Paperchase Worldwide Holdings Limited

Report and Financial Statements

For the 52 weeks ended 28 January 2017

TUESDAY
A6HQ7WU1
A14 24/10/2017 #192
COMPANIES HOUSE

Company Information

Directors
D Bateman
T Melgund
R Warden
S Howes
G Heddle
G Mrkonic
N Wood (chairman)

Secretary
K Heath

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Lloyds Banking Group
25 Gresham Street
London EC2V 7HN

National Westminster Bank Plc
PO Box 8032
3 Upper Street
London N1 6QF

Registered Office
12 Alfred Place
London WC1E 7EB

Registered Number
07289204

Strategic Report

The directors present their strategic report and financial statements for the 52 weeks ended 28 January 2017.

Principal activity and strategic review of the business

The company's principal activity is to act as a parent undertaking for Paperchase Worldwide Group Limited and its subsidiary companies (the Paperchase group).

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

Principal risks and uncertainties

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

The principal risks and uncertainties are broadly grouped as follows:

Commercial risks

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

Currency risks

Foreign currency exposure is due to the international expansion of the group's operations and inventory purchases from overseas. The group aims to manage its assets and liabilities denominated in foreign currency to minimise foreign exchange risk and to ensure sufficient availability of working capital. The group engages in a number of forward currency contracts up to 24 months in advance to limit the risk of exposure to foreign currencies on future inventory purchases.

Liquidity and interest rate risks

In October 2015 the group secured a new six-year refinancing consisting of a term loan of £32m from Permira Credit Solutions and a £14m revolving credit facility from Lloyds Banking Group. The revolving credit facility continues to support working capital requirements with capital expenditure funded by cash generated by the business.

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

The group is exposed to interest rate risk due to the variable interest rate on the credit facility term loan. The risk is partly offset by having a proportion of the term loan interest settled by way of 'payment-in-kind' (PIK) interest .The PIK interest rolls up with the loan annually and is paid at the end of the facility. The rest of the interest obligations are monitored and forecast alongside the cash flow forecasts.

Strategic Report (continued)

Developments in the period

The company is a holding company and holds a direct investment in Paperchase Worldwide Group Limited, a financing company, and through this an indirect investment in Paperchase Products Limited, whose developments in the period are discussed below. There are no significant developments for the company itself in the period.

Trading results for Paperchase Products Limited for the period reflected the challenging economic environment. The ongoing development of the business is built on the effectiveness of the management team and staff, who performed well in testing conditions, as well as the Brand's appeal.

Cash generation from operating activities remains robust with the majority of those funds re-invested in the continued growth of the business.

The group continued its UK expansion by opening 12 standalone stores and three concession store during the period. The group also opened one new franchise store in the Middle East. During the same period four unprofitable UK concessions and three Dutch concessions were closed.

The group will continue to look to grow its sales and profit in the UK through delivering higher sales density in its existing portfolio and adding new standalone stores when the opportunities arise. Further international opportunities continue to be explored through potential partnerships and franchises. The group is also focused on realising the potential of multi-channel retailing and utilising new technology to support growth.

Key performance indicators

The group uses a range of performance measures in order to monitor and manage the business. These measures comprise both financial and non-financial aspects and are utilised on a daily basis in the operation of the business and include:

- Total turnover growth
- Like for like sales growth
- Other operating income growth (wholesale and franchise)
- Store sales per square foot
- Customer footfall
- Customer conversion rate
- Average transaction value
- Profit before tax
- EBITDA (Earnings before interest, tax, depreciation and amortisation)
- EBITDA as a percentage of turnover
- Cash generation
- Product margin by store, region and product category
- Stock turn and aged stock profile
- Staff turnover
- Investment reviews and new store payback periods

Strategic Report (continued)

Key performance indicators (continued)

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

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000	Change %
Group turnover	124,529	119,185	4%
Other operating income	998	1,192	-16%
EBITDA	8,276	9,653	-14%
Group (loss)/profit before tax	(2,381)	1,165	-304%
Gross profit margin	18%	20%	-2%
EBITDA excluding exceptional items	9,640	11,050	-13%
EBITDA excluding exceptional items as a % of turnover	8%	9%	-1%
Profit before tax and interest excluding exceptional items	3,458	5,196	-33%

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding operating exceptional items is calculated by adjusting for costs associated with the closure of a number of concessions, pre-opening occupancy costs relating to new stores and impairments for underperforming stores. These exceptional items are of a non-recurring and material nature and are therefore presented separately to give a clearer presentation and understanding of the group's results.

