

PARAGON LABELS LIMITED
REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006



PARAGON LABELS LIMITED

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Page
Company Information	1
Report of the Directors	2 to 3
Report of the Independent Auditors	4 to 5
Profit and Loss Account	6
Balance Sheet	7
Notes to the Financial Statements	8 to 14
Trading and Profit and Loss Account	15

**PARAGON LABELS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

DIRECTORS:	A C Lennon I R B Partington A R Dixon T M Cox D Patterson A E Burgess
SECRETARIES:	A E Burgess Pinsent Masons Secretarial Services Limited
REGISTERED OFFICE	1 Benner Road Industrial Estate Pinchbeck Spalding Lincolnshire PE11 3PZ
REGISTERED NUMBER	02925612 (England and Wales)
AUDITORS.	Duncan & Toplis Chartered Accountants & Registered Auditor 5 Resolution Close Endeavour Park Boston Lincolnshire PE21 7TT
BANKERS	Barclays Bank plc Barclays House Corporate Banking Centre PO Box 564 Nottingham NG1 1BR
SOLICITORS	Pinsent Masons 3 Colmore Circus Birmingham B4 6BH

**PARAGON LABELS LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006**

The directors present their report with the financial statements of the company for the year ended 31 December 2006

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the manufacture and sale of self adhesive labels throughout the United Kingdom and parts of Europe

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements

It has been a challenging year during which we have had to support the requirements of our customers to ensure the efficient introduction of new packaging that incorporates nutritional information. In many cases this has involved labels being re-designed more than once during the year. Challenges within the label industry are ever increasing, opportunities are created because of our determination to supply labels that meet our customer's service demands. Our continuing investment in plant and machinery has enabled us to maintain our production capacity. The company's performance during the year is considered satisfactory.

As shown in the profit and loss account, the company's turnover has increased by 6.4% as compared with the previous year (2005 - £60.9M, 2006 - £64.8M). This is due in the main to the winning of new contracts with the major multiples on our core business, as well as expanding into other areas such as floral labels and promotion coupons. However, there has been pressure on margins within the industry resulting in gross profit decreasing by 2.3% (2005 - 24.3%, 2006 - 22.0%).

There have been no material developments in the company or its business since the year end other than that mentioned elsewhere in the Directors Report.

DIVIDENDS

An interim dividend of £9,014.7 was paid during the year.

The total distribution of dividends for the year ended 31 December 2006 was £2,704,414.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2006 to the date of this report.

A C Lennon
I R B Partington
A R Dixon
T M Cox
D Patterson
A E Burgess

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations totalling £52,297 (2005 - £46,723).

POST BALANCE SHEET EVENT

Directly after the year end the company acquired the trade and assets of another group undertaking.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

Regular meetings are held between management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through bonus schemes linked to operating profit.

**PARAGON LABELS LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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). The financial statements are required by law to 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

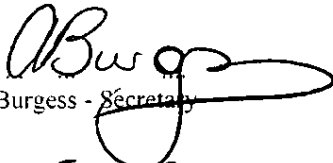
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Duncan & Topliss, will be proposed for re-appointment in accordance with Section 385A of the Companies Act 1985.

ON BEHALF OF THE BOARD



A E Burgess - Secretary

Date

15 OCT 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF PARAGON LABELS LIMITED

We have audited the financial statements of Paragon Labels Limited for the year ended 31 December 2006 on pages six to fourteen. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out on pages two and three.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

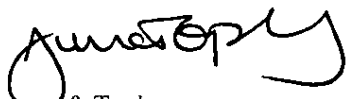
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
PARAGON LABELS LIMITED**

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements



Duncan & Topliss
Chartered Accountants &
Registered Auditor
5 Resolution Close
Endeavour Park
Boston
Lincolnshire
PE21 7TT

