

PARAGON LABELS LIMITED
REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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FOR THE YEAR ENDED 31 DECEMBER 2007**

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PARAGON LABELS LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2007**

| | |
|---------------------------|--|
| DIRECTORS: | A C Lennon I R B Partington D Patterson K R Bostock |
| SECRETARIES: | Pinsent Masons Secretarial Services Limited K R Bostock |
| 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 2007

The directors present their report with the financial statements of the company for the year ended 31 December 2007

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 continued to support our customers' requirements meet the demands of the consumer. 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 18.0% as compared with the previous year (2007 - £76.4M, 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. Production efficiency programs and waste minimisation has resulting in margins increasing by 3.4% (2007 - 25.4%, 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 20.80 pence per share was paid on 16 October 2007. The directors recommend that no final dividend be paid.

The total distribution of dividends for the year ended 31 December 2007 will be £6,239,000.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2007 to the date of this report.

A C Lennon
I R B Partington
D Patterson

Other changes in directors holding office are as follows:

A R Dixon - resigned 18 October 2007
T M Cox - resigned 18 October 2007
A E Burgess - resigned 18 October 2007
K R Bostock - appointed 18 October 2007

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations totalling £46,606 (2006 - £52,297).

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 2007

POST BALANCE SHEET EVENTS

On 2 May 2008 one of the group's production facilities was destroyed by a fire. Management have successfully implemented their disaster recovery plan which has enabled all customer orders to be fulfilled and by working with the group's insurance providers to minimise the financial impact to the group.

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.

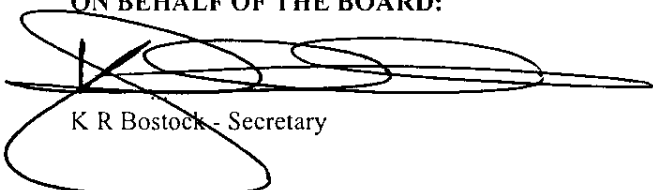
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

Duncan & Toplis resigned as auditors during the year, the directors appointing Deloitte in their place. Subsequently Deloitte resigned as auditors and the directors appointed Duncan & Toplis to fill the vacancy. It is Duncan & Toplis who will be proposed for re-appointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



K R Bostock - Secretary

Date 22 May 2008

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 2007 on pages six to fifteen. 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 page 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.

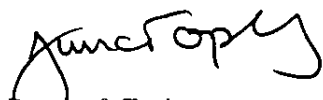
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2007 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 & Toplis
Chartered Accountants &
Registered Auditor
5 Resolution Close
Endeavour Park
Boston
Lincolnshire
PE21 7TT

Date 22 May 2008

PARAGON LABELS LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

| | Notes | 2007 £ | 2006 £ |
|--|-------|-------------------|-------------------|
| TURNOVER | 2 | 76,430,432 | 64,791,624 |
| Cost of sales | | <u>57,015,815</u> | <u>50,543,577</u> |
| GROSS PROFIT | | 19,414,617 | 14,248,047 |
| Distribution costs | | 2,442,362 | 2,168,328 |
| Administrative expenses | | <u>13,788,436</u> | <u>9,967,932</u> |
| | | 16,230,798 | 12,136,260 |
| OPERATING PROFIT | 4 | 3,183,819 | 2,111,787 |
| Interest receivable and similar income | | <u>140,864</u> | <u>108,171</u> |
| | | 3,324,683 | 2,219,958 |
| Interest payable and similar charges | 5 | <u>18,715</u> | <u>6,627</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 3,305,968 | 2,213,331 |
| Tax on profit on ordinary activities | 6 | <u>1,121,797</u> | <u>804,663</u> |
| PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION | | <u>2,184,171</u> | <u>1,408,668</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 2007**

