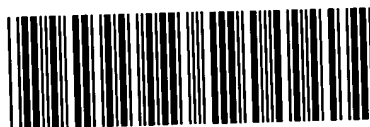


Paragon Customer Communications Limited

Report and Financial Statements
for the year ended
30 June 2018

Company Number 07262428

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Paragon Customer Communications Limited

Company Information

Directors	P J Crean L T Salmon J E C Walters
Company secretary	R J Cahill
Registered number	07262428
Registered office	Lower Ground Floor Park House 16/18 Finsbury Circus London EC2M 7EB
Independent auditors	Grant Thornton UK LLP Chartered Accountants and Statutory Auditors 30 Finsbury Square London EC2A 1AG
Bankers	Lloyds Bank plc 25 Gresham Street London EC2V 7HV

Paragon Customer Communications Limited

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Highlights of the year

Group Revenue £173.1m	Underlying EBITDA* £10.2m
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Operating Profit £3.8m	Underlying Operating profit £5.3m*
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Net Cash Flow from Operating Activities** £28.1m	Net Cash £16.1m
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*See note 32

**See note 23

Paragon Customer Communications Limited

Strategic Report for the year ended 30 June 2018

Introduction

The directors present their strategic report of Paragon Customer Communications Limited for the year ended 30 June 2018.

Review of the business

We are pleased to report on what was both a successful and eventful year for the business. During last years accounts I discussed the transition into the Paragon businesses, this year has been a full year of integration and development.

Strong leadership, along with continued support from customers and suppliers, who continue to recognise Paragon groups commitment to the communications industry, resulted in us reporting excellent growth in both turnover and profitability, primarily from the augmentation of existing accounts within the Paragon group of companies.

Our position of offering a complete range of communication solutions is becoming ever more attractive to clients in an increasingly complex multi-channel driven, communication landscape. These financial statements show the costs related to our ongoing integration with the Paragon group and our commitment to continue to offer the very best solutions for our customers, most notably our announcement to expand into new key European financial centres including Luxembourg and Dublin. The investment builds on Paragon Customer Communications' cross-border expertise and presence.

We continue to invest in state-of-the-art technology during the year, with £6m being invested during the financial year to enhance our range of solutions, extend capacity and continue to increase efficiency. We have also invested £1m in our software solutions in order to integrate our sales, finance and HR systems, improve our client solutions as well as ensuring our clients data remains in a safe and secure environment

Strategy and future developments

Paragon uses the latest technology to help our clients better communicate with their customers. Working as an extension of our clients' businesses, we embrace integrity, security and high standards to deliver effective and engaging communication experiences which integrate seamlessly with existing business operations. We provide cost efficient solutions to make it easy for our customers to send the right message, via the right channel, at the right time.

We continually develop and provide deep expertise in a full range of market leading integrated solutions that match the demands of an evolving and complex customer communication landscape. Paragon continues to invest in a platform that allows us to integrate communication across all relevant channels, both now and in the future. We develop solutions unique to Paragon, whilst also integrating best-of breed third party software and application to ensure we always offer clients the most up to date and relevant customer communication solutions for their specific challenges. We continue to invest in an infrastructure that enables us to make physical communication more engaging, often using dynamic, variable data combined with interactive formats. Being part of a global group, we benefit from the sharing of knowledge, best practice and research and development, providing world leading applications on both a local and international level.

At the year end, we have had 2 acquisitions to the group; St Ives Management services (SIMS) with a turnover of over €40m and a wide range of products and services for increasing brand loyalty will broaden our current range of solutions and the trade and assets of FT solutions, with 3d scanning and printing capabilities and providing print related services to the airline industry.

Post year end PCC completed the purchase of Imprimus Limited a successful business which enriches the operational capabilities of the group in sphere of transactional communications.

Paragon Customer Communications Limited

Strategic Report (continued)

for the year ended 30 June 2018

Principle Risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks.

- *Consumer preferences and desires* – An element of the market in which the business operates is driven by the Direct Marketing industry, this is subject to annual cycles as well as pressures from the long term change to move to digital marketing by the current and potential clients. To address the risks presented by the changes in the Direct Mail market the business is continuing to invest in new technologies. The business also operates in the Transactional Print market, to remain competitive in this market the business is investing in technology which further develops the digital print offering and differentiates the business from its competitors.
- *Production Risk* – The business runs very high levels of quality and service level agreement ('SLA') performance. Quality risk is managed via the use of Lean and 6 Sigma programmes by well trained and competent staff. SLA risk is managed by a planned production environment and well maintained production resources.
- *Business improvement risk* – There are a number of systems on which the business is highly dependent on. The business continues to invest in these systems to ensure they remain effective and are able to support the changes in the market in which the business operates.
- *Competition risk* – Continuing uncertainty in the UK and global economy particularly in relation to marketing expenditure continues to impact the group. The group's exposure is mitigated by having a customers' base from a wide spread of sectors and industries and by providing a broad range of services and product offerings with value added, emerging e-solutions and customised output. Furthermore, a significant proportion of the group's work is contractual, transactional and regulatory in nature. In addition, the group has a track record of successful customer retention through proactive customer relationship management and ensuring customer requirements are met. The groups acquisition strategy continues to allow us to develop customers in new market sectors with long and strong relationships, often contracted for a significant period.
- *Talent management* – To maintain the high levels of quality and service employee retention is key. The business manages the risks of attrition by maintaining good communications with staff, by training and developing the employees and incentivising excellent performance through various initiatives.

Overview of the numbers

The underlying EBITDA for the period is £10.2m after the inclusion of £1.6m of acquisition and synergy costs as well as exceptional legal costs and the setting up of the Luxembourg site (June 17 financial period - £3.4m) (note 31).