Date 16 October 2007

PARAGON LABELS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
TURNOVER	2	64,791,624	60,912,475
Cost of sales		<u>50,543,577</u>	<u>46,118,865</u>
GROSS PROFIT		14,248,047	14,793,610
Distribution costs		2,168,328	1,809,251
Administrative expenses		<u>9,967,932</u>	<u>8,601,778</u>
		<u>12,136,260</u>	<u>10,411,029</u>
OPERATING PROFIT	4	2,111,787	4,382,581
Interest receivable and similar income		<u>108,171</u>	<u>-</u>
		2,219,958	4,382,581
Interest payable and similar charges	5	<u>6,627</u>	<u>379,141</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,213,331	4,003,440
Tax on profit on ordinary activities	6	<u>804,663</u>	<u>1,291,866</u>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		<u><u>1,408,668</u></u>	<u><u>2,711,574</u></u>

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

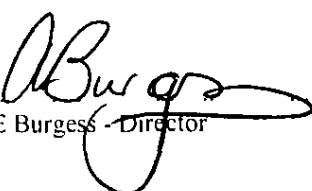
The company has no recognised gains or losses other than the profits for the current year or previous year

PARAGON LABELS LIMITED
BALANCE SHEET
31 DECEMBER 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Tangible assets	8	11,872,854	11,351,330
CURRENT ASSETS			
Stocks	9	4,571,104	4,229,171
Debtors	10	16,550,767	18,167,797
Cash at bank and in hand		<u>1,333,431</u>	<u>2,319</u>
		22,455,302	22,399,287
CREDITORS			
Amounts falling due within one year	11	<u>17,630,856</u>	<u>18,149,811</u>
NET CURRENT ASSETS		<u>4,824,446</u>	<u>4,249,476</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		16,697,300	15,600,806
CREDITORS			
Amounts falling due after more than one year	12	(5,957,129)	(3,565,302)
PROVISIONS FOR LIABILITIES	16	<u>(1,121,154)</u>	<u>(1,120,741)</u>
NET ASSETS		<u>9,619,017</u>	<u>10,914,763</u>
CAPITAL AND RESERVES			
Called up share capital	17	300,000	300,000
Profit and loss account	18	<u>9,319,017</u>	<u>10,614,763</u>
SHAREHOLDERS' FUNDS	23	<u>9,619,017</u>	<u>10,914,763</u>

The financial statements were approved by the Board of Directors on 15 October 2007 and were signed on its behalf by


A C Lennon - Director


A E Burgess - Director

The notes form part of these financial statements

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

Accounting convention

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

Turnover

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

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each assets over its estimated useful life or if held under a finance lease, over the term of the lease, whichever is the shorter

Freehold property	- 2% on cost
Plant and machinery	- 6 67% to 20% on cost
Fixtures and fittings	- 15% to 50% on cost
Motor vehicles	- 25% on cost

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Stocks of some raw materials are held on a consignment basis, the liability for which does not pass to the company until the stocks are used

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date

Foreign currencies

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

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account

Financial Reporting Standard 8

The company has taken advantage of the exemption given in Financial Reporting Standard 8 relating to disclosure of related party transactions with entities that are part of the group. Financial Reporting Standard 8 does not require disclosure in the financial statements of subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, of transactions with entities that are part of the same group, provided that the consolidated financial statements in which the subsidiary undertaking is included, are publicly available

Financial Reporting Standard Number 1

The company has not prepared a cash flow statement. Exemption has been claimed under Financial Reporting Standard 1 on the basis that the company is a subsidiary undertaking where 90% of the voting rights are controlled within the group, and consolidated financial statements, which include the subsidiary undertaking, are publicly available

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

2 TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company

An analysis of turnover by geographical market is given below

	2006 £	2005 £
United Kingdom	63,419,413	59,767,456
Europe	<u>1,372,211</u>	<u>1,145,019</u>
	<u>64,791,624</u>	<u>60,912,475</u>

The company's principal activity was carried on within the United Kingdom

3 STAFF COSTS

	2006 £	2005 £
Wages and salaries	12,016,834	10,468,349
Social security costs	1,348,182	1,100,260
Other pension costs	<u>362,877</u>	<u>301,422</u>
	<u>13,727,893</u>	<u>11,870,031</u>

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

	2006	2005
Directors	6	6
Production	325	290
Administration	<u>149</u>	<u>124</u>
	<u>480</u>	<u>420</u>

