperchase Products Limited

Notes forming part of the financial statements  
for the financial period ended 2 February 2019 (continued)

## 14 Creditors (continued)

Maturity of debt:

Bank facility	2 February 2019 £000	3 February 2018 £000
Within one year	2,750	1,000
In one to two years	750	1,000
In two to five years	-	500
In more than five years	-	-
	<u>3,500</u>	<u>2,500</u>

The bank facility is secured by a fixed and floating charge over the assets of Paperchase Worldwide Holdings Limited, Paperchase Worldwide Group Limited, and Paperchase Products Limited. Cash interest on the facility of 3.0% + LIBOR accrues daily and is payable quarterly in arrears.

## 15 Provisions

	3 February 2019 Onerous lease provision £000	3 February 2019 Dilapidation provision £000	3 February 2019 Total provisions £000
At 3 February 2018	1,289	-	1,289
Amounts charged in the period	220	500	720
Provisions released	(499)	-	(499)
Utilised in the period	(790)	-	(790)
	<u>220</u>	<u>500</u>	<u>720</u>
At 2 February 2019	<u>220</u>	<u>500</u>	<u>720</u>

The onerous lease provision balance includes Paperchase standalone stores with leases that formed part of the company voluntary arrangement categories. The Company continue to carefully monitor and manage the performance of these stores. The dilapidation provision relates to a contractual liability to restore the premises currently occupied as the Company's headquarters.

## 16 Share capital and reserves

	3 February 2019 Number	3 February 2019 £000	2 February 2018 Number	2 February 2018 £000
<i>Allotted, called up and fully paid</i>				
Class BB ordinary shares of £1 each	100,000	100	100,000	100
	<u>100,000</u>	<u>100</u>	<u>100,000</u>	<u>100</u>

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 16 Share Capital and reserves (continued)

The company's reserves are as follows;

- Called up share capital reserve represents the nominal value of the shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue costs.
- The capital contribution reserve represents share based compensation provided by the ultimate parent company to Paperchase Product Limited employees. Following the conversion to FRS102 these entries were made direct to the profit and loss account.
- Other reserves contain the nominal value of own shares that have been acquired by the company and cancelled.
- The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

### 17 Financial instruments

	2 February 2019 £000	3 February 2018 £000
<b>Financial assets</b>		
<i>Financial assets at fair value through profit and loss</i>		
Foreign currency forward contracts	466	-
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Trade debtors	829	1,151
Other debtors	152	59
Cash and cash equivalents	979	4,636
Amounts owed by group undertakings	712	2,800
<b>Financial liabilities</b>		
<i>Financial liabilities at fair value through profit and loss</i>		
Foreign currency forward contracts	-	1,880
<i>Financial liabilities measured at amortised cost</i>		
Trade creditors	10,448	9,894
Other creditors	438	443
Accruals and deferred income	13,316	14,863
Amounts owing to group undertakings	4,046	5,560
Bank facility	3,500	2,500

### 18 Derivatives

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

	2 February 2019 £000	3 February 2018 £000
Forward foreign currency contracts	466	(1,880)



# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 18 Derivatives (continued)

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

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

### 19 Share-based payments

The company's ultimate parent, Paperchase Worldwide Holdings Limited granted shares to senior management of Paperchase Products Limited. The shares carry similar rights to the existing shares in Paperchase Worldwide Holdings Limited. The shares vest fully on a sale of the shares or sale of the business; the shares are forfeited if the employee leaves the company before this date.

During the period 10,668 D Shares were repurchased and cancelled. There were nil F shares, 3 E shares and 32,004 D shares remaining in the parent's share based payment scheme at year end. No shares vested in the current period and no new shares were issued under the existing schemes. The vesting date of the remaining shares is July 2021 (period ended 3 February 2018: vesting date of the remaining shares was reviewed and extended to July 2021 from May 2019).

The total credit recognised during the period for share-based payments was £7,000 (period ended 3 February 2018: credit of £16,000). The credit was due to shares cancelled in the period (2018: forfeit and an extension of the vesting period).

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

### 20 Other financial commitments

At 2 February 2019 the company had outstanding commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	3 February 2019	3 February 2019	2 February 2018	2 February 2018
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	19,260	64	20,110	116
In two to five years	48,740	19	55,694	83
Over five years	20,317	-	23,743	-
	<u>88,317</u>	<u>83</u>	<u>99,547</u>	<u>199</u>

The company's immediate parent, Paperchase Worldwide Group Limited, holds a long term loan of £32m from Permira Credit Solutions. The long term loan is secured by a fixed and floating charge over the assets of Paperchase Worldwide Holdings Limited, Paperchase Worldwide Group Limited, and Paperchase Products Limited.