The results for the group, show a profit before taxation of £3.1m (June 17 financial period: loss of £1m) and group turnover of £170.9m (June 17 financial period: £79.9m). The directors have not proposed or paid a dividend in the current financial year (June 17 financial period - £Nil).

The business has generated cash flow from operations of £22.8m (June 17 financial period: £3.7m)

Paragon Customer Communications Limited

as a result of the strong trading performance and good working capital management.

Paragon Customer Communications Limited

Strategic Report (continued) for the year ended 30 June 2018

Financial key performance indicators

Management uses a range of performance measures to monitor and manage the business. KPIs measure past performance and provide information to manage the business. Turnover, operating profit and operating cash flow indicate the volume of work, its profitability and the efficiency with which we have turned operating profits into cash. KPIs for the year are shown in the table below, along with prior year comparatives.

	12 months ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000	Pro-rata Change %
Group turnover	170,860	79,885	6.9%
Group turnover per employee	121	115	5.2%
Number of employees (average)	1,412	1,394	1.3%
Gross profit	59,456	21,954	35.4%
Gross margin	34.8%	27.5%	7.3%
Group operating profit/(loss)	3,754	(747)	351.3%
Underlying EBITDA	10,246	3,444	48.8%
Operating cash flow	28,105	3,745	6,504.6%
Net cash	16,083	832	1,833.1%

Environmental matters

The company recognises the importance of their environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The company operates in accordance with ISO 14001 and are FSC accredited. Initiatives aimed at minimising the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

This report was approved by the board on 30th January 2019 and signed on its behalf.



J E C Walters
Director

Paragon Customer Communications Limited

Directors' Report for the year ended 30 June 2018

The directors present their report and the audited consolidated financial statements for the year ended 30 June 2018.

Principal activity

Paragon Customer Communications Limited ("Paragon") through its subsidiaries, ("the group"), provides direct communications services to businesses across a wide range of sectors to assist them to optimise their clients' communication channels and contents through the managing and processing of data, printing and distribution which includes the distribution of information via the Internet.

Results and dividends

The results are discussed in the strategic report. The directors do not recommend the payment of a dividend.

Directors

The directors who served during the period were:

P J Crean
L T Salmon
J E C Walters

Political contributions

The group made no political donations (£nil - 6 months ended 30 June 17).

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters that affect them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to other employees.

Going concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Paragon Customer Communications Limited

Directors' Report (continued) for the year ended 30 June 2018

Directors' qualifying third party indemnity provisions

Paragon Customer Communications Limited maintains liability insurance for its directors. For the purposes of the Companies Act 2006, Paragon Customer Communications Limited provides indemnity insurance for its directors and company secretary for qualifying third party provisions. This insurance was in place for the year ended 30 June 2018 and remains in place at the date of signing of these financial statements.

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of price, credit, liquidity and interest rate risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of risk and the related finance costs.

Credit risk

The group is exposed to customer credit risk through continuing uncertainty in the economy. The group has implemented policies that require appropriate credit checks on potential customers before work is undertaken. Additionally, any significant increases in activity on existing clients will result in a reassessment of their credit risk.

The group uses a debt factoring agreement (including insurance) which minimises the exposure to credit risk.

Price risk

The group is exposed to commodity price risk on paper as a result of its operations. However, given the size of the group's operations, the costs of continually managing exposure to commodity price risk exceeds any significant potential benefits. The risk is mitigated due to the on-going centralisation of the group procurement team and also certain inputs being rechargeable directly to clients. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.

Liquidity risk

The group actively maintains a mixture of long-term and short-term debt finance through asset finance and intercompany funding. These measures are designed to ensure the group has sufficient funds for operations and planned expansions.

Interest rate risk

The group has interest bearing assets and liabilities. All external liabilities include a variable element within their interest rate. All intercompany liabilities carry a fixed interest rate.

Foreign currency risk

The majority of the group's customers and suppliers are in the United Kingdom. The foreign currency exposure arising from this small proportion of foreign currency customers and suppliers is deemed low risk by the directors and is managed through a natural hedge. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.

Capital risk

The group manages its capital risk to safeguard its ability to continue as a going concern and maintain an optimal capital structure to minimise the cost of capital. This is done through changes made to the underlying debt structures within the group and, where appropriate, issuing shares or selling assets to reduce debt.

Paragon Customer Communications Limited

Directors' Report (continued) for the year ended 30 June 2018

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 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 and profit or loss of the company and group 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;
- UK 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 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.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

To the best of our knowledge:

- the group financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

Grant Thornton UK LLP was appointed as auditor for the year ended 30 June 2018.

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.



J E C Walters
Director

Paragon Customer Communications Limited

Independent auditor's report to the members of Paragon Customer Communications Limited

Opinion

We have audited the financial statements of Paragon Customer Communications Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, consolidated statement of cash flows 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 group's and of the parent company's affairs as at 30 June 2018 and of the group's profit for the year then ended;
have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent 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.

Who we are reporting to

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.

Conclusions relating to going concern

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report,¹ 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.

Paragon Customer Communications Limited

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit: the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 7, 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 group's and the parent 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 group or the parent 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.