4 OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	2006 £	2005 £
Depreciation - owned assets	2,132,417	1,558,397
Depreciation - assets on hire purchase contracts or finance leases	-	471,475
Profit on disposal of fixed assets	(50,039)	(39,741)
Auditors' remuneration	20,500	20,000
Auditors' remuneration for non audit work	18,315	19,625
Pension costs	172,886	322,995
Operating lease - land and buildings	232,795	195,705
Operating lease - other	<u>332,161</u>	<u>394,812</u>
Directors' emoluments	<u>-</u>	<u>-</u>

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Bank interest	6,627	163,915
Factoring charges	-	130,206
Hire purchase and finance lease interest	-	85,020
	<u>6,627</u>	<u>379,141</u>

6 TAXATION

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows

	2006	2005
	£	£
Current tax		
UK corporation tax	601,000	1,296,136
Adjustment in respect of previous years		
Corporation tax	<u>203,250</u>	<u>-</u>
Total current tax	804,250	1,296,136
Deferred tax	<u>413</u>	<u>(4,270)</u>
Tax on profit on ordinary activities	<u>804,663</u>	<u>1,291,866</u>

UK corporation tax has been charged at 30% (2005 - 30%)

Factors affecting the tax charge

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

	2006	2005
	£	£
Profit on ordinary activities before tax	<u>2,213,331</u>	<u>4,003,440</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 - 30%)	663,999	1,201,032
Effects of		
Expenses not deductible for tax purposes	59,963	86,840
Capital allowances for the period in excess of depreciation	(9,500)	8,264
Expensive leased cars	10,075	-
Group relief	(123,537)	-
Adjustment in respect of previous year	<u>203,250</u>	<u>-</u>
Current tax charge	<u>804,250</u>	<u>1,296,136</u>

The company is a close company within the provisions of the Income & Corporation Taxes Act 1988

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

7 DIVIDENDS

	2006 £	2005 £
Ordinary shares of £1 each		
Interim	<u>2,704,414</u>	<u>-</u>

8 TANGIBLE FIXED ASSETS

	Freehold property £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Totals £
COST					
At 1 January 2006	3,296,002	15,771,948	2,780,365	94,620	21,942,935
Additions	142,356	1,984,427	537,616	9,200	2,673,599
Disposals	<u>-</u>	<u>(282,051)</u>	<u>-</u>	<u>(26,211)</u>	<u>(308,262)</u>
At 31 December 2006	<u>3,438,358</u>	<u>17,474,324</u>	<u>3,317,981</u>	<u>77,609</u>	<u>24,308,272</u>
DEPRECIATION					
At 1 January 2006	396,041	8,213,086	1,928,594	53,884	10,591,605
Charge for year	75,833	1,634,071	410,340	12,173	2,132,417
Eliminated on disposal	<u>-</u>	<u>(282,051)</u>	<u>-</u>	<u>(6,553)</u>	<u>(288,604)</u>
At 31 December 2006	<u>471,874</u>	<u>9,565,106</u>	<u>2,338,934</u>	<u>59,504</u>	<u>12,435,418</u>
NET BOOK VALUE					
At 31 December 2006	<u>2,966,484</u>	<u>7,909,218</u>	<u>979,047</u>	<u>18,105</u>	<u>11,872,854</u>
At 31 December 2005	<u>2,899,961</u>	<u>7,558,862</u>	<u>851,771</u>	<u>40,736</u>	<u>11,351,330</u>

Included in cost of land and buildings is freehold land of £268,869 (2005 - £268,869) which is not depreciated

9 STOCKS

	2006 £	2005 £
Raw materials	850,812	723,027
Finished goods	<u>3,720,292</u>	<u>3,506,144</u>
	<u>4,571,104</u>	<u>4,229,171</u>

10 DEBTORS

	2006 £	2005 £
Amounts falling due within one year		
Trade debtors	12,402,380	12,649,312
Amounts owed by group undertakings	-	339,143
Other debtors	189,667	758,847
Prepayments	<u>280,403</u>	<u>345,719</u>
	<u>12,872,450</u>	<u>14,093,021</u>

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

10 DEBTORS - continued

	2006 £	2005 £
Amounts falling due after more than one year		
Amounts owed by group undertakings	<u>3,678,317</u>	<u>4,074,776</u>
Aggregate amounts	<u>16,550,767</u>	<u>18,167,797</u>

