

Paragon Customer Communications Limited

Report and Financial Statements
for the year ended
30 June 2021

Company Number 07262428



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 7HN

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Paragon Customer Communications Limited

Highlights of the year

Group Revenue
£437.4m

Underlying EBITDA*
£32.5m

Operating Loss
£3.7m

Underlying
Operating profit
£11.0m*

Net Cash Flow
from Operating
Activities**
£30.1m

Net Cash
£29.3m

*See note 32

**See note 24

Paragon Customer Communications Limited

Strategic Report for the year ended 30 June 2021

Introduction

The directors present their strategic report of Paragon Customer Communications Limited for the year ended 30 June 2021.

Review of the business

The wider business environment continued to be impacted by reduced economic activity as the various Covid 19 restrictions and lockdowns continued through the year; while the financial impact on the business is unquantifiable the management of the business responded to the uncertainty by maintaining services to customers, identifying and delivering new commercial opportunities and effectively managing expenses to achieve improved financial results. With the continued support of customers and employees the Paragon Customer Communications Group continued to provide goods and services throughout the Covid 19 Pandemic, there was limited interruption to business activities with significant numbers of previously office based staff continuing to working from home.

Despite the prevailing conditions of the post Brexit period and the Pandemic the Group increased both turnover £437.4m (2020: £395.8m) and underlying EBITDA £32.5m (2020: £28.0m).

During the period the business made use of the UK Government and Irish Government Coronavirus Job Retention schemes which totalled £2,795,000 (2020: £2,022,000) and protected the roles of up to 539 employees during the financial year.

The business suffered a significant Cyber Attack in the early part of the financial year, while no client data was accessed or copied the attack resulted in circa 3% of the installed server estate being disabled for a short period of time. The business technology teams together with our insurers and appropriate external advisors restored the affected server estate and the impacted services to clients resumed. The business continues to work on ensuring external risks to the IT infrastructure are monitored and limited, we continue to work with our insurers on finalising the level of insured financial impact of the Cyber attack.

During the period the business completed a number of projects to gain the synergy benefits of various historic acquisitions. The Redruth and Barnwood production and client support activities were successfully transferred to other PCC locations and these two locations closed in the year, various office locations were also closed in response to what we believe to be the longer term implications of the move to effective home working by staff previously based in offices.

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.

The acquisition of the RR Donnelly operations in 2020 supports the strategy in accelerating the growth of Paragon Customer Communications in the UK, allowing the opportunity to consolidate manufacturing operations to maximise the operating efficiencies as well as bringing a better customer experience to a wider audience. The group has initiated a project to gain the synergy benefits that derive from large acquisitions, this project will conclude during the next financial year and we expect to see a full year of these synergy benefits in the following financial year.

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

Paragon Customer Communications Limited

Strategic Report (continued) for the year ended 30 June 2021

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.

Section 172 statement

The Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. New legislation has been introduced to help shareholders better understand how directors have discharged their duty to promote the success of the company, while having regard to the matters set out in section 172(1)(a) to (f) of the CA2006 (s172 factors). In 2021 the directors continued to exercise all their duties, while having regard to these and other factors as they reviewed and considered proposals from senior management and governed the company.

The directors consider that the statement focuses on those risks and opportunities that were of strategic importance to Paragon Customer Communications is consistent with the size and complexity of the Group. In the performance of its duty to promote the success of the company, the directors have regard to a number of matters, including listening to and considering the views key stakeholders to build trust and ensure it fully understands the potential impacts of the decisions it makes for our stakeholders, the environment and the communities in which we operate. Engagement with the company's main stakeholder groups, including our people, customers and suppliers, at all levels of the organisation and across the Paragon Customer Communications group of businesses are summarised below.

	People	Customers	Suppliers
Key Facts	3,400+ employees in the UK, Ireland and Luxembourg	Mainly UK based with significant clients within Europe and the US	Diversified supplier base from small contractors to FTSE100 groups
Why we engage	Our people are at the core of our business. We aim to build a trusting, respectful and inclusive culture so every individual feels highly engaged and can be their best. We want our people to feel their human rights are respected and they are treated with dignity. We are committed to creating opportunities for growth and to a continuous learning culture.	Our customers are experts in the products they buy and sell, as well as in the experiences they create and deliver. We work with a wide range of customers: big and small, on-trade and off, digital and e-commerce. Our passion is to ensure we nurture mutually beneficial relationships that deliver joint value and the best outcome for all our consumers	Our suppliers and agencies are experts in the wide range of goods and services we require to create and market our brands. By working with them, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.
How we engage	<ul style="list-style-type: none"> – Prioritisation of health, safety and wellbeing – Investment in learning opportunities for employee growth and development – The promotion of inclusion and diversity 	<ul style="list-style-type: none"> – A portfolio of leading brands that meets evolving consumer preferences – Identification of opportunities that offer profitable growth – Insights into consumer behaviour and trends – Trusted product quality 	<ul style="list-style-type: none"> – Developing strong, mutually beneficial partnerships – Collaborating to realise innovation – Fair contract and payment terms – Consistent performance measurement – Joint risk assessment and mitigation

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Strategic Report (continued) for the year ended 30 June 2021

How our directors consider stakeholders in decision making

People – The directors recognise the importance of effective engagement with Paragon's employees and wider workforce, including contractors and temporary staff. The directors engage directly with local management and other employees during site and trade visits. This year the directors have continued to place a large focus on consideration of the health, safety and well-being of the group's workforce when making decisions during the ongoing Covid-19 pandemic.

Customers – The directors engage with customers, primarily through the Chief Executive, who provides information about key customers in his regular report to the Board. Understanding the importance to customers of maintaining a broad portfolio with consumer offerings at a variety of price points and categories, the Board regularly reviews both innovation and inorganic opportunities to enhance its portfolio.