Paragon Customer Communications Limited

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

GA TL JL LLP

Paul Naylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
30th January 2019

Paragon Customer Communications Limited

Consolidated Statement of Comprehensive Income for the year ended 30 June 2018

		Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
	Note		
Turnover			
Group and share of joint ventures' turnover		173,079	81,660
Less: Share of joint ventures' turnover		(2,219)	(1,775)
Group turnover	3	170,860	79,885
Cost of sales		(111,404)	(57,931)
Gross profit		59,456	21,954
Distribution costs		(586)	(917)
Administrative expenses		(55,116)	(21,784)
Operating profit/(loss)	4	3,754	(747)
Share of profit in Joint Ventures and Associates		136	222
Interest receivable and similar income	7	-	10
Interest payable and similar charges	8	(781)	(437)
Profit/(loss) before taxation		3,109	(952)
Tax on profit/(loss)	9	(373)	10
Total comprehensive income and profit/(loss) for the financial year		2,736	(942)
Supplementary information			
Underlying EBITDA	32	10,246	3,444

The notes on pages 19 to 48 form part of these financial statements. The consolidated statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

There were no other items of comprehensive income in the year ended 30 June 2018 and 6 months period ended 30 June 2017.

Paragon Customer Communications Limited

Registered Number: 07262428
Consolidated Statement of Financial Position
as at 30 June 2018

	Note	30 June 2018 £'000	30 June 2017 £'000
Fixed Assets			
Intangible assets	10	21,553	5,784
Tangible assets	12	9,862	6,520
Investments	13	180	224
		<u>31,595</u>	<u>12,528</u>
Current Assets			
Stocks	14	4,069	3,579
Debtors	15	33,508	40,574
Cash at bank and in hand	16	24,863	2,423
		<u>62,440</u>	<u>46,576</u>
Creditors: amounts falling due within one year	17	(35,737)	(22,136)
Net Current assets		<u>26,703</u>	<u>24,440</u>
Total assets less current liabilities		58,298	36,968
Creditors: amounts falling due after more than one year	18	(44,549)	(26,276)
Provisions for liabilities			
Other provisions	21	(3,030)	(2,709)
Net Assets		<u><u>10,719</u></u>	<u><u>7,983</u></u>
Capital and reserves			
Called up share capital	22	30,419	30,419
Share premium account		30,901	30,901
Capital contribution reserve		1,557	1,557
Merger relief reserve		14,021	14,021
Profit and loss account		(66,179)	(68,915)
Total equity		<u><u>10,719</u></u>	<u><u>7,983</u></u>

The financial statements on pages 11 to 48 were approved and authorised for issue by the board and were signed on its behalf on

J E C Walters

Director

30th January 2019

The notes on pages 19 to 48 form part of these financial statements.

Paragon Customer Communications Limited

Registered Number: 07262428

Company Statement of Financial Position as at 30 June 2018

	Note	30 June 2018 £'000	30 June 2017 £'000
Fixed Assets			
Intangible assets	10	1,667	-
Investments	13	45,523	45,523
		<u>47,190</u>	<u>45,523</u>
Current Assets			
Debtors	15	17,496	29,667
Cash at bank and in hand	16	21,683	2,423
		<u>39,179</u>	<u>32,090</u>
Creditors: amounts falling due within one year	17	(67,952)	(60,955)
Net Current liabilities		<u>(28,773)</u>	<u>(28,865)</u>
Total assets less current liabilities		18,417	16,658
Creditors: amounts falling due after more than one year	18	(31,868)	(29,131)
Net Liabilities		<u>(13,451)</u>	<u>(12,473)</u>
Capital and reserves			
Called up share capital	22	30,419	30,419
Share premium account		30,901	30,901
Capital contribution reserve		1,127	1,127
Merger relief reserve		14,021	14,021
Profit and loss account		(89,919)	(88,941)
Total equity		<u>(13,451)</u>	<u>(12,473)</u>

The financial statements on pages 11 to 48 were approved and authorised for issue by the board and were signed on its behalf on

J E C Walters
Director
30th January 2019

The notes on pages 19 to 48 form part of these financial statements.

Paragon Customer Communications Limited

Consolidated Statement of Changes in Equity for the year ended 30 June 2018

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 July 2017	30,419	30,901	1,557	14,021	(68,915)	7,983
Total comprehensive income and loss for the year	-	-	-	-	2,736	2,736
Contribution by and distribution to the owners						
Total transactions with owners	-	-	-	-	-	-
At 30 June 2018	<u>30,419</u>	<u>30,901</u>	<u>1,557</u>	<u>14,021</u>	<u>(66,179)</u>	<u>10,719</u>

The notes on pages 19 to 48 form part of these financial statements

Paragon Customer Communications Limited

Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2017

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2017	30,419	30,901	1,141	14,021	(67,973)	8,509
Total comprehensive income and loss for the 6 months period	-	-	-	-	(942)	(942)
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	416	-	-	416
Total transactions with owners	-	-	416	-	-	416
At 30 June 2017	<u>30,419</u>	<u>30,901</u>	<u>1,557</u>	<u>14,021</u>	<u>(68,915)</u>	<u>7,983</u>

The notes on pages 19 to 48 form part of these financial statements

Paragon Customer Communications Limited

Company Statement of Changes in Equity for the year ended 30 June 2018

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 July 2017	30,419	30,901	1,127	14,021	(88,941)	(12,473)
Total comprehensive expense and loss for the year	-	-	-	-	(978)	(978)
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
At 30 June 2018	<u>30,419</u>	<u>30,901</u>	<u>1,127</u>	<u>14,021</u>	<u>(89,919)</u>	<u>(13,451)</u>

The notes on pages 19 to 48 form part of these financial statements

Paragon Customer Communications Limited

Company Statement of Changes in Equity for the 6 months period ended 30 July 2017

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2017	30,419	30,901	838	14,021	(81,960)	(5,781)
Total comprehensive expense and loss for the 6 months period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,981)</u>	<u>(6,981)</u>
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	289	-	-	289
Total transactions with owners	<u>-</u>	<u>-</u>	<u>289</u>	<u>-</u>	<u>-</u>	<u>289</u>
At 30 June 2017	<u>30,419</u>	<u>30,901</u>	<u>1,127</u>	<u>14,021</u>	<u>(88,941)</u>	<u>(12,473)</u>