11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Bank loans and overdrafts (see note 13)	-	1,137,003
Trade creditors	11,776,203	11,557,739
Amounts owed to group undertakings	843,778	-
Corporation tax	295,759	369,437
Social security and other taxes	937,296	851,110
Other creditors	63,238	137,090
Accruals and deferred income	<u>3,714,582</u>	<u>4,097,432</u>
	<u>17,630,856</u>	<u>18,149,811</u>

12 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £	2005 £
Amounts owed to group undertakings	<u>5,957,129</u>	<u>3,565,302</u>

13 LOANS

An analysis of the maturity of loans is given below

	2006 £	2005 £
Amounts falling due within one year or on demand		
Bank overdrafts	<u>-</u>	<u>1,137,003</u>

14 OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year

	Land and buildings		Other operating leases	
	2006 £	2005 £	2006 £	2005 £
Expiring				
Within one year	-	-	37,186	9,634
Between one and five years	-	-	73,125	164,341
In more than five years	<u>114,440</u>	<u>114,440</u>	<u>107,148</u>	<u>-</u>
	<u>114,440</u>	<u>114,440</u>	<u>217,459</u>	<u>173,975</u>

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

15 SECURED DEBTS

The following secured debts are included within creditors

	2006 £	2005 £
Bank overdraft	<u>-</u>	<u>1,137,003</u>

Last year bank borrowings were secured by trade debtors with a fixed charge over the factoring agreement

16 PROVISIONS FOR LIABILITIES

	2006 £	2005 £
Deferred tax		
Accelerated capital allowances	977,589	875,456
Accelerated industrial buildings allowances	<u>143,565</u>	<u>245,285</u>
	<u>1,121,154</u>	<u>1,120,741</u>

	Deferred tax £
Balance at 1 January 2006	1,120,741
Transfer to the profit and loss account	<u>413</u>
Balance at 31 December 2006	<u>1,121,154</u>

17 CALLED UP SHARE CAPITAL

Authorised Number	Class	Nominal value £1	2006 £	2005 £
450 000	Ordinary		<u>450,000</u>	<u>450,000</u>

Allotted, issued and fully paid Number	Class	Nominal value £1	2006 £	2005 £
300 000	Ordinary		<u>300,000</u>	<u>300,000</u>

18 RESERVES

	Profit and loss account £
At 1 January 2006	10,614,763
Profit for the year	1,408,668
Dividends	<u>(2,704,414)</u>
At 31 December 2006	<u>9,319,017</u>

PARAGON LABELS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2006

19 ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is Paragon Print & Packaging Limited

The ultimate parent undertaking is Paragon Print and Packaging (Holdings) Limited, a company incorporated in England and Wales. Copies of the consolidated financial statements can be obtained from 1 Benner Road, Pinchbeck Spalding, Lincolnshire, PE11 3PZ

20 CONTINGENT LIABILITIES

On 22 December 2005 the company entered into a composite accounting agreement in favour of all group companies

Under the terms of these agreements the bank is authorised to allow set-off for interest purposes and in certain circumstances to seize credit balances and apply them in reduction of liabilities including debit balances within the composite accounting system

The company's assets have been used as security for borrowings made by the company's ultimate parent undertaking Paragon Print and Packaging (Holdings) Limited

21 CAPITAL COMMITMENTS

	2006 £	2005 £
Contracted but not provided for in the financial statements	<u>2,118</u>	<u>-</u>

22 TRANSACTIONS WITH DIRECTORS

During the year the company paid rent of £5,200 (2005 - £5,200) to Mrs P Dixon the wife of a director. This transaction was on normal commercial terms and no amounts were due at the year end

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Profit for the financial year	1,408,668	2,711,574
Dividends	<u>(2,704,414)</u>	<u>-</u>
Net (reduction)/addition to shareholders' funds	(1,295,746)	2,711,574
Opening shareholders' funds	<u>10,914,763</u>	<u>8,203,189</u>
Closing shareholders' funds	<u>9,619,017</u>	<u>10,914,763</u>