Suppliers – The Chief Executive provides the Board with information about key suppliers as and when relevant to Board discussions, including when approval is required for material contracts with suppliers. During the year, the Board reviewed and approved several critical procurement agreements.

Principal 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. The acquisition of RR Donnelly European Global Document Solutions Ltd in the prior year brought a number of significant new service lines to the group, the broadening of service lines spread the risks associated to consumer preferences and desires by moving into business services such as inbound document processing and facility management and related services in business customer locations.
- *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. As part of the post-acquisition synergy activities the group has invested in advanced print and finishing equipment to reduce the risks related to production activities.
- *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.

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Strategic Report (continued) for the year ended 30 June 2021

- *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 group's 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.
- *Coronavirus risk* – The group continues to be impacted by the global outbreak of Coronavirus (COVID-19), the directors of the group continue to assess the situation across key markets and the potential risk to the operation of the business daily. The directors have taken all necessary measures as advised by the NHS, WHO, the UK government and equivalent local authorities across our offices, including promoting hygiene standards and providing facilities to enable this, and firmly insisting all employees to work from home where possible. The group and the overall Paragon Group have vital activities within the communication and financial sectors and was consequently given the "key worker status" during this outbreak. Both feel reasonably confident that they will retain a sufficient level of trading activity during the crisis. The directors do not consider, at the date of signing of the financial statements, there to be a threat to the overall business in the case of outbreak-related closures and lockdowns due to the above and the group (via the support of the overall Paragon Group) having access to sufficient working capital. The directors believe that appropriate strategies have been, and are being further developed, to ensure the group can reduce and manage the possible impacts of adverse developments which could affect the group's ability to continue trading.
- *Brexit risk* – the UK's decision to leave the EU has had minimal impact on the company and across the group as a whole. Political and economic uncertainty have progressively faded and there has been no significant decline in the value of Sterling. Given the scale of Brexit, the Board continues to monitor whether any further volatility is likely to arise in the short to medium term.

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Strategic Report (continued) **for the year ended 30 June 2021**

Overview of the numbers

The underlying EBITDA for the period is £32.5m.

The results for the group, show a loss before taxation of £3.6m (2020: £5.3m loss before tax) and group turnover of £437.4m (2020: £395.8m). The directors have not proposed or paid a dividend in the current financial year (2020 - £Nil).

The business has generated cash flow from operations of £30.1m (2020: £53.6m) as a result of continued good working capital management. The slight reduction in gross margin in the year was as a result of the challenges brought about by the pandemic.

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Strategic Report (continued) for the year ended 30 June 2021

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.

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000	Change %
Group turnover	437,361	395,831	10.5%
Group turnover per employee	127	123	3.3%
Number of employees (average)	3,449	3,210	7.4%
Gross profit	158,874	159,218	(0.2%)
Gross margin	36.3%	40.2%	(3.9%)
Group operating loss	(3,738)	(2,701)	(38.4)%
Underlying EBITDA	32,476	27,988	16.0%
Operating cash flow	30,056	53,641	(44.0%)
Net cash	29,308	37,281	(21.4%)

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 18/2/2022 and signed on its behalf.

Jeremy Walters

J E C Walters
Director

Paragon Customer Communications Limited

Directors' Report for the year ended 30 June 2021

The directors present their report and the audited consolidated financial statements for the year ended 30 June 2021.

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 (2020 - £nil).

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.

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Directors' Report (continued) for the year ended 30 June 2021

Going concern

The Directors have performed an assessment of going concern, including receiving written support provided from its ultimate parent company ("the Paragon Group"). The Paragon Group have performed an assessment of going concern by reviewing the Group's cash position, available banking facilities and financial forecasts for the period under review being July 2021 through to March 2023, including the ability to adhere to banking covenants. In doing so, the Directors have considered the uncertain nature of the current COVID-19 pandemic, current trading trends and extensive actions already undertaken to protect profitability and conserve cash.

Four scenarios were considered by the Paragon Group in preparing their going concern assessment, being a management case and three other scenarios using a set of severe but plausible downside assumptions to that management case. Overall the Group traded in line with the management case for the first six months of the 2022 financial year and has remained profitable and cash generative which further underlines the resilience and adaptability of the business during this difficult time.

The management case which is built up from detailed projections for each of the Group's businesses and markets includes the following key assumptions:

- The management case anticipates that volume would be steady for the remainder of the period under review;
- The downside case factors in a reduction in variable costs to align the costs with the lower volumes including furloughing staff as part of government support scheme and reducing repairs and maintenance costs;
- Additional reductions in support costs to reflect the impact of the extensive cost reduction initiatives implemented by the Group including the implementation of a recruitment freeze, deferral of executive bonuses and graduated salary reductions for support staff across the business;
- The downside case included further reductions in the range of 10%, 25% and 40% in turnover across the Group's five divisions for the remainder of period under review, to reflect the scenario of a deeper economic impact, region specific lockdowns in the UK and a slower recovery over the course of the next year. Those projections showed that the Group will continue to operate viably over that period;
- The above downside case excludes €180m in post-balance sheet funding received by the wider Group, which will have a positive impact on going concern.

Based on the above, the Directors have, at the date of signing of the accounts, a reasonable expectation that with the support provided from Paragon Group, the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

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 2021 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.

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Directors' Report (continued) for the year ended 30 June 2021

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.

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.

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Directors' Report (continued) for the year ended 30 June 2021

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

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

This report was approved by the board on 18/2/2022 and signed on its behalf.

Jeremy Walters

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 2021, 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 cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

In the light of the knowledge and understanding of the 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.