The notes on pages 19 to 48 form part of these financial statements

Paragon Customer Communications Limited

Consolidated Statement of Cash Flows for the year ended 30 June 2018

	Note	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Net cash from operating activities	23	28,105	3,745
Net cash from investing activities			
Interest received		-	10
Purchase of intangible assets (new acquisitions)	10	(14,440)	-
Purchase of intangible assets	10	(3,612)	(319)
Purchase of tangible assets (new acquisitions)	12	(193)	-
Purchase of tangible assets	12	(5,804)	(572)
Proceeds from sale of tangible assets/investment property		18	5
Dividend received from joint venture	13	180	200
Net cash used in investing activities		(23,851)	(676)
Cash flow from financing activities			
Interest payment		(781)	(437)
Repayment of intercompany loan		-	(26,883)
Proceeds from long term loan from immediate parent undertaking		17,042	23,635
Proceeds from obligations under finance lease		2,448	-
Repayment of obligations under finance lease		(523)	(176)
Net cash used in financing activities		18,186	(3,861)
Net increase/decrease in cash and cash equivalent		22,440	(792)
Cash and cash equivalents at 1 July		2,423	3,215
Cash and cash equivalents at 30 June	16	24,863	2,423
<u>Other information (Non statutory information)</u>			
Net Cash/3 rd party debt summary			
Cash and cash equivalents		24,863	2,423
Finance lease	19	(3,516)	(1,591)
Restricted Cash	16	(5,264)	-
Net cash/3rd party debt		16,083	832

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018

1. Accounting Policies

1.1 Basis of preparation of financial statements

Paragon Customer Communications Limited is a company incorporated in England & Wales under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the directors' report.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the company's accounting policies (see note 2).

Accounting policies have been applied consistently, other than where new policies have been adopted.

1.2 Financial reporting standard 102 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial reporting Standard applicable in the UK and Republic of Ireland":

- The company has taken advantage of the exemption, under FRS 102 paragraphs 26.18(b), 26.19 – 26.21 and, 26.23, for certain disclosure requirements in respect of share based payments, where the share based payment concerns equity instruments of DST Systems, Inc. and the equivalent disclosures are included in the consolidated financial statements of ultimate parent company
- The company has taken advantage of the exemption, under FRS 102 para 33.7 from disclosing total compensation of key management personnel.
- The company has taken advantage of the exemption for qualifying entities from certain financial instrument disclosures, on the basis that the equivalent disclosures are included in the consolidated financial statements of the ultimate parent company.
- The company has taken advantage of the exemption, under FRS 33.1 (a), from disclosing related party transactions as they are all with other companies that are wholly owned by Paragon Group Limited.
- The company has taken exemption from disclosing profit and loss and statement of cash flows of the company.

1.3 Going Concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.4 Basis of consolidation

The consolidated financial statements present the results of the Group and its subsidiaries ("the Group"). Intercompany transactions and balances between Group companies are therefore eliminated in full. Accounting policies are uniform across the Group.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

1.5 Basis of consolidation (continued)

In accordance with the transitional exemption available in FRS 102, the Group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 1 January 2014. Therefore, the Group continues to recognise a merger reserve which arose on a past business combination that was accounted for as a merger in accordance with UK GAAP as applied at that time.

1.6 Associates and joint ventures

An entity is treated as a joint venture where the Group is a party to a contractual agreement with one or more parties from outside the Group to undertake an economic activity that is subject to joint control.

An entity is treated as an associated undertaking where the Group exercises significant influence in that it has the power to participate in the operating and financial policy decisions.

In the consolidated accounts, interests in associated undertakings are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investors' share of the profit or loss, other comprehensive income and equity of the associate. The Consolidated Statement of Comprehensive Income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the Consolidated Statement of Financial Position, the interests in joint ventures undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Any premium on acquisition is dealt with in accordance with the goodwill policy.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.7 Turnover

Turnover represents amounts receivable for goods and services net of value added tax and trade discounts.

Print-mail

Turnover is recognised based upon the number of packages or items printed and delivered to or mailed on behalf of clients.

Services

Turnover is recognised on delivery of digital media and associated products, as well as delivery services.

Development, data processing and consulting services are provided on a time and materials basis and are recognised as the services are provided. Turnover provided under a fixed price contract is recognised on a percentage of completion basis.

1.8 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life of 20 years.

Other intangible assets – computer softwares

Other intangible assets consist of software and is initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Software is considered to have a finite useful life of 2 – 3 years.

Other intangible assets – customer relationships

Customer relationships identified as separable intangible assets in the context of business combinations are capitalised at their fair value at the date of acquisition. They are fully amortised over their estimated useful lives which is generally 2 – 10 years.

Other intangible assets – trade names

Costs relating to the use of trade names are recorded at fair value at the date of acquisition and fully amortised over their estimated useful lives which is generally 2 – 5 years..

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.9 Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a straight line basis.

The estimated useful lives range as follows:

Short-term leasehold property	-	shorter of the remaining lease period or 10 years
Plant and machinery	-	4 - 7 years
Motor vehicles	-	3 - 5 years
Fixtures, fittings & equipment	-	3 - 5 years
Computer equipment	-	2 - 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Consolidated Statement of Comprehensive Income.

1.10 Operating leases: Lessee

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

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.11 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit ("CGU") to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

1.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.15 Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to and from related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost. Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income;
- at cost less impairment value for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

rate and foreign exchange derivatives.

1.16 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

1.17 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

1.18 Foreign currency translation

Functional and presentation currency

All operations are based in the UK with a GBP functional and presentational currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

1.19 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.20 Share based payments

The restricted stock plan is no longer operational following the change of ownership that occurred during the period under review.