The group grew turnover in a challenging retail environment and invested in further growth which impacted profit and EBITDA levels.

On behalf of the Board

Timothy Melgund

Timothy Melgund
Director

25 JUL 2017

Directors' Report

The directors present their report and financial statements for the 52 weeks ended 28 January 2017.

Results and dividends

The group loss for the period after taxation amounted to £2,318,000 (52 weeks ended 30 January 2016 – profit of £218,000). The directors did not declare or pay an interim dividend in the year (52 weeks ended 30 January 2016 – £2,995,000). The directors do not recommend a final dividend (52 weeks ended 30 January 2016 – £nil).

Future developments

The directors of the group aim to continue the strategy that has resulted in the group's growth so far taking into account market conditions including political and economic uncertainty. This involves further investment in new standalone stores in the UK underpinned by the successful Treat Me loyalty programme, the growing online retail channel, overseas retail opportunities and the central infrastructure to underpin this expansion. This strategy is consistent with previous years and is wholly aligned with the wishes of Primary Capital, the principal investors in the business.

The directors believe the Paperchase group to be well-positioned to continue its growth both in the UK and internationally

Directors

The directors who served the company during the period and up to the date of signing this report were as follows:

D Bateman
T Melgund
G Heddle
S Howes
G Mrkonic

R Warden resigned as a director on 31st May 2017.
N Wood was appointed as company chairman on 6th January 2017.

Going concern

The directors of the Paperchase group have carefully considered the group's forecast performance and cash flows for the next 12 months, and the requirements to meet a number of financial covenants related to the group's borrowing. These have been appraised in the light of the current economic climate and on a number of forecast scenarios. Key assumptions include the levels of forecast revenue, the level of profitability and working capital performance. The group have used a combination of long term trends and internal analysis for this assessment.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility and covenants. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the group's and company's financial statements.

Directors' Report (continued)

Disabled employees

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

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

Employee involvement

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

Creditors payment policy

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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

Political and charitable contributions

During the period, the group made charitable contributions totalling £285,594 (52 weeks ended 30 January 2016 – £296,783) in connection with sale of charity greeting cards.

On behalf of the Board

Timothy Melgund

Timothy Melgund
Director

25 JUL 2017

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland)). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Paperchase Worldwide Holdings Limited

We have audited the financial statements of Paperchase Worldwide Holdings Limited for the 52 weeks ended 28 January 2017 which comprise the Group Income Statement, the Group Consolidated Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the group'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 group'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 group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parents circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and company's affairs as at 28 January 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report (continued)

to the members of Paperchase Worldwide Holdings Limited

Opinion on other matter 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP

Dave Hales (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London

25/7/17

Group income statement

for the period ended 28 January 2017

52 weeks ended 28 January 2017	Note	Trading profit £000	Store opening and closure costs £000	Exceptional items (note 9) £000	Total profit £000
Turnover	2	124,529	–	–	124,529
Cost of sales		(100,595)	(571)	(659)	(101,825)
Gross Profit		23,934	(571)	(659)	22,704
Distribution costs		(5,297)	–	-	(5,297)
Administrative expenses		(16,177)	(34)	(100)	(16,311)
Other operating income		998	–	–	998
Operating Profit	3	3,458	(605)	(759)	2,094
Interest receivable and similar income	6	22	–	–	22
Interest payable and similar charges	7	(4.497)	–	–	(4,497)
Loss on ordinary activities before taxation		(1,017)	(605)	(759)	(2,381)
Tax on loss on ordinary activities	8	63	–	–	63
Loss for the financial period		(954)	(605)	(759)	(2,318)

52 weeks ended 30 January 2016 (restated)	Note	£000	£000	£000	£000
Turnover	2	119,185	–	–	119,185
Cost of sales		(94,643)	(316)	(263)	(95,222)
Gross Profit		24,542	(316)	(263)	23,963
Distribution costs		(4,877)	–	–	(4,877)
Administrative expenses		(15,661)	–	(818)	(16,479)
Other operating income		1,192	–	–	1,192
Operating Profit	3	5,196	(316)	(1,081)	3,799
Interest receivable and similar income	6	429	–	–	429
Interest payable and similar charges	7	(3,063)	–	–	(3,063)
Profit on ordinary activities before taxation		2,562	(316)	(1,081)	1,165
Tax on profit on ordinary activities	8	(947)	–	–	(947)
Profit/(loss) for the financial period		1,615	(316)	(1,081)	218

All amounts relate to continuing activities.