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out of page 9, 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks FRS102 and the Companies Act 2006).
- We understood how the company is complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and management. We corroborated our inquiries through our review of board minutes and walkthroughs performed with management.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how the Board considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;

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

- challenging assumptions and judgments made by management in its significant accounting estimates;
 - identifying and testing journal entries, in particular any journal entries posted with large values or those posted at the year end;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities, including consideration of the engagement team's understanding of and practical experience with audit engagements of a similar nature and complexity, knowledge of the industry in which the client operates, and understanding of the legal and regulatory requirements specific to the entity.
 - In assessing the potential risks of material misstatement, we obtained an understanding of the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - These audit procedures were designed provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Use of our report

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



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

18 February 2022

Paragon Customer Communications Limited

Consolidated Statement of Comprehensive Income for the year ended 30 June 2021

		30 June 2021 £'000	30 June 2020 £'000
	Note		
Group turnover	3	437,361	395,831
Cost of sales		(278,487)	(236,613)
Gross profit		158,874	159,218
Distribution costs		(643)	(851)
Administrative expenses		(164,764)	(163,090)
Other operating income	4	2,795	2,022
Operating loss	5	(3,738)	(2,701)
Share of profit in Joint Ventures and Associates		443	163
Interest payable and similar charges	8	(1,889)	(2,732)
Interest receivable and similar income	9	1,604	-
Loss before taxation		(3,580)	(5,270)
Tax on loss	10	2,153	421
Total comprehensive loss for the financial year		(1,427)	(4,849)
Supplementary information			
Underlying EBITDA	32	32,476	27,988

The notes on pages 25 to 60 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 2021 and year ended 30 June 2020.

As permitted by Section 408 of the Companies Act 2006, no Income Statement of the Company is included in these financial statements. The profit for the financial year for the Company was £1,532,000 (2020: £863,000 loss).

Paragon Customer Communications Limited

Registered Number: 07262428
Consolidated Statement of Financial Position
as at 30 June 2021

	Note	30 June 2021 £'000	30 June 2020 £'000
Fixed Assets			
Intangible assets	11	53,373	52,977
Tangible assets	13	22,945	19,051
Investments	14	733	490
		<u>77,051</u>	<u>72,518</u>
Current Assets			
Stocks	15	7,261	6,718
Debtors	16	59,184	59,683
Cash at bank and in hand	17	37,428	41,827
		<u>103,873</u>	<u>108,228</u>
Creditors: amounts falling due within one year	18	(108,829)	(99,609)
Net Current (liabilities)/assets		<u>(4,956)</u>	<u>8,619</u>
Total assets less current liabilities		72,095	81,137
Creditors: amounts falling due after more than one year	19	(36,433)	(64,204)
Provisions for liabilities			
Other provisions	22	(5,737)	(6,052)
Net Assets		<u>29,925</u>	<u>10,881</u>
Capital and reserves			
Called up share capital	23	51,000	30,419
Share premium account		30,901	30,901
Capital contribution reserve		1,557	1,557
Merger relief reserve		14,021	14,021
Foreign exchange reserve		(133)	(23)
Profit and loss account		(67,421)	(65,994)
Total equity		<u>29,925</u>	<u>10,881</u>

Paragon Customer Communications Limited

The financial statements on pages 16 to 60 were approved and authorised for issue by the board and were signed on its behalf on 18/2/2022

J E C Walters *Jeremy Walters*
Director

The notes on pages 25 to 60 form part of these financial statements.

Paragon Customer Communications Limited

Registered Number: 07262428

Company Statement of Financial Position as at 30 June 2021

	Note	30 June 2021 £'000	30 June 2020 £'000
Fixed Assets			
Intangible assets	11	5,039	3,152
Tangible assets	13	6	12
Investments	14	93,773	87,735
		<u>98,818</u>	<u>90,899</u>
Current Assets			
Debtors	16	21,658	22,940
Cash at bank and in hand	17	33,864	24,465
		<u>55,522</u>	<u>47,405</u>
Creditors: amounts falling due within one year	18	(129,527)	(87,660)
Net Current liabilities		<u>(74,005)</u>	<u>(40,255)</u>
Total assets less current liabilities		24,813	50,644
Creditors: amounts falling due after more than one year	19	(7,390)	(55,334)
Net Liabilities		<u>17,423</u>	<u>(4,690)</u>
Capital and reserves			
Called up share capital	23	51,000	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		(79,626)	(81,158)
Total equity		<u>17,423</u>	<u>(4,690)</u>

The financial statements on pages 16 to 60 were approved and authorised for issue by the board and were signed on its behalf on 18/2/2022

Jeremy Walters

J E C Walters
Director

The notes on pages 25 to 60 form part of these financial statements.

Paragon Customer Communications Limited

Consolidated Statement of Changes in Equity for the year ended 30 June 2021

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Foreign Exchange Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 July 2020	30,419	30,901	1,557	14,021	(23)	(65,994)	10,881
Total comprehensive loss for the year	-	-	-	-	-	(1,427)	(1,427)
Contribution by and distribution to the owners							
Movement in the year	20,581	-	-	-	(110)	-	20,471
Total transactions with owners	<u>20,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110)</u>	<u>-</u>	<u>20,471</u>
At 30 June 2021	<u>51,000</u>	<u>30,901</u>	<u>1,557</u>	<u>14,021</u>	<u>(133)</u>	<u>(67,421)</u>	<u>29,925</u>

2,058,075,114 new Class A Ordinary shares were issued, allotted and fully paid for at £0.01 per share on 28 January 2021.