The statement of comprehensive income charge in the period concludes all rights to employees under the former scheme.

1.21 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

1.22 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.23 Provision for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

1. Accounting Policies (continued)

1.24 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company and the Group operate and generate income

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to temporary differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can not control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired excluding goodwill and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

2. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements the directors have made the judgements that accounting estimates are reasonable and prudent. Judgements made were as follow:

- Determine whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis
- Determine whether there are indicators of impairment of the Group's tangible and intangible assets including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Other key sources of estimation uncertainty

Tangible assets (see note 12)

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 and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Contract accounting

The Group applies its policies on turnover and contracts when recognising revenue and profit on partially completed contracts. The application of this policy requires judgements to be made in respect of the total expected costs to complete and the profit margin achievable on each contract. The group has in place established internal review processes to ensure that the evaluation of costs and revenue is based upon appropriate estimates.

Provisions (see note 21)

The provision made for dilapidations has been based on management's best estimate of the costs that will be incurred in accordance with the contractual requirements. The appropriate discount rates have been selected based on the assumed timing of the cash flows in calculating the net present value of the obligations.

Fair value on acquisitions

The carrying value of certain items of the Group's assets and liabilities are dependent on the fair values assigned to them when acquired. Judgement is used in assessing these fair values especially where open market valuations are not readily accessible

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3. Analysis of turnover

An analysis of turnover by class of business is as follows:

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Services	55,442	49,682
Printmail	115,418	30,203
	<u>170,860</u>	<u>79,885</u>

Analysis of turnover by country of destination

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
United Kingdom	167,767	78,924
Rest of Europe	2,119	549
Rest of the world	974	412
	<u>170,860</u>	<u>79,885</u>

4. Operating (loss)/profit

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

The operating (loss)/profit after charging/(crediting):

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Depreciation of tangible fixed assets - owned		
- owned assets	2,332	1,280
- owned under finance lease	317	260
Amortisation of goodwill (note 10)	410	224
Amortisation of intangibles (note 10)	1,879	181
Amortisation of government grants	-	(41)
Fees payable to the Group's auditors and their associates for		
- The audit of the company's financial statements	30	35
- The audit of the Group's subsidiaries pursuant to legislation	127	127
Fees paid to predecessor auditors	30	-
Exchange differences	105	29
Defined contribution pension cost (note 26)	959	431
Operating lease costs		
- Equipment	1,946	1,172
- Land and buildings	3,512	1,701
Loss/(profit) on disposal of fixed assets	(17)	155

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

5. Employees

Staff costs were as follows:

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Wages and salaries	47,710	25,265
Social security costs	5,200	2,503
Cost of defined contribution scheme	959	431
Share based payments	-	486
Redundancy	185	29
	<u>54,054</u>	<u>28,714</u>

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

	Year ended 30 June 2018 No	6 months ended 30 June 2017 No
Administration and sales	357	356
Operations	<u>1,055</u>	<u>1,039</u>
	<u>1,412</u>	<u>1,395</u>

6. Directors' remuneration

During the year, the total emoluments of £370,276 (6 months period ended 30 June 2017 – £659,851) was received by one of the directors for his services as a director from the Group. The other directors were remunerated by other group companies and no recharges were made. It is not possible to apportion the proportion of these directors' work that was performed for the Group. The details of the director's remuneration is stated below:

	Year ended 30 June 2018	6 months ended 30 June 2017
Salary/allowance	244,710	131,964
Share-based payments	-	202,123
Bonus	<u>125,566</u>	<u>331,260</u>
	<u>370,276</u>	<u>665,347</u>

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

7. Interest receivable and similar income

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Other interest receivable	-	10

8. Interest payable and similar charges

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Finance leases	48	22
Bank interest	4	-
Factoring	237	-
Loans from group undertakings	492	415
	<u>781</u>	<u>437</u>

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

9. Tax on (loss)/profit

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Corporation tax		
Current tax on profit/(loss)	300	(139)
Adjustments in respect of previous periods	-	107
	<u>300</u>	<u>(32)</u>
Deferred tax		
Origination and reversal of temporary differences	-	12
Changes to tax rates	-	-
Adjustment in respect of previous periods	73	10
	<u>73</u>	<u>22</u>
Taxation on profit/(loss)	<u>373</u>	<u>(10)</u>

Factors affecting tax charge/(credit) for the period

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.00% (2017 - 19.50%). The differences are explained below:

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Profit/(loss) before tax	<u>3,109</u>	<u>(952)</u>
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.50%)	591	(186)
Effects of		
Non-taxable income	-	(15)
Expenses not deductible for tax	42	74
Group relief utilised at less than the standard rate	(122)	-
Utilisation of previously unrecognised tax losses	(211)	-
Adjustment relating to previous periods	73	117
Total tax charge/(credit) for the financial year	<u>373</u>	<u>(10)</u>

Factors that may affect future tax charges

Finance Act 2015 included legislation reducing the main UK corporation tax rate from 20% to 19%, effective from 1 April 2017. A further reduction to 18% was also enacted with an effective from date of 1 April 2020. The deferred tax balances have been re-measured at these rates as appropriate as they are the latest substantively enacted tax rates.