| | Notes | 2007 | | 2006 | |
|--|-------|-------------------|--------------------|-------------------|--------------------|
| | | £ | £ | £ | £ |
| FIXED ASSETS | | | | | |
| Tangible assets | 8 | | 12,472,182 | | 11,872,854 |
| CURRENT ASSETS | | | | | |
| Stocks | 9 | 5,242,399 | | 4,571,104 | |
| Debtors | 10 | 20,823,828 | | 16,550,767 | |
| Cash at bank and in hand | | <u>3,276,480</u> | | <u>1,333,431</u> | |
| | | 29,342,707 | | 22,455,302 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 11 | <u>19,597,097</u> | | <u>17,630,856</u> | |
| NET CURRENT ASSETS | | | <u>9,745,610</u> | | <u>4,824,446</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 22,217,792 | | 16,697,300 |
| CREDITORS | | | | | |
| Amounts falling due after more than one year | 12 | | (15,407,948) | | (5,957,129) |
| PROVISIONS FOR LIABILITIES | 15 | | <u>(1,245,656)</u> | | <u>(1,121,154)</u> |
| NET ASSETS | | | <u>5,564,188</u> | | <u>9,619,017</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 16 | | 300,000 | | 300,000 |
| Profit and loss account | 17 | | <u>5,264,188</u> | | <u>9,319,017</u> |
| SHAREHOLDERS' FUNDS | 22 | | <u>5,564,188</u> | | <u>9,619,017</u> |

The financial statements were approved by the Board of Directors on 22 May 2008 and were signed on its behalf by


A C Lennon - Director


K R Bostock - Director

The notes form part of these financial statements

PARAGON LABELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 useful economic lives. Those held under finance lease are depreciated over their useful economic lives of 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

Pension costs and other post-retirement benefits

Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate

Financial Reporting Standard 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

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

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

1 ACCOUNTING POLICIES - continued

Government grants

Grants and other contributions received towards the cost of tangible fixed assets are included in creditors as deferred income, and credited to the profit and loss account over the life of the asset

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

| | 2007 £ | 2006 £ |
|----------------|-------------------|-------------------|
| United Kingdom | 74,770,277 | 63,419,413 |
| Europe | <u>1,660,155</u> | <u>1,372,211</u> |
| | <u>76,430,432</u> | <u>64,791,624</u> |

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

3 STAFF COSTS

| | 2007 £ | 2006 £ |
|-----------------------|-------------------|-------------------|
| Wages and salaries | 14,505,982 | 12,016,834 |
| Social security costs | 1,415,269 | 1,348,182 |
| Other pension costs | <u>455,082</u> | <u>362,877</u> |
| | <u>16,376,333</u> | <u>13,727,893</u> |

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

| | 2007 | 2006 |
|----------------|------------|------------|
| Directors | 6 | 6 |
| Production | 379 | 325 |
| Administration | <u>179</u> | <u>149</u> |
| | <u>564</u> | <u>480</u> |

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

4 OPERATING PROFIT

The operating profit is stated after charging/(crediting)

| | 2007 | 2006 |
|--|----------------|----------------|
| | £ | £ |
| Depreciation - owned assets | 2,259,199 | 2,132,417 |
| Depreciation - assets on hire purchase contracts | 54,354 | - |
| Profit on disposal of fixed assets | (684) | (50,039) |
| Auditors' remuneration | 28,250 | 20,500 |
| Auditors' remuneration for non audit work | 3,000 | 18,315 |
| Pension and health costs | 481,322 | 172,886 |
| Operating lease - land and buildings | 751,965 | 232,795 |
| Operating lease - other | <u>609,213</u> | <u>332,161</u> |
| Directors' emoluments | <u>-</u> | <u>-</u> |

5 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2007 | 2006 |
|---------------|---------------|--------------|
| | £ | £ |
| Bank interest | <u>18,715</u> | <u>6,627</u> |

6 TAXATION

Analysis of the tax charge

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

| | 2007 | 2006 |
|---|------------------|----------------|
| | £ | £ |
| Current tax | | |
| UK corporation tax | 1,184,085 | 601,000 |
| Adjustment in respect of previous years | | |
| Corporation tax | <u>-</u> | <u>203,250</u> |
| Total current tax | 1,184,085 | 804,250 |
| Deferred tax | <u>(62,288)</u> | <u>413</u> |
| Tax on profit on ordinary activities | <u>1,121,797</u> | <u>804,663</u> |

UK corporation tax has been charged at 30% (2006 - 30%)