Group statement of comprehensive income

for the period ended 28 January 2017

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
(Loss)/profit for the financial period	(2,318)	218
Foreign exchange difference on retranslation of overseas subsidiaries	(19)	27
Total comprehensive loss for the financial period	(2,337)	245

Group statement of financial position

at 28 January 2017

	Notes	28 January 2017 £000	30 January 2016 £000 (restated)
Fixed assets			
Goodwill	10	1,435	1,849
Property, plant and equipment	11	23,935	24,656
		25,370	26,505
Current assets			
Inventories	13	17,738	16,390
Debtors: amounts falling due within one year	14	7,056	7,622
Cash at bank and in hand		7,926	7,160
		32,720	31,172
Creditors: amounts falling due within one year	15	(28,729)	(26,666)
Net current assets		3,991	4,506
Total assets less current liabilities		29,361	31,011
Creditors: amounts falling due after more than one year	16	(34,240)	(33,475)
Provisions for liabilities	17	(576)	(636)
Net liabilities		(5,455)	(3,100)
Capital and reserves			
Called up share capital	18	39	40
Share premium account	19	2,800	2,800
Profit and loss account	19	(8,294)	(5,940)
Total equity		(5,455)	(3,100)

Approved by the board and signed on its behalf

Timothy Melgund
Director

25 JUL 2017

Company statement of financial position

at 28 January 2017

	Notes	28 January 2017 £000	30 January 2016 £000
Fixed assets			
Investments	12	3,824	3,841
Creditors: amounts falling due within one year	15	(51)	(26)
Net current liabilities		(51)	(26)
Total assets less current liabilities		3,773	3,815
Creditors: amounts falling due after more than one year	16	(1,058)	(886)
Net assets		2,715	2,929
Capital and reserves			
Called up share capital	18	39	40
Share premium account	19	2,800	2,800
Profit and loss account	19	(124)	89
Total equity		2,715	2,929

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. The company results are a loss after tax of £196,000 (52 weeks ended 30 January 2016 – a profit after tax of £2,288,000). The loss consists of costs relating to consultancy fees incurred in the year (52 weeks ended 30 January 2016 – profit consists of dividend income less costs relating to due diligence and consultancy fees incurred in the year.)

Approved by the board and signed on its behalf

Timothy Melgund

Timothy Melgund
Director

25 JUL 2017

Group statement of changes in equity

at 28 January 2017

	Notes	Share capital £000	Share premium account £000	Profit and loss account £000 (restated)	Total £000
At 31 January 2015		34	2,800	(3,605)	(771)
Total comprehensive income for the period		–	–	245	245
Share based payment	24	–	–	415	415
Shares issued		6	–	–	6
Dividends paid	20	–	–	(2,995)	(2,995)
At 30 January 2016		40	2,800	(5,940)	(3,100)
Total comprehensive income for the period		–	–	(2,337)	(2,337)
Share based payment	24	–	–	(17)	(17)
Shares redeemed		(1)	–	–	(1)
Dividends paid	20	–	–	–	–
At 28 January 2017		39	2,800	(8,294)	(5,455)

Included within the share based payment charge for the 52 weeks ended 30 January 2016 of £415,000 is a capital contribution of £503,000. The remainder relates to shares forfeited in the year.

The capital contribution arises as a result of a transfer of the company's shares from employees of a subsidiary company of the group to Primary Capital III (Nominees) Limited (the principal investors in the company) in exchange for loan notes held in another group entity. The loan notes were subsequently redeemed for cash.