The Chancellor has announced that the main UK corporation tax rate will now be reduced to 17% with an effective from date of 1 April 2020. However, as this 17% rate had not been substantively enacted as at 30 June 2017 it has not been applied to any figures in these financial statements.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

10. Intangible assets

	Software £'000	Trade Names £'000	Customer relationships £'000	Goodwill £'000	Total £'000
Cost					
At 1 July	7,346	-	-	58,353	65,699
Additions	957	2,655	-	-	3,612
Acquisition	1,901	-	6,100	6,439	14,440
Reclassification	6	-	-	-	6
Disposal	(1,192)	-	-	-	(1,192)
At 30 June	9,018	2,655	6,100	64,792	82,565
Amortisation					
At 1 July	6,928	-	-	52,987	59,915
Charge for the year	552	1,327	-	410	2,289
Disposal	(1,192)	-	-	-	(1,192)
At 30 June	6,288	1,327	-	53,397	61,012
Net book value					
At 30 June 2018	2,730	1,328	6,100	11,395	21,553
At 30 June 2017	418	-	-	5,366	5,784

Company

	Software £'000	Trade Names £'000	Total £'000
Cost			
At 1 July	-	-	-
Additions	417	2,654	3,071
At 30 June	417	2,654	3,071
Amortisation			
At 1 July	-	-	-
Disposal	77	1,327	1,404
At 30 June	77	1,327	1,404
Net book value			
At 30 June 2018	340	1,327	1,667
At 30 June 2017	-	-	-

11. Company loss for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The loss of the parent company for the year was £978,000 (6 months period ended 30 June 2017 - loss £6,981,000).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

12. Tangible assets

Group	Short term Leasehold Property £'000	Plant and Machinery £'000	Fixtures Fittings & equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost						
At 1 July 2017	7,005	13,598	2,596	3,402	39	26,640
Additions	211	5,176	12	405	-	5,804
Acquisition	-	193	-	-	-	193
Reclassification	-	18	-	(24)	-	(6)
Disposals	(200)	(5,028)	(154)	(2,612)	(3)	(7,997)
At 30 June 2018	7,016	13,957	2,454	1,171	36	24,634
Accumulated depreciation						
At 1 July 2017	5,931	9,516	1,997	2,672	3	20,119
Charge for the year	403	1,632	191	403	20	2,649
Disposals	(200)	(5,027)	(154)	(2,612)	(3)	(7,996)
At 30 June 2018	6,134	6,121	2,034	463	20	14,772
Net book value						
At 30 June 2018	882	7,836	420	708	16	9,862
At 30 July 2017	1,074	4,082	598	730	36	6,520

Assets subject to finance lease refer to note 19

Company

The Company has no tangible assets at 30 June 2018 (6 months ended 30 June 2017: £nil).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

13. Investments

Group	Investment in associates £'000	Investment in joint ventures £'000	Total £'000
Cost			
At 1 July 2017	62	162	224
Share of profits	(15)	151	136
Dividends in the period	-	(180)	(180)
At 30 June 2018	47	133	180

Company	Shares in group companies £'000
Cost	
At 1 July 2017 and 30 June 2018	68,804
Impairment	
At 1 July 2017	23,281
Charge for the year	-
At 30 June 2018	23,281
Net book value	
At 30 June 2018	45,523
At 30 June 2017	45,523

Subsidiary undertakings

The following were the subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holdi ng	Principal activities
Directly held:				
dsicmm Group Limited	England & Wales	Ordinary	100%	Holding company
Paragon Customer Communications (Bristol) Limited	England & Wales	Ordinary	100%	Printing services
Paragon Customer Communications (Realty) Limited	England & Wales	Ordinary	100%	Real estate operations
Lateral Holdings (UK) Limited	England & Wales	Ordinary	100%	Holding company

13. Investments (continued)

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

Name	Country of incorporation	Class of shares	Holding	Principal activities
Indirectly held:				
Paragon Customer Communications (London) Limited	England & Wales	Ordinary	100%	Printing services
Paragon Customer Communications (Finsbury Circus) Limited	England & Wales	Ordinary	100%	Printing services
Paragon Customer Communications (Nottingham) Limited	England & Wales	Ordinary	100%	Printing services
Innovative Output Solutions (Manchester) Limited	England & Wales	Ordinary Preference	100% 100%	Dormant
Paragon Data Analytics Limited	England & Wales	Ordinary	100%	Data services
Lateral Group Limited	England & Wales	Ordinary	100%	Holding company
Pickfield Printing Company Limited	England & Wales	Ordinary	100%	Dormant

The registered address for all the directly and indirectly held subsidiaries is Lower Ground Floor, Park House, 16/18 Finsbury Circus, London, England, EC2M 7EB.

Participating interests

Indirectly held:

Joint ventures

dsi Billing Services Limited Evolution House, Choats Road, Dagenham, Essex RM9 6BF	England & Wales	Ordinary	50%	Personalisation and sorting services
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Associates

European Direct Mail Specialists Limited 5 White Oak Square, Swanley, Kent BR8 7AG	England & Wales	Ordinary	50%	Mailing and delivery services
Response Handling Centre Limited 5 White Oak Square, Swanley, Kent BR8 7AG	England & Wales	Ordinary	34%	Administration support for fund raising companies

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

14. Stocks

	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Raw materials and consumables	2,114	2,265	-	-
Work in progress (goods to be sold)	1,955	1,314	-	-
	<u>4,069</u>	<u>3,579</u>	<u>-</u>	<u>-</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

15. Debtors

	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Due after more than one year:				
Amounts owed by group undertakings	-	-	11,736	17,000
Due within one year:				
Trade debtors	17,277	26,182	-	-
Amounts owed by group undertakings	-	-	-	11,593
Amounts owed by joint ventures and associated undertakings	83	188	-	-
Other debtors	1,887	2,059	480	298
Corporation tax	29	125	4,850	-
Prepayments and accrued income	12,440	8,828	414	760
Deferred taxation (note 20)	1,792	3,192	16	16
	<u>33,508</u>	<u>40,574</u>	<u>17,496</u>	<u>29,667</u>

All amounts are due within one year with the exception of deferred taxation.