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

6 TAXATION - continued

Factors affecting the tax charge

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

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Profit on ordinary activities before tax | <u>3,305,968</u> | <u>2,213,331</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 - 30%) | 991,790 | 663,999 |
| Effects of | | |
| Expenses not deductible for tax purposes | 183,973 | 59,963 |
| Capital allowances for the period in excess of depreciation | (68,188) | (9,500) |
| Expensive leased cars | 16,510 | 10,075 |
| Group relief | - | (123,537) |
| Adjustment in respect of previous year | - | 203,250 |
| General rebate provision | <u>60,000</u> | <u>-</u> |
| Current tax charge | <u>1,184,085</u> | <u>804,250</u> |

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

7 DIVIDENDS

| | 2007 £ | 2006 £ |
|----------------------------|------------------|------------------|
| Ordinary shares of £1 each | | |
| Final | - | 2,704,414 |
| Interim | <u>6,239,000</u> | <u>-</u> |
| | <u>6,239,000</u> | <u>2,704,414</u> |

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

8 TANGIBLE FIXED ASSETS

| | Freehold property £ | Plant and machinery £ | Fixtures and fittings £ | Motor vehicles £ | Totals £ |
|------------------------|---------------------------|-----------------------------|----------------------------------|------------------------|-------------------|
| COST | | | | | |
| At 1 January 2007 | 3,438,358 | 17,474,324 | 3,317,981 | 77,609 | 24,308,272 |
| Additions | - | 1,467,201 | 429,334 | 22,645 | 1,919,180 |
| Disposals | - | - | - | (22,570) | (22,570) |
| At acquisition | - | 1,901,439 | 285,309 | 33,589 | 2,220,337 |
| At 31 December 2007 | <u>3,438,358</u> | <u>20,842,964</u> | <u>4,032,624</u> | <u>111,273</u> | <u>28,425,219</u> |
| DEPRECIATION | | | | | |
| At 1 January 2007 | 471,874 | 9,565,106 | 2,338,934 | 59,504 | 12,435,418 |
| Charge for year | 76,083 | 1,757,398 | 465,890 | 14,182 | 2,313,553 |
| Eliminated on disposal | - | - | - | (20,994) | (20,994) |
| At acquisition | - | 962,801 | 235,725 | 26,534 | 1,225,060 |
| At 31 December 2007 | <u>547,957</u> | <u>12,285,305</u> | <u>3,040,549</u> | <u>79,226</u> | <u>15,953,037</u> |
| NET BOOK VALUE | | | | | |
| At 31 December 2007 | <u>2,890,401</u> | <u>8,557,659</u> | <u>992,075</u> | <u>32,047</u> | <u>12,472,182</u> |
| 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> |

Included in cost of land and buildings is freehold land of £268,869 (2006 - £268,869) which is not depreciated

The net book value of tangible fixed assets includes £308,007 in respect of assets held under hire purchase contracts

9 STOCKS

| | 2007 £ | 2006 £ |
|----------------|------------------|------------------|
| Raw materials | 1,040,852 | 850,812 |
| Finished goods | <u>4,201,547</u> | <u>3,720,292</u> |
| | <u>5,242,399</u> | <u>4,571,104</u> |

10 DEBTORS

| | 2007 £ | 2006 £ |
|--|-------------------|-------------------|
| Amounts falling due within one year | | |
| Trade debtors | 13,635,507 | 12,402,380 |
| Other debtors | 209,891 | 189,667 |
| Prepayments | <u>319,782</u> | <u>280,403</u> |
| | <u>14,165,180</u> | <u>12,872,450</u> |
| Amounts falling due after more than one year | | |
| Amounts owed by group undertakings | <u>6,658,648</u> | <u>3,678,317</u> |
| Aggregate amounts | <u>20,823,828</u> | <u>16,550,767</u> |

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 £ | 2006 £ |
|---------------------------------------|-------------------|-------------------|
| Hire purchase contracts (see note 13) | 29,810 | - |
| Trade creditors | 11,641,278 | 11,776,203 |
| Amounts owed to group undertakings | - | 843,778 |
| Corporation tax | 225,684 | 295,759 |
| Social security and other taxes | 1,268,332 | 937,296 |
| Other creditors | 95,669 | 63,238 |
| Accruals and deferred income | 6,331,922 | 3,714,582 |
| Deferred government grants | 4,402 | - |
| | <u>19,597,097</u> | <u>17,630,856</u> |