Company statement of changes in equity

at 28 January 2017

	Notes	Share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 31 January 2015		34	2,800	381	3,215
Profit for the period		–	–	2,288	2,288
Share based payment	24	–	–	415	415
Shares issued		6	–	–	6
Dividends paid	20	–	–	(2,995)	(2,995)
At 30 January 2016		40	2,800	89	2,929
Profit for the period		–	–	(196)	(196)
Share based payment	24	–	–	(17)	(17)
Shares forfeited		(1)	–	–	(1)
Dividends paid	20	–	–	–	–
At 28 January 2017		39	2,800	(124)	2,715

Group statement of cash flows

for the period ended 28 January 2017

	Notes	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Net cash inflow from operating activities	22(a)	8,984	8,956
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(5,399)	(6,663)
Cash flows from financing activities			
Interest paid		(1,771)	(544)
Dividend paid		-	(2,995)
Long term loan		-	32,000
Fees paid on long term loan		-	(1,842)
Loan stock redeemed		(983)	(29,214)
Shares issued		-	6
(Decrease)/increase in cash		831	(296)
Effect of exchange rates on cash		(65)	27
Cash and cash equivalents at January 2016		7,160	7,429
Cash and cash equivalents at January 2017		7,926	7,160

Notes to the financial statements

at 28 January 2017

1. Accounting policies

Basis of preparation

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

The financial statements are prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the Companies Act 2006. The financial statements represent the 52 weeks ended 28 January 2017 (2016 - 52 weeks ended 30 January 2016). These financial statements are prepared in pound sterling, which is the functional and presentational currency of both the company and the group. Paperchase Worldwide Holdings Limited is incorporated and domiciled in the UK.

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

Group financial statements

The group financial statements incorporate the results of Paperchase Worldwide Holdings Limited and all of its subsidiary undertakings as at 28 January 2017. The results of subsidiary undertakings are included from the date of acquisition.

The group has chosen to apply the exemption under Section 19 of FRS 102 not to restate any business combinations that were effected prior to the group's date of transition to FRS 102.

Revenue recognition

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

Other operating income

Other income represents amounts receivable in relation to overseas franchising and wholesale arrangements. Revenue from franchising arrangements is recognised when the group obtains the right to consideration in exchange for its performance, namely at the invoice date. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

Exceptional items

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

Notes to the financial statements

at 28 January 2017

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at spot rate or the monthly exchange rate where used as a practical expedient, depending on currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement within cost of sales.

The results of overseas operations are translated at the average rates of exchange during the period and the balance sheet translated at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from the translation of the opening net assets and results of foreign subsidiary undertakings are taken to other comprehensive income.

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Share-based payments

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

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

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

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

Pension costs

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

Notes to the financial statements

at 28 January 2017

1. Accounting policies (continued)

Financial instruments

Derivative financial instruments

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

Interest-bearing loans and borrowings

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

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is calculated as the excess of the cost of the business acquisition over the net amount of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is recognised on the balance sheet and amortised through the income statement on a straight line basis over the directors' estimate of its useful life which is 10 years.

Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

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

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

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

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

Notes to the financial statements

at 28 January 2017

1. Accounting policies (continued)

Investments

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Short-term debtors and creditors

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

Leasing commitments

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

Correction of prior period errors

The prior period has been corrected and restated. The depreciation balance at 30 January 2016 has been restated due to an error in the calculation performed in prior year to reassess the useful economic lives of Paperchase fixed assets. The total adjustment is a decrease to the depreciation balance of £1,116,000, with £267,000 of this adjustment falling into the period to 30 January 2016, and the remaining £849,000 falling into periods up to 31 January 2015 and earlier. The prior year deferred taxation creditor and deferred tax charge have also been restated due to the effect of this error.

The prior year inventory balance has been also restated to reflect increased level of accuracy over timing of stock ownership for stock in transit. The prior year inventory balance has been increased by £566,000.

Going concern

The directors of the Paperchase group have carefully considered the group's forecast performance and cash flows for the next 12 months, and the requirements to meet a number of financial covenants related to the group's borrowing. These have been appraised in the light of the current economic climate and on a number of forecast scenarios.

Notes to the financial statements

at 28 January 2017

1. Accounting policies (continued)

Going concern (continued)

Key assumptions include the levels of forecast revenue, the level of profitability and working capital performance. The group have used a combination of long term trends and internal analysis for this assessment.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facility and covenants. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the group's and company's financial statements

2. Turnover

Turnover, which is stated net of value added tax, represents amounts received and receivable from the group's continuing principal activity, the design and retail of greeting cards, stationery, gifts, wrap and art materials.