The notes on pages 25 to 60 form part of these financial statements

Paragon Customer Communications Limited**Consolidated Statement of Changes in Equity
for the year ended 30 June 2020**

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Foreign Exchange Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 July 2019	30,419	30,901	1,557	14,021	-	(61,145)	15,753
Total comprehensive loss for the year	-	-	-	-	-	(4,849)	(4,849)
Contribution by and distribution to the owners							
Movement in the year	-	-	-	-	(23)	-	(23)
Total transactions with owners	-	-	-	-	(23)	-	(23)
At 30 June 2020	30,419	30,901	1,557	14,021	(23)	(65,994)	10,881

The notes on pages 25 to 60 form part of these financial statements

Paragon Customer Communications Limited**Company Statement of Changes in Equity
for the year ended 30 June 2021**

	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 2020	30,419	30,901	1,127	14,021	(81,158)	(4,690)
Total comprehensive profit for the year	-	-	-	-	1,532	1,532
Contribution by and distribution to the owners						
Movement in the year	20,581	-	-	-	-	20,581
Total transactions with owners	20,581	-	-	-	-	20,581
At 30 June 2021	51,000	30,901	1,127	14,021	(79,626)	17,423

The notes on pages 25 to 60 form part of these financial statements

Paragon Customer Communications Limited**Company Statement of Changes in Equity
for the year ended 30 June 2020**

	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 2019	30,419	30,901	1,127	14,021	(80,295)	(3,827)
Total comprehensive loss for the year	-	-	-	-	(863)	(863)
Contribution by and distribution to the owners						
Total transactions with owners	-	-	-	-	-	-
At 30 June 2020	30,419	30,901	1,127	14,021	(81,158)	(4,690)

The notes on pages 25 to 60 form part of these financial statements

Paragon Customer Communications Limited

Consolidated Statement of Cash Flows for the year ended 30 June 2021

		Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
	Note		
Net cash from operating activities	24	30,056	53,641
Net cash from investing activities			
Purchase of intangible assets	11	(5,402)	(4,876)
Purchase of tangible assets	13	(13,091)	(6,583)
Payments for acquisition of subsidiaries, net of cash acquired		(5,760)	(37,342)
Proceeds from sale of tangible assets		469	1,696
Dividend received from joint venture	14	200	240
Net cash used in investing activities		(23,584)	(46,865)
Cash flow from financing activities			
Share capital		20,581	-
Interest payment		(285)	(2,732)
Payment of deferred consideration		(97)	(500)
Loan repayment to immediate parent undertaking		(34,645)	-
Proceeds from long term loan from immediate parent undertaking		-	10,583
Proceeds from obligations under finance lease		4,886	3,817
Repayment of obligations under finance lease		(1,311)	(1,214)
Net cash used in financing activities		(10,871)	9,954
Net increase/decrease in cash and cash equivalent		(4,399)	16,730
Cash and cash equivalents at 1 July		41,827	25,097
Cash and cash equivalents at 30 June	17	37,428	41,827
<u>Other information (Non statutory information)</u>			
Net Cash/3 rd party debt summary			
Cash and cash equivalents		37,428	41,827
Finance lease	20	(8,120)	(4,546)
Net cash/3rd party debt		29,308	37,281

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021

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 company information 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.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

1.3 Going Concern

The Directors have performed an assessment of going concern, including receiving written support provided from its ultimate parent company ("the Paragon Group"). The Paragon Group have performed an assessment of going concern by reviewing the Group's cash position, available banking facilities and financial forecasts for the period under review being July 2021 through to March 2023, including the ability to adhere to banking covenants. In doing so, the Directors have considered the uncertain nature of the current COVID-19 pandemic, current trading trends and extensive actions already undertaken to protect profitability and conserve cash.

Four scenarios were considered by the Paragon Group in preparing their going concern assessment, being a management case and three other scenarios using a set of severe but plausible downside assumptions to that management case. Overall the Group traded in line with the management case for the first six months of the 2022 financial year and has remained profitable and cash generative which further underlines the resilience and adaptability of the business during this difficult time.

The management case which is built up from detailed projections for each of the Group's businesses and markets includes the following key assumptions:

- The management case anticipates that volume would be steady for the remainder of the period under review;
- The downside case factors in a reduction in variable costs to align the costs with the lower volumes including furloughing staff as part of government support scheme and reducing repairs and maintenance costs;
- Additional reductions in support costs to reflect the impact of the extensive cost reduction initiatives implemented by the Group including the implementation of a recruitment freeze, deferral of executive bonuses and graduated salary reductions for support staff across the business;
- The downside case included further reductions in the range of 10%, 25% and 40% in turnover across the Group's five divisions for the remainder of period under review, to reflect the scenario of a deeper economic impact, region specific lockdowns in the UK and a slower recovery over the course of the next year. Those projections showed that the Group will continue to operate viably over that period;
- The above downside case excludes €180m in post-balance sheet funding received by the wider Group, which will have a positive impact on going concern.

Based on the above, the Directors have, at the date of signing of the accounts, a reasonable expectation that with the support provided from Paragon Group, the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

Paragon Customer Communications Limited

Notes to the Financial Statements

for the year ended 30 June 2021 (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.

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.

1.5 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 2021 (continued)

1.6 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.

1.7 Government grants

The receipt of funds from government grants is recognised in profit or loss in the same period in which the expense to which it relates is incurred.

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.

Negative goodwill

Negative goodwill arises where the cost of the business combination is lower than the group's interest in the net identifiable assets and liabilities. The negative goodwill is recognised in the statement of comprehensive income over the life of the non-monetary assets.

Other intangible assets – development expenditure

Expenditure incurred in the development of products or enhancements to existing product ranges is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the Consolidated income statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives, which vary between three and five years, once the product or enhancement is available for use. Product research costs are written off as incurred.

Other intangible assets – computer software

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

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

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 – 15 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.

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
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 2021 (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 2021 (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 rate and foreign exchange derivatives.

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

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 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.

1.18 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 2021 (continued)

1.19 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.

1.20 Interest income

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

1.21 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 2021 (continued)

1.22 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 cannot 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.