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2007 £ | 2006 £ |
|------------------------------------|-------------------|------------------|
| Amounts owed to group undertakings | 15,401,345 | 5,957,129 |
| Deferred government grants | 6,603 | - |
| | <u>15,407,948</u> | <u>5,957,129</u> |

13 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES

| | 2007 £ | Hire purchase contracts 2006 £ |
|---------------------------|---------------|--------------------------------------|
| Net obligations repayable | | |
| Within one year | <u>29,810</u> | <u>-</u> |

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

| | Land and buildings | | Other operating leases | |
|----------------------------|--------------------|----------------|------------------------|----------------|
| | 2007 £ | 2006 £ | 2007 £ | 2006 £ |
| Expiring | | | | |
| Within one year | - | - | 59,982 | 37,186 |
| Between one and five years | - | - | 92,176 | 73,125 |
| In more than five years | <u>114,440</u> | <u>114,440</u> | <u>150,666</u> | <u>107,148</u> |
| | <u>114,440</u> | <u>114,440</u> | <u>302,824</u> | <u>217,459</u> |

PARAGON LABELS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2007**

14 SECURED DEBTS

The following secured debts are included within creditors

| | 2007 £ | 2006 £ |
|-------------------------|---------------|-----------|
| Hire purchase contracts | <u>29,810</u> | <u>-</u> |

Hire purchase assets are secured on the asset to which they relate

15 PROVISIONS FOR LIABILITIES

| | 2007 £ | 2006 £ |
|---|------------------|------------------|
| Deferred tax | | |
| Accelerated capital allowances | 1,110,971 | 977,589 |
| Accelerated industrial buildings allowances | <u>134,685</u> | <u>143,565</u> |
| | <u>1,245,656</u> | <u>1,121,154</u> |

| | Deferred tax £ |
|---|----------------------|
| Balance at 1 January 2007 | 1,121,154 |
| Transfer to the profit and loss account | (62,288) |
| Deferred tax on acquisition | <u>186,790</u> |
| Balance at 31 December 2007 | <u>1,245,656</u> |

16 CALLED UP SHARE CAPITAL

| Authorised Number | Class | Nominal value £1 | 2007 £ | 2006 £ |
|----------------------|----------|------------------------|----------------|----------------|
| 450,000 | Ordinary | | <u>450,000</u> | <u>450,000</u> |

| Allotted, issued and fully paid Number | Class | Nominal value £1 | 2007 £ | 2006 £ |
|---|----------|------------------------|----------------|----------------|
| 300,000 | Ordinary | | <u>300,000</u> | <u>300,000</u> |

17 RESERVES

| | Profit and loss account £ |
|---------------------|------------------------------------|
| At 1 January 2007 | 9,319,017 |
| Profit for the year | 2,184,171 |
| Dividends | <u>(6,239,000)</u> |
| At 31 December 2007 | <u>5,264,188</u> |

PARAGON LABELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2007

18 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

19 CONTINGENT LIABILITIES

On 18 October 2007 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

20 CAPITAL COMMITMENTS

| | 2007 £ | 2006 £ |
|---|---------------|--------------|
| Contracted but not provided for in the financial statements | <u>31,155</u> | <u>2,118</u> |

21 TRANSACTIONS WITH DIRECTORS

During the year the company paid rent of £4,333 (2006 - £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

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2007 £ | 2006 £ |
|--------------------------------------|--------------------|--------------------|
| Profit for the financial year | 2,184,171 | 1,408,668 |
| Dividends | <u>(6,239,000)</u> | <u>(2,704,414)</u> |
| Net reduction of shareholders' funds | (4,054,829) | (1,295,746) |
| Opening shareholders' funds | <u>9,619,017</u> | <u>10,914,763</u> |
| Closing shareholders' funds | <u>5,564,188</u> | <u>9,619,017</u> |