An analysis of turnover by geographical market is given below:

	52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
	£000	£000
United Kingdom	119,154	113,925
Europe	4,769	4,977
Canada	606	283
	124,529	119,185

Notes to the financial statements

at 28 January 2017

3. Operating profit

This is stated after charging/(crediting):

			52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Auditor's remuneration	–	audit of the financial statements	11	11
	–	audit of subsidiaries	128	74
	–	audit fees for FRS 102 transition work	-	30
	–	taxation compliance services	33	25
	–	audit related assurance services	10	12
	–	other non audit services	60	105
Depreciation (note 11)			5,768	5,440
Amortisation of goodwill (note 10)			414	414
Operating lease rentals	–	land and buildings	20,614	19,242
	–	Plant and machinery	144	126
Loss on disposal of fixed assets			97	20
Impairment of fixed assets			300	318
Onerous lease provision			(60)	(54)
Foreign exchange loss/(gain)			237	(612)

Other operating income of £998,000 represents amounts receivable in relation to overseas franchising and wholesale arrangements.

Notes to the financial statements

at 28 January 2017

4. Remuneration of directors and key management

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

Group	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Total key management remuneration in respect of qualifying services	1,746	1,521
Share based payments	-	503
Value of group pension contributions to money purchase schemes	31	150
	No.	No.
Members of money purchase pension schemes	12	10

Included in total remuneration is an expense of £nil (2016 – £503,000) related to a share transfer by members of the senior management team.

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

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Remuneration	339	295
Value of group pension contributions to money purchase schemes	5	55

Company

The company's directors' remuneration is paid for by other group undertakings. The other group undertakings have not recharged any amount to the company (52 weeks ended 30 January 2016 – nil) on the basis that the amount attributable to the company is negligible.

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

Notes to the financial statements

at 28 January 2017

5. Staff costs

Group	52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
	£000	£000
Wages and salaries	25,045	23,642
Social security costs	1,720	1,562
Staff pension contributions	265	398
	27,030	25,602

Included in wages and salaries is a total credit for share-based payments of £17,000 (2016 – £415,000) arising from equity-settled, share-based payment transactions.

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

	52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
Purchasing and stock control	90	78
Administration and finance	145	132
Sales and display	1,802	1,796
	2,037	2,006

6. Interest receivable and similar income

	52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
	£000	£000
Revaluation of foreign currency derivatives	-	409
Bank interest receivable	22	20
Total interest receivable and similar income	22	429

Notes to the financial statements

at 28 January 2017

7. Interest payable and similar charges

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000
Loan note interest	63	2,101
Amortisation of loan note fees	-	18
Long term loan interest	2,792	705
Revaluation of foreign currency derivatives	1,386	-
Bank interest payable	255	235
Other interest payable	1	4
Total interest payable and similar charges	4,497	3,063

8. Tax

(a) Tax on profit on ordinary activities

The tax (credit)/charge is made up as follows:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Current tax:		
UK corporation tax on the profit for the period	115	73
Foreign tax	9	14
Adjustments relating to prior periods	-	34
Total current tax	124	121
Deferred tax:		
Origination and reversal of timing differences	(187)	826
Tax (credit)/charge on profit on ordinary activities	(63)	947

Notes to the financial statements

at 28 January 2017

8. Tax (continued)

(b) Factors affecting total tax (credit)/charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 20% (52 weeks ended 30 January 2016 –20.2%). The differences are explained below:

	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
(Loss)/profit on ordinary activities before tax	(2,381)	1,165
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 20% (52 weeks ended 30 January 2016 – 20.2%)	(476)	235
Effects of:		
Expenses not deductible for tax purposes	397	694
Foreign tax	9	14
Movement in deferred tax asset not recognised	-	9
Effect of decreased tax rate on deferred tax balance	7	(39)
Adjustments relating to prior periods	-	34
Total tax (credit)/expense for the period (note 8(a))	(63)	947

Notes to the financial statements

at 28 January 2017

8. Tax (continued)

(a) Deferred tax

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

Group	52 weeks ended 28 January 2017 £000	52 weeks ended 30 January 2016 £000 (restated)
Included in (creditors) (note 15)	(36)	(223)
Depreciation in excess of capital allowances	60	(96)
Other timing differences	(96)	(127)
Deferred tax liability	(36)	(223)

	£000
At 31 January 2016	(223)
Deferred tax credit in the profit and loss account arising during the period	187
At 28 January 2017	(36)

Deferred tax is recognised on the basis that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is recognised on an undiscounted basis.

(d) Factors that may affect future tax charges

The Finance (No2) Act 2015 reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. Finance Act 2016 enacted a further reduction in the main rate to 17% with effect from 1 April 2020. These changes have been incorporated into the balance sheet calculations at 28 January 2017.