1.23 Reserves

The group's reserves are as follows:

- Called up share capital represents the nominal value of shares issued
- The share premium account includes the premium on issue of equity shares, net of any issue costs.
- Capital contribution reserve represents funds for share-based payments plans no longer operational.
- Merger relief reserve arose on a past business combinations that was accounted for as a merger in accordance with UK GAAP as applied at that time.
- Foreign exchange reserve arose as a result of changes in fx rates and translating balances held by foreign subsidiaries into the group's functional currency.
- The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (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

Intangible assets (see note 11).

Intangible assets are amortised over their useful lives taking into account the probable future economic benefits. The group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified, the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Tangible assets (see note 13)

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.

Provisions (see note 22)

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.

Investments

The fair value of investments is measured based on the future estimated earnings and cashflows to be generated by the companies.

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 2021 (continued)

3. Analysis of turnover

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

	2021 £'000	2020 £'000
Services	243,040	224,359
Printmail	194,321	171,472
	<u>437,361</u>	<u>395,831</u>

Analysis of turnover by country of destination

	2021 £'000	2020 £'000
United Kingdom	402,858	348,934
Rest of Europe	28,428	38,897
Rest of the world	6,075	8,000
	<u>437,361</u>	<u>395,831</u>

4. Other operating income

During the financial year, the group received government assistance relating to the wages and salaries costs of employees furloughed under the Coronavirus Job Retention Scheme. Grants received have been recognised using the accrual model in accordance with FRS102 paragraph 24.5, and amount to £2,795,000 (2020 - £2,022,000).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

5. Operating loss

The operating loss after charging/(crediting):

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets - owned		
- owned assets	8,227	6,734
- owned under finance lease	1,276	1,217
Amortisation of other intangibles (note 11)	12,024	10,704
Amortisation of goodwill (note 11)	1,465	829
Amortisation of negative goodwill (note 11)	(1,600)	(1,346)
Goodwill impairment	35	-
Fees payable to the Group's auditors and their associates for		
- The audit of the company's financial statements	54	51
- The audit of the Group's subsidiaries pursuant to legislation	422	411
Exchange loss/(gain)	267	92
Defined contribution pension cost (note 26)	3,508	3,389
Operating lease costs		
- Equipment	2,538	3,140
- Land and buildings	5,505	7,404
Loss on disposal of fixed assets	19	126

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

6. Employees

Staff costs were as follows:

	2021 £'000	2020 £'000
Wages and salaries	120,416	105,504
Social security costs	11,302	10,380
Cost of defined contribution scheme	3,508	3,389
Redundancy	3,846	4,082
	<u>139,072</u>	<u>123,355</u>

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

	2021 No	2020 No
Administration and sales	898	729
Operations	2,551	2,481
	<u>3,449</u>	<u>3,210</u>

7. Directors' remuneration

During the year, the total emoluments of £706,133 (2020 – £421,288) was received by one of the directors, who is the highest paid, 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:

	2021	2020
Salary/allowance	299,371	289,328
Bonus	406,762	131,960
	<u>706,133</u>	<u>421,288</u>

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

8. Interest payable and similar charges

	2021 £'000	2020 £'000
Finance leases	145	165
Bank interest	-	5
Factoring interest	603	1,244
Discount charges	371	-
Loans from group undertakings	770	1,318
	<u>1,889</u>	<u>2,732</u>

9. Interest receivable and similar income

	2021 £'000	2020 £'000
Net exchange gain on foreign currency borrowings	<u>1,604</u>	<u>-</u>

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

10. Tax on loss

	2021 £'000	2020 £'000
Corporation tax		
Group relief payable	484	-
Adjustments in respect of previous periods	114	135
	<u>598</u>	<u>135</u>
Deferred tax		
Origination and reversal of temporary differences	(453)	(1,335)
Changes to tax rates	(2,377)	(25)
Adjustment in respect of previous periods	79	804
	<u>(2,751)</u>	<u>(556)</u>
Taxation on loss	<u>(2,153)</u>	<u>(421)</u>

Factors affecting tax credit for the period

The tax assessed for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19.00% (2020 - 19.00%). The differences are explained below:

	2021 £'000	2020 £'000
Loss before tax	<u>(3,580)</u>	<u>(5,270)</u>
Loss multiplied by standard rate of corporation tax in the UK of 19.00% (2020 - 19.00%)	(680)	(1,001)
Effects of		
Changes in tax rates	(2,377)	(25)
Expenses not deductible for tax	278	1,268
Other timing differences	853	(180)
Group relief utilised at less than the standard rate	(482)	(1,393)
Research & Development expenditure	62	(27)
Adjustment relating to previous periods	193	937
Total tax credit for the financial year	<u>(2,153)</u>	<u>(421)</u>

Factors that may affect future tax charges

The Finance Act 2020 included legislation to maintain the main rate of UK corporation tax at 19%, rather than reducing it to 17% from 1 April 2020. The change to the main rate of corporation tax was substantively enacted by the balance sheet date and therefore included in these financial statements. The UK Budget announcements on 3 March 2021 included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. Temporary differences have been remeasured using these budget tax rates that are expected to apply when the liability is settled or the asset realised.