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 20 Other financial commitments (continued)

The company has also provided a letter of support to its immediate parent, Paperchase Worldwide Group Limited and its subsidiary Paperchase Designs Ireland Limited. The possibility of an outflow in relation to these letters of support is considered remote and so the effect is not quantified.

### 21 Related party disclosures

During the period the company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 2 February 2019 are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Primary Capital III (Nominees) Limited:				
At 2 February 2019	-	48	-	-
At 3 February 2018	-	40	-	-
Esteem Holdings Limited:				
At 2 February 2019	-	328	-	-
At 3 February 2018	-	294	-	-

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

Esteem Holdings Limited are owned by Primary Capital II (Nominees) Limited, a fund managed by Primary Capital Limited. The transactions between the company and Esteem Holdings Limited relate to IT support services provided to the company by Esteem Holdings Limited.

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

### 22 Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Paperchase Worldwide Group Limited, and its consolidating parent is Paperchase Worldwide Holdings Limited. Paperchase Worldwide Holdings is 84% owned by Primary Capital III (Nominees) Limited, which is a nominee company which holds the legal title to shares on behalf of Primary III A LP and Primary III B LP, which together own the beneficial interest in those shares and together constitute the Primary III Fund.

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

# Paperchase Products Limited

## Notes forming part of the financial statements for the financial period ended 2 February 2019 (continued)

### 23 Post balance sheet events

On 22 March 2019 creditors approved plans for the Paperchase Group to enter a Company Voluntary Agreement (CVA) which allowed the business to exit loss making stores and reduce the fixed rent commitment in other locations (generally in exchange for turnover linked rent).

Third party debt within the Paperchase Group sits in both Paperchase Products Limited and Paperchase Worldwide Group Limited. As part of the CVA process, Paperchase's main debt provider, Permira Credit Solutions agreed with the Directors and Primary Capital III Nominees Limited to provide an additional £16m funding to support the turnaround strategy (of which £11m was to replace facilities previously provided by Lloyds/Bank of Scotland and £2m was to repay the balances outstanding at the period end). A further £5m has subsequently been committed by Permira to facilitate investments in both the store portfolio and the digital arm of the business.

In exchange for this additional investment, Permira have been granted a call option to purchase the entire share capital of Paperchase Worldwide Group Limited from Paperchase Worldwide Holdings Limited for £1. The Directors anticipate this option will be exercised in the near future but at the date of signing of these financial statements this option has yet to be exercised.

Following the exercise of the call option, it is anticipated that Paperchase Worldwide Holdings Limited will be liquidated. However, there will be no impact upon the day to day operations of the principal trading entity, Paperchase Products Limited or its immediate parent undertaking Paperchase Worldwide Group Limited.

The impacts of the CVA on the Group are listed below, whilst onerous lease assessments and asset impairments made in the current financial year were in part informed by the CVA agreement reached, the effect of the reduced rents and costs associated with the CVA will only be reflected in the 2020 financial statements.

- Post year end the decision was made to immediately exit 5 loss making stores
- The remaining store portfolio was analysed and split into 5 different categories based on profitability and commercial importance
- The rental commitment was then reduced by between 0% and 100% depending on the category the store was placed in. In the majority of cases, future rental payments are linked in some way to the turnover of the store
- For stores obtaining a 100% reduction in the rental commitment landlords are able to give 45 days-notice to terminate the lease at any point up until the end of the CVA (March 2022). To date, a further 10 stores have closed as a result of landlords exercising this clause
- The carrying values of fixed assets in loss making stores that have closed/may close as a result of the CVA were already impaired in the financial year ended 2019 however estimates were further refined during the year ended 2020. Additional redundancy, store closure costs and the professional fees required to implement the CVA have been incurred in the financial year ended 2020. The total one-off income statement impact is estimated at £5.8m in the financial year ended 2020
- Annual rental commitments have been reduced by approximately £4m (35%) in financial year 2020.

The emergence and spread of Coronavirus in 2020 has had significant economic implications and resulted in temporary store closures. The uncertainty as to how the pandemic will affect the business and for how long mean that management cannot currently estimate the financial impact.