The prior year deferred taxation creditor and deferred tax charge have been restated. This is due to the deferred tax effect of a restatement of fixed asset deprecation balances in prior years. This is further discussed in note 11. The taxation reconciliation has also been restated.

Notes to the financial statements

at 28 January 2017

9. Exceptional items

The exceptional items disclosed on the face of the profit and loss account are as follows:

	52 weeks ended 28 January 2017	52 weeks ended 30 January 2016
	£000	£000
Impairments	(299)	(263)
Onerous lease provision	60	-
Lakeside store provision	(420)	-
Restructuring provision	(100)	-
Deal fees	-	(718)
Transition costs	-	(100)
	(759)	(1,081)

10. Goodwill

Group	Goodwill
	£000
Cost:	
At 30 January 2016 and 28 January 2017	4,138
Amortisation:	
At 30 January 2016	2,289
Provided for the period	414
At 28 January 2017	2,703
Net book value:	
At 28 January 2017	1,435
At 30 January 2016	1,849

Goodwill arising from the acquisition of Paperchase Products Limited is being amortised evenly over the directors' estimate of its useful life of 10 years.

The goodwill amortisation is included within administrative expenses in the income statement.

Notes to the financial statements

at 28 January 2017

11. Property, plant and equipment

Group	Leasehold improvements, furniture, fixtures and fittings	Computer hardware and software	Total
	£000	£000	£000
Cost:			
At 30 January 2016	50,189	9,722	59,911
Additions	4,221	1,178	5,399
Disposals	(637)	(2,404)	(3,041)
Forex on consolidation	112	-	112
At 28 January 2017	53,885	8,496	62,381
Depreciation:			
At 30 January 2016 (restated)	27,990	7,265	35,255
Provided during the period	4,269	1,499	5,768
Disposals	(541)	(2,403)	(2,944)
Impairments	300	-	300
Forex on consolidation	67	-	67
At 28 January 2017	32,085	6,361	38,446
Net book value:			
At 28 January 2017	21,812	2,123	23,935
At 30 January 2016	22,199	2,457	24,656

The impairment charge of £300,000 is the result of asset value reduction in stores where cash generation no longer justifies the carrying value.

The impairment charge is included within cost of sales in the income statement.

The depreciation balance at 30 January 2016 has been restated. This is due to an error in the calculation performed in prior year to reassess the useful economic lives of Paperchase fixed assets. The total adjustment is a decrease to the depreciation balance of £1,116,000, with £267,000 of this adjustment falling into the period to 30 January 2016, and the remaining £849,000 falling into periods up to 31 January 2015 and earlier. All affected balances in the prior year comparatives have been restated.

Notes to the financial statements

at 28 January 2017

12. Investments

Company

	Group undertakings £000
Cost:	
At 30 January 2016	3,841
Reduction	(17)
At 28 January 2017	3,824

The movement in the investment balance in the year related to a share-based payments adjustment of £17,000 as discussed in note 24.

Subsidiary undertakings	Class of shares	Value	Percentage of ordinary shares
Paperchase Worldwide Group Limited	£1 ordinary	£1	100%
Paperchase Products Limited	£1 ordinary	£1	100%
Paperchase Limited (dormant)	£1 ordinary	£1	100%
Paperchase Designs Limited (dormant)	£1 ordinary	£1	100%

These companies are incorporated in the UK.

The principal activity of Paperchase Worldwide Group Limited is to act as a parent undertaking for Paperchase Products Limited. The principal activities of Paperchase Products Limited are the retail sale of gifts, stationery, greeting cards and art materials.

The following company is incorporated in the Republic of Ireland:

Paperchase Designs Ireland Limited	€1 ordinary	€1	100%

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

The following company is incorporated in Canada:

Paperchase Canada Retail Limited	CAD1 ordinary	CAD1	100%

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

The following company is incorporated in the USA:

Paperchase Retail Incorporated	USD1 ordinary	USD10,000	100%

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

Notes to the financial statements

at 28 January 2017

12. Investments (continued)

All companies with the exception of Paperchase Worldwide Group Limited are indirectly owned. Paperchase Worldwide Group Limited directly owns Paperchase Products Limited. Paperchase Products Limited directly owns Paperchase Designs Ireland Limited, Paperchase Canada Retail Limited, Paperchase Limited (dormant) and Paperchase Designs Limited (dormant).