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

11. Intangible assets

	Software	Trade Names	Development Expenditure	Customer relationships	Goodwill	Negative goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 July	11,912	3,146	2,060	49,417	69,988	(10,358)	126,165
Additions	5,361	-	41	-	6,902	-	12,304
On acquisition of subsidiary	78	-	-	-	-	-	78
Disposal	(1,903)	-	(41)	-	-	-	(1,944)
At 30 June	15,448	3,146	2,060	49,417	76,890	(10,358)	136,603
Amortisation							
At 1 July	8,681	1,573	785	8,538	54,957	(1,346)	73,188
Charge for the year	1,919	1,573	826	7,706	1,465	(1,600)	11,889
Impairment	-	-	-	-	35	-	35
Disposal	(1,841)	-	(41)	-	-	-	(1,882)
At 30 June	8,759	3,146	1,570	16,244	56,457	(2,946)	83,230
Net book value							
At 30 June 2021	6,689	-	490	33,173	20,433	(7,412)	53,373
At 30 June 2020	3,231	1,573	1,275	40,879	15,031	(9,012)	52,977

The impairment relate to the goodwill that arose on the acquisition of Promo international Limited (see note 28).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

Company	Software	Trade Names	Total
	£'000	£'000	£'000
Cost			
At 1 July	2,391	3,146	5,537
Additions	4,367	-	4,367
At 30 June	6,758	3,146	9,904
Amortisation			
At 1 July	812	1,573	2,385
Charge for the year	907	1,573	2,480
At 30 June	1,719	3,146	4,865
Net book value			
At 30 June 2021	5,039	-	5,039
At 30 June 2020	1,579	1,573	3,152

12. Company profit 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 profit of the parent company for the year was £1,532,000 (2020 - £863,000 loss).

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

13. Tangible assets

Group	Short term Leasehold Property £'000	Plant and Machinery £'000	Fixtures Fittings & equipment £'000	Computer Equipment £'000	Total £'000
Cost					
At 1 July 2020	9,057	19,615	2,647	4,259	35,578
Additions	1,152	10,993	609	337	13,091
On acquisition of subsidiary	-	720	6	6	732
Reclassification	-	(2,618)	2,618	-	-
Disposals	(111)	(9,004)	(183)	(15)	(9,313)
At 30 June 2021	10,098	19,706	5,697	4,587	40,088
Accumulated depreciation					
At 1 July 2020	6,418	6,252	2,046	1,811	16,527
Charge for the year	795	7,049	485	1,174	9,503
Disposals	(109)	(8,587)	(183)	(8)	(8,887)
At 30 June 2021	7,104	4,714	2,348	2,977	17,143
Net book value					
At 30 June 2021	2,994	14,992	3,349	1,610	22,945
At 30 June 2020	2,639	13,363	601	2,448	19,051

Assets subject to finance lease refer to note 20.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

Company

	Short term Leasehold Property £'000
Cost	
At 1 July 2020	20
Additions	-
At 30 June 2021	20
Accumulated depreciation	
At 1 July 2020	8
Charge for the year	6
At 30 June 2021	14
Net book value	
At 30 June 2021	6
At 30 June 2020	12

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

14. Investments**Group**

	Investment in associates £'000	Investment in joint ventures £'000	Total £'000
Cost			
At 1 July 2020	23	467	490
Share of profits	27	416	443
Dividends in the period	-	(200)	(200)
At 30 June 2021	50	683	733

Company

	Shares in group companies £'000
Cost	
At 1 July 2020	112,158
Additions	6,073
At 30 June 2021	118,231
Impairment	
At 1 July 2020	24,423
Charge for the year	35
At 30 June 2021	24,458
Net book value	
At 30 June 2021	93,773
At 30 June 2020	87,735

Additional investment costs incurred by the company during the year were Paragon Customer Communications Ireland Limited - £1,874,000; Paragon Customer Communications (Luxembourg) SA - £1,288,000; Print Trade Suppliers limited - £1,438,000; Global Document Systems limited - £1,438,000 and Promo international limited - £35,000.

The impairment charge relate to the acquisition cost of Promo International Limited (see note 28).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

Subsidiary undertakings

The following were the subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding	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 (Luxembourg) SA	Luxembourg	Ordinary	100%	Printing services
Paragon Customer Communications (Redruth) Limited	England & Wales	Ordinary	100%	Printing services
Lateral Holdings (UK) Limited	England & Wales	Ordinary	100%	Holding company
D MSP Celerity Services SL Spain	Spain	Ordinary	100%	Software development
Celerity IS Inc. US	USA	Ordinary	100%	Software development
Paragon Customer Communications International Limited	England & Wales	Ordinary	100%	Brand communication and business support
Critical Mail Continuity Services Limited	England & Wales	Ordinary	100%	Business continuity services
Devonshire Appointments Limited	England and Wales	Ordinary	100%	Recruitment consultancy
Paragon Customer Communications Ireland Limited	Ireland	Ordinary	100%	Printing services
Global Document Systems Limited	England and Wales	Ordinary	100%	Business support services
Print Trade Suppliers Limited	England and Wales	Ordinary	100%	Printing services
Paragon Customer Communications Italy Limited	Italy	Ordinary	100%	Printing services
Paragon Customer Communications Poland Limited	Poland	Ordinary	100%	Printing services
PCC GDS Limited	England & Wales	Ordinary	100%	Business support services

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

14. Investments (continued)

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
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 2021 (continued)

14. Investments (continued)

Summarised financial information for the group's investment in joint ventures and associates which are accounted for using the equity method is as follows:

	Non-current assets £.000	Current assets £.000	Current liabilities £.000	Total £.000
As at 30 June 2021				
Joint Ventures	8	3,671	(2,313)	1,366
Associates	2	111	(3)	110
At 30 June 2021	10	3,782	(2,316)	1,476
	Non-current assets £.000	Current assets £.000	Current liabilities £.000	Total £.000
As at 30 June 2020				
Joint Ventures	13	2,392	(1,475)	930
Associates	2	76	(21)	57
At 30 June 2020	15	2,468	(1,496)	987

15. Stocks

	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Raw materials and consumables	4,448	4,939	-	-
Work in progress (goods to be sold)	2,813	1,779	-	-
	7,261	6,718	-	-

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

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

16. Debtors

	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Due after more than one year:				
Amounts owed by group undertakings	-	-	17,000	17,000
Due within one year:				
Trade debtors	5,980	6,796	-	-
Amounts owed by group undertakings	10,776	16,925	61	120
Amounts owed by joint ventures and associated undertakings	496	231	-	-
Other debtors	4,721	4,966	2,165	4,810
Corporation tax	-	171	303	306
Prepayments and accrued income	32,265	28,539	2,129	680
Deferred taxation (note 21)	4,946	2,055	-	24
	59,184	59,683	21,658	22,940

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 which bears interest at the Bank of England rate plus 1.0%.