Amounts owed by group undertakings, joint ventures and associates are unsecured, repayable on demand and do not bear any interest, except for the £17 million loan to dsicmm Group Limited

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

falling due in 2020 and bears interest at the Bank of England rate plus 1.0%.

16. Cash at bank and in hand

	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Cash at bank and in hand	<u>24,863</u>	<u>2,423</u>	<u>21,683</u>	<u>2,423</u>

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair value. Included are restricted cash balances arising from the Group factoring facility of £5,264,363 (2017: £ zero).

17. Creditors: Amounts falling due within one year

	Note	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Obligations under finance lease and hire purchase contracts	19	899	359	-	-
Factored Debt		-	-	13,950	-
Trade creditors		21,117	8,001	3,205	195
Deferred consideration		238	-	-	-
Capital grant		-	28	-	-
Amounts owed to group undertakings		-	-	47,689	59,573
Amounts owed to joint ventures and associated undertakings		-	2	-	-
Taxation and social security		4,216	3,755	2,060	63
Other creditors		5,875	377	-	252
Accruals and deferred income		3,392	9,614	1,048	872
		<u>35,737</u>	<u>22,136</u>	<u>67,952</u>	<u>60,955</u>

Amounts owed to the group undertakings are unsecured, repayable on demand and do not bear any interest.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

18. Creditors: Amounts falling due after more than one year

	Note	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Obligations under finance lease and hire purchase contracts	19	2,617	1,232	-	-
Long term loan		40,677	23,635	26,372	23,635
Amounts owed to group undertakings		-	-	5,496	5,496
Other creditors		662	747	-	-
Accruals and deferred income		593	662	-	-
		<u>44,549</u>	<u>26,276</u>	<u>31,868</u>	<u>29,131</u>

The amount owed to group undertakings is the loan obtained from the parent company, Grenadier Holdings PLC. Interest is charged at 2.5% and there is currently no fixed repayment date

19. Finance Lease

During the 2018 financial year, the group entered into two new finance lease agreements for the purchase of Heidelberg XL106-12P and a PB Epic and Pulse. The leases bear interest at 2.47% and 2.23% per annum respectively and they are both repayable over 5 years on a monthly basis.

The future minimum lease payments are as follows:

	Group 30 June 2018 £'000	Group 30 June 2017 £'000	Company 30 June 2018 £'000	Company 30 June 2017 £'000
Not later than 1 year	964	396	-	-
Later than 1 year and not later than 5 years	2,754	1,287	-	-
Total gross payments	3,718	1,683	-	-
Less: finance charges	(202)	(92)	-	-
Carrying amount of liability	3,516	1,591	-	-

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

20. Deferred taxation Group

	30 June 2018 £'000	30 June 2017 £'000
At 1 July	3,192	3,214
Charged to the profit or loss	(73)	(22)
Acquisitions	(1,327)	-
At 30 June	1,792	3,192

The deferred tax asset is made up as follows:

	30 June 2018 £'000	30 June 2017 £'000
Accelerated capital allowances	3,156	3,129
Short term timing differences	(1,364)	63
Intangibles, customer list and trade name	-	-
	1,792	3,192

21. Provision for liabilities

Group

	Dilapidation provisions £'000	Other provisions £'000	Total £'000
At 1 July 2017	2,709	-	2,709
Credited to the profit or loss	(243)	-	(243)
Provisions on acquisition	-	564	564
At 30 June 2018	2,466	564	3,030

Dilapidation provisions

Provision for dilapidations represents the estimated cost of repairs required under all current property rentals prior to the end of the lease term.

Other provisions

These relate to retention bonuses arising from acquisitions within the year

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

22. Called-up Share Capital

	30 June 2018 £'000	30 June 2017 £'000
Allotted, called up and fully paid		
3,037,857,226 (2017: 3,037,857,226) - A Ordinary shares of £0.01 each	30,379	30,379
2,840,971 (2017: 2,840,971) - B Ordinary shares of £0.01 each	28	28
1,226,689 (2017: 1,226,689) - Deferred shares of £0.01 each	12	12
	<u>30,419</u>	<u>30,419</u>

Both 'A' ordinary shareholders and 'B' ordinary shareholders have the right to appoint 3 directors to the Board respectively. 'A' Ordinary and 'B' Ordinary shares rank pari-passu in all other respects. The deferred shareholders are not entitled to receive any dividends or other distribution.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

23. Reconciliation of operating profits to net cash inflow from operating activities

Group	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Profit/(loss) for the financial year	2,736	(942)
Adjustments for:		
Tax on profit	373	(10)
Net interest expense	781	427
Income from participating ventures	(136)	(222)
Group operating profit/(loss)	3,754	(747)
Depreciation of tangible assets	2,649	1,540
Amortisation of goodwill	410	224
Amortisation of intangible assets	1,879	181
Release of capital grant	(28)	(41)
Share based payments movements	-	416
(Profit)/loss on disposal of fixed assets and investment property	(17)	155
Operating cash inflow before working capital movements	8,647	1,728
(Increase)/decrease in stocks	(490)	457
(Increase)/decrease in debtors	4,894	(1,432)
Increase/(decrease) in creditors and provisions	15,054	2,992
Working capital movements	19,458	2,017
Net cash inflow from operating activities	28,105	3,745

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

24. Financial instruments

Group

The group has the following financial instruments:

	Note	30 June 2018 £'000	30 June 2017 £'000
Financial assets that are debt instruments measured at amortised cost			
Trade receivables	15	17,277	26,182
Other receivables	15	1,887	2,059
Amounts owed by joint ventures and associated undertakings	15	83	188
		<u>19,247</u>	<u>28,429</u>
Financial liabilities measured at amortised cost			
Taxation and social security	17	(4,216)	(3,755)
Trade creditors	17	(21,117)	(8,001)
Deferred consideration	17	(238)	-
Accruals and deferred income	17/18	(3,985)	(9,614)
Amounts owed by joint ventures and associated undertakings	17	-	(2)
Intercompany loan	18	(40,677)	(23,635)
Finance lease	19	(3,516)	(1,591)
Other creditors	18/19	(6,537)	(1,124)
		<u>(80,286)</u>	<u>(47,750)</u>

The net debt, made up of external borrowings plus intercompany loan less cash/bank balance, as at 30 June 2018 is £24,594,000 (30 June 2017: £22,844,000).