17. Cash at bank and in hand

	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Cash at bank and in hand	37,428	41,827	33,864	24,465

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 £8,792,000 (2020: £146,633).

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

18. Creditors: Amounts falling due within one year

	Note	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Obligations under finance lease and hire purchase contracts	20	2,188	1,413	-	-
Trade creditors		35,005	27,132	-	125
Deferred consideration		262	358	261	358
Amounts owed to group undertakings		6,206	13,110	121,933	82,270
Taxation and social security		22,093	26,898	4,671	2,712
Other creditors		20,694	14,687	-	-
Corporation tax		279	-	-	-
Accruals and deferred income		22,102	16,011	2,645	2,195
Deferred taxation (note 21)		-	-	17	-
		<u>108,829</u>	<u>99,609</u>	<u>129,527</u>	<u>87,660</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 2021 (continued)

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

	Note	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Obligations under finance lease and hire purchase contracts	20	5,932	3,133	-	-
Long term loan		20,747	55,392	1,894	49,838
Amounts owed to group undertakings		8,299	4,482	5,496	5,496
Other creditors		753	741	-	-
Accruals and deferred income		702	456	-	-
		<u>36,433</u>	<u>64,204</u>	<u>7,390</u>	<u>55,334</u>

The long term loan is the loan obtained from the parent company, PCC Global Limited (formerly Grenadier (UK) Limited). Interest is charged at 1.19% and there is currently no fixed repayment date

20. Finance Lease

The future minimum lease payments are as follows:

	Group 30 June 2021 £'000	Group 30 June 2020 £'000	Company 30 June 2021 £'000	Company 30 June 2020 £'000
Not later than 1 year	2,460	1,535	-	-
Later than 1 year and not later than 5 years	6,235	3,282	-	-
Total gross payments	8,695	4,817	-	-
Less: finance charges	(575)	(271)	-	-
Carrying amount of liability	8,120	4,546	-	-

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

21. Deferred taxation Group

	30 June 2021 £'000	30 June 2020 £'000
At 1 July	2,055	1,070
Charged to the profit or loss	2,751	557
Acquisitions	140	428
At 30 June	<u>4,946</u>	<u>2,055</u>

The deferred tax asset is made up as follows:

	30 June 2021 £'000	30 June 2020 £'000
Accelerated capital allowances	6,095	7,660
Short term timing differences	(4,788)	(5,605)
Losses and other deductions	3,639	-
	<u>4,946</u>	<u>2,055</u>

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

22. Provision for liabilities

Group	Dilapidation provision £'000	Onerous provisions £'000	Redundancy provisions £'000	ACP provisions £'000	Other provisions £'000	Total £'000
At 1 July 2020	2,821	124	2,824	189	94	6,052
Charged to the profit or loss	505	1,651	(859)	-	-	1,297
Acquisition	100	-	-	-	-	100
Utilised in the year	(107)	-	(1,491)	(21)	(93)	(1,712)
At 30 June 2021	3,319	1,775	474	168	1	5,737

The dilapidation provisions represents the estimated cost of repairs required under all current property rentals prior to the end of the lease term.

The onerous provision represents amounts provided for rent exposure on premises vacated as part of the rationalisation of business operations.

The redundancy provision relates to the rationalisation of trading activities.

The ACP (Annual Compensation Payments) provision represents amounts due to former employees of RR Donnelley Print & Media Services Limited, which have been calculated in accordance with the terms of their employment contract at that time based on their expected remaining lives.

Other provisions relates to acquisition transactions by the group and it represents the ongoing contractual commitments made pre-administration for which Paragon Customer Communications (London) Limited are liable to fulfil.

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

23. Called-up Share Capital

	30	30
	June	June
	2021	2020
	£'000	£'000
Allotted, called up and fully paid		
5,095,957,226 (2020: 3,037,857,226) - A Ordinary shares of £0.01 each	50,960	30,379
2,840,971 (2020: 2,840,971) - B Ordinary shares of £0.01 each	28	28
1,226,689 (2020: 1,226,689) - Deferred shares of £0.01 each	12	12
	<u>51,000</u>	<u>30,419</u>

2,058,075,114 new Class A Ordinary shares were issued, allotted and fully paid for at par on 28 January 2021.

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 2021 (continued)

24. Reconciliation of operating loss to net cash inflow from operating activities

	30 June	30 June
	2021	2020
Group	£'000	£'000
Loss for the financial year	(1,427)	(4,849)
Adjustments for:		
Tax on loss	(2,153)	(421)
Net interest expense	285	2,732
Income from participating ventures	(443)	(163)
Group operating loss	(3,738)	(2,701)
Depreciation of tangible assets	9,503	7,951
Amortisation of goodwill	1,465	829
Amortisation of negative goodwill	(1,600)	(1,346)
Amortisation of intangible assets	12,024	10,704
Impairment of goodwill	35	-
Loss on disposal of tangible and intangible assets	19	126
Operating cash inflow before working capital movements	17,708	15,563
Decrease/(increase) in stocks	250	(596)
Decrease in debtors	3,024	26,890
Increase in creditors and provisions	9,074	11,784
Working capital movements	12,348	38,078
Net cash inflow from operating activities	30,056	53,641

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

25. Financial instruments

Group

The group has the following financial instruments:

	Note	30 June 2021 £'000	30 June 2020 £'000
Financial assets that are debt instruments measured at amortised cost			
Trade receivables	16	5,980	6,796
Other receivables	16	4,721	4,966
Amounts owed by joint ventures and associated undertakings	16	496	231
		<u>11,197</u>	<u>11,993</u>
Financial liabilities measured at amortised cost			
Taxation and social security	18	(22,093)	(26,898)
Trade creditors	18	(35,005)	(27,132)
Deferred consideration	18	(262)	(358)
Accruals and deferred income	18/19	(22,804)	(16,467)
Intercompany loan	18/19	(35,252)	(68,502)
Finance lease	20	(8,120)	(4,546)
Other creditors	18/19	(21,447)	(15,428)
		<u>(144,983)</u>	<u>(159,331)</u>

The net debt, made up of external borrowings plus intercompany loan less cash/bank balance, as at 30 June 2021 is £231,000 (2020: £18,258,000).

Company

The company has the following financial instruments:

	Note	30 June 2021 £'000	30 June 2020 £'000
Financial assets that are debt instruments measured at amortised cost			
Other receivables	16	2,165	4,810
Amounts owed by group undertakings	16	17,000	17,000
		<u>19,165</u>	<u>21,810</u>
Financial liabilities measured at amortised cost			
Trade creditors	18	-	(125)
Taxation and social security	18	(4,671)	(9,794)
Accruals and deferred income	18	(2,645)	(2,195)
Intercompany loan	19	(7,390)	(49,838)
		<u>(14,706)</u>	<u>(61,952)</u>

Paragon Customer Communications Limited
Notes to the Financial Statements
for the year ended 30 June 2021 (continued)

26. Pension commitments

The group operates a defined contribution pension scheme for its directors and staff. The pension cost in the year was £3,508,000 (2020 - £3,389,035). At the end of the year £411,000 (2020 - £698,997) 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	Others	Land and buildings	Others
	30	30	30	30
	June	June	June	June
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Expiry date:				
Not later than 1 year	5,807	3,566	5,680	2,740
Later than 1 year and not later than 5 years	14,671	5,337	10,232	2,182
Later than 5 years	995	-	2,675	-
	<u>21,473</u>	<u>8,903</u>	<u>18,587</u>	<u>4,922</u>

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

28. Business combinations

On 1st July 2020, Paragon Customer Communications UK Group acquired 100% control of Print Trade Suppliers Limited and Global Document Systems Limited both of which used to be members of the wider Paragon Group. The trade and assets of FM Business which was part of Paragon Group UK Limited was also acquired on 1st October 2020 and combined with the operations of one of its subsidiaries, Paragon Customer Communications (London) Limited. The acquisition of Promo International Limited was also completed on 3rd November, 2020. The total cash consideration for all acquisitions during the year was £6,911,000.

	Print Trade Suppliers Limited £'000	Global Document Systems Limited £'000	FM Business £'000	Promo International Limited £'000	Total £'000
Property, plant and equipment	527	144	61	-	732
Technology assets	58	20	-	-	78
Deferred tax asset	-	58	-	-	58
Non current assets	585	222	61	-	868
Stock	393	395	5	-	793
Trade and other receivables	4,293	1,621	39	-	5,953
Cash and cash equivalents	766	385	-	-	1,151
Current assets	5,452	2,401	44	-	7,897
Total assets	6,037	2,623	105	-	8,765
Trade and other payables	5,054	3,602	-	-	8,656
Provisions	100	-	-	-	100
Total liabilities	5,154	3,602	-	-	8,756
Net assets/(liabilities)	883	(979)	105	-	9
Fair value consideration	1,438	1,438	4,000	35	6,911
Goodwill on acquisition	555	2,417	3,895	35	6,902

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

29. Related party transactions

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

		30 June 2021 £'000	30 June 2020 £'000
dsi Billing Services Limited (50% ownership)	Sales	4,245	3,383
	Purchases	(2)	(6)
	Management charges	61	61
	Dividend received	200	240
European Direct Mailing Specialists Limited (50% ownership)	Sales	-	6
	Management charges	-	-
Response Handling Centre Limited	Management charges	-	-

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

	30 June 2021 £'000	30 June 2020 £'000
dsi Billing Services Limited	496	231
European Direct Mail Specialists Limited	-	-

30. Controlling party

The immediate parent undertaking is PCC Global Limited (formerly Grenadier (UK) Limited) 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. Paragon Group Limited is the largest group of undertakings to consolidate these financial statements. The consolidated financial statements of Paragon Group Limited can be obtained from its registered office, Park House, Lower Ground Floor, 16/18 Finsbury Circus, London, EC2M 7EB.

31. Post balance sheet events

There are no post balance sheet events to report in these accounts.

Paragon Customer Communications Limited

Notes to the Financial Statements for the year ended 30 June 2021 (continued)

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

Underlying operating profit

	30 June 2021 £'000	30 June 2020 £'000
Operating loss	(3,738)	(2,701)
Add back:		
Acquisition and synergy costs*	4,799	3,066
Provision for site restructuring**	9,988	9,485
Underlying operating profit	<u>11,049</u>	<u>9,850</u>

Underlying EBITDA

	30 June 2021 £'000	30 June 2020 £'000
Operating loss	(3,738)	(2,701)
Add back:		
Depreciation of tangible assets	9,503	7,951
Amortisation of goodwill	1,465	829
Amortisation of negative goodwill	(1,600)	(1,346)
Amortisation of intangibles	12,024	10,704
Impairment of goodwill	35	-
Acquisition and synergy costs*	4,799	3,066
Provision for site restructuring**	9,988	9,485
Underlying EBITDA	<u>32,476</u>	<u>27,988</u>

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

**These costs relate to the costs of business restructuring excluding the costs related to acquisition and related synergy activities. Included in these costs are the costs related to the announced closure of the PCC Redruth, Gateshead and Park House locations and staff restructuring at Leicester, Sunderland and Dagenham including Covid compliant adaptations costs to buildings during the year. The prior year costs include the commencement of the closure of Redruth location and Hertford office, this provision represents all closure costs in relation to these facilities.