Company

The company has the following financial instruments:

	Note	30 June 2018 £'000	30 June 2017 £'000
Financial assets that are debt instruments measured at amortised cost			
Other receivables	15	480	298
Amounts owed by group undertakings	15	11,736	28,593
		<u>12,216</u>	<u>28,891</u>
Financial liabilities measured at amortised cost			
Factored debt	17	(13,950)	-
Trade creditors	17	(3,205)	(195)
Other creditors	17	-	(252)
Taxation and social security	17	(2,060)	(63)
Accruals and deferred income	17	(1,048)	(872)
Intercompany loan	17/18	(79,557)	(88,704)
		<u>(99,820)</u>	<u>(90,086)</u>

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

25. Shared based payments

The total charge for the year relating to share based remuneration for the group was £Nil (6 months period ended 30 June 2017: £486,328) and £Nil (6 months period ended 30 June 2017: £360,384) for the company.

The restricted stock plan is no longer operational under the new ownership of Paragon Customer Communications Limited's Group subsequent to the sale of Output Group on 4th May 2017.

26. Pension commitments

The group operates a defined contribution pension scheme for its directors and staff. The pension cost in the year was £959,122 (6 months period ended 30 June 2017 - £430,838). At the end of the year £88,388 (6 months period ended 30 June 2017 - £202,805) was owed to the defined contribution scheme providers. This was included in accruals falling due in less than one year.

27. Commitments under operating leases

	Land and buildings 30 June 2018 £'000	Others 30 June 2018 £'000	Land and buildings 30 June 2017 £'000	Others 30 June 2017 £'000
Expiry date:				
Not later than 1 year	3,513	1,560	3,452	1,905
Later than 1 year and not later than 5 years	13,011	2,921	10,028	3,991
Later than 5 years	2,261	-	8,496	-
	<u>18,785</u>	<u>4,481</u>	<u>21,976</u>	<u>5,896</u>

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

28. Business combinations

On 22 June 2018, the group acquired 100% control of St. Ives Management Services (SIMS) through one of its wholly owned subsidiary, Paragon Customer Communications (London) Limited, for a total consideration of £14,296,000.

	Fair Value £'000
Property, plant and equipment	175
Technology assets	1,754
Customer relationships	4,989
Non-current assets	6,918
Trade and other receivables	5,287
Cash and cash equivalents	2,452
Current assets	7,739
Total Assets	14,657
Trade and other payables	6,536
Deferred tax liabilities	1,269
Income tax payable	334
Total Liabilities	8,139
Net assets	6,518
Fair value of consideration	12,957
Goodwill on acquisition	6,439

Paragon Customer Communications (London) Limited also acquired the trade and assets of FT Solutions Limited for a total consideration of £1,997,000 on the 17th January 2018.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

29. Related party transactions

The following transactions took place with the group joint venture and associates.

		Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
dsi Billing Services Limited (50% ownership)	Sales	941	674
	Purchases	(4)	(22)
	Management charges	61	29
	Dividend received	180	200
European Direct Mailing Specialists Limited (50% ownership)	Sales	57	35
	Management charges	12	-
Response Handling Centre Limited	Management charges	5	-

The following balances were owed (to)/by the group as at:

	30 June 2018 £'000	30 June 2017 £'000
dsi Billing Services Limited	-	(2)
dsi Billing Services Limited	67	152
European Direct Mail Specialists Limited	16	36

30. Controlling party

The immediate parent undertaking is Grenadier Holdings PLC with 100% holdings of the share capital of Paragon Customer Communications Group.

The ultimate parent undertaking and controlling party is Paragon Group Limited, a company incorporated in United Kingdom.

31. Post balance sheet events

Post year end PCC completed the purchase of 100% of Imprimus Limited. The business now known as Paragon Customer Communications (Redruth) Limited was acquired on the 5th July 2018 for £2.25m

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

32. Underlying operating profit and EBITDA (non-statutory information)

Underlying operating profit

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Operating profit/(loss)	3,754	(747)
Add back:		
Acquisition and synergy costs*	1,278	409
Exceptional legal costs**	117	
Luxembourg exceptional costs***	187	
Retention bonus		556
Underlying operating profit	<u>5,336</u>	<u>218</u>

Underlying EBITDA

	Year ended 30 June 2018 £'000	6 months ended 30 June 2017 £'000
Operating profit/(loss)	3,754	(747)
Add back:		
Retention bonus		556
Depreciation of tangible assets	2,649	1,540
Amortisation of goodwill	410	224
Amortisation of intangibles	1,879	181
Amortisation of government grants	(28)	(41)
Acquisition and synergy costs*	1,278	409
Luxembourg exceptional costs***	187	-
Exceptional legal costs**	117	-
Loss on disposal of fixed assets	-	155
Completion/acquisition adjustments	-	-1,167
Underlying EBITDA	<u>10,246</u>	<u>3,444</u>

* These costs primarily relate to the restructuring of the groups people resources to align with the new ownership and business structure

** Exceptional legal costs relate to a one off case in relation to VAT

*** These costs include all items in relation to the setup of the Luxembourg business venture