13. Inventories

		Group		Company
	28 January 2017	30 January 2016	28 January 2017	30 January 2016
	£000	£000 (restated)	£000	£000
Consumables	295	262	–	–
Finished goods	13,613	13,165	–	–
Stock in transit	3,830	2,963	–	–
	17,738	16,390	–	–

The stock in transit balance has increased on prior year due to the timing of Chinese New Year. The prior year balance has been restated to reflect increased level of accuracy over timing of stock ownership for stock in transit. The prior year inventory balance has been increased by £566,000.

14. Debtors: amounts falling due within one year

		Group		Company
	28 January 2017	30 January 2016	28 January 2017	30 January 2016
	£000	£000 (restated)	£000	£000
Trade debtors	1,086	1,232	–	–
Other debtors	80	65	–	–
Prepayments and accrued income	5,299	4,360	–	–
Payments on account	39	70	–	–
Derivative financial instruments (note 23)	103	1,489	–	–
Corporation tax	449	406	–	–
	7,056	7,622	–	–

Notes to the financial statements

at 28 January 2017

15. Creditors: amounts falling due within one year

	Group		Company	
	28 January 2017	30 January 2016	28 January 2017	30 January 2016
	£000	£000 (restated)	£000	£000
Loan notes	–	899	–	–
Accrued interest on loan notes	–	21	–	–
Accrued interest on long term loan	52	62	–	–
Trade creditors	11,237	10,525	–	–
Deferred taxation (note 8(c))	36	223	–	–
Other taxation and social security costs	1,715	1,296	–	–
Other creditors	438	382	–	–
Accruals and deferred income	14,716	13,214	51	26
Pension accrual	35	44	–	–
Bank facility	500	–	–	–
	28,729	26,666	51	26

The prior year trade creditor balance has been restated to reflect increased level of accuracy over timing of stock ownership for stock in transit.

The prior year deferred taxation creditor has also been restated. This is due to the deferred tax effect of a restatement of fixed asset deprecation balances in prior years. This is further discussed in note 11.

Maturity of debt:

Loan notes and accrued interest on loan notes

	28 January 2017	30 January 2016
	£000	£000
Within one year	–	920
In one to two years	–	–
In two to five years	–	–
	–	920
Issue costs to be amortised	–	–
	–	920

Notes to the financial statements

at 28 January 2017

15. Creditors: amounts falling due within one year (continued)

Loan notes issued	Maturity	Interest rate	Nominal 28 January 2017 £000	Nominal 30 January 2016 £000
A Loan notes	Jan 2018	9%	–	899
B Loan notes	Jan 2018	10%	–	–
C Loan notes	Jan 2018	10.75%	–	–
D Loan notes	Jan 2018	11.5%	–	–
			–	899

The loan notes are unsecured. The fair value of the loan notes approximates to the book value. The effective average interest rate is 12.31%.

Interest on the loan notes accrues daily and is payable annually in arrears on 31 January. At the option of the group, with the consent of the majority holder of the loan notes, the interest on the loan notes will be settled by the issue of further payment-in-kind loan notes (PIK notes) on an annual basis. The PIK notes have the same terms and maturity as the principal loan notes.

The principal loan notes of £18,166,667 were listed on the Channel Islands Stock Exchange on 27 January 2011. PIK notes of £866,028 were issued to Primary Capital and listed on the Channel Islands Stock Exchange on 31 January 2011. Further PIK notes were issued to Primary Capital on 31 January 2012 (£1,904,256), 31 January 2013 (£2,102,697), 31 January 2014 (£2,309,953), and 31 January 2015 (£2,544,198). These PIK notes were listed on the Channel Islands Stock Exchange on the respective dates they were issued.

On 29 October 2015, the majority of the then issued loan notes and PIK notes were redeemed by the group, along with the accrued interest up to the date of refinancing and the bridging loan interest. This was part of a group refinancing, and was funded by a new long term loan, which is discussed in note 16. The terms on the remaining loan notes were unchanged. PIK notes of £20,848 were issued to Primary Capital and listed on the Channel Islands Stock Exchange on 31 January 2016.

The full remaining loan notes and PIK notes were redeemed by the group on 1 November 2016, along with the accrued interest up to the same date. All loan notes were delisted from the Channel Islands Stock Exchange on redemption.

Liquidity risk and interest rate risk are discussed in the strategic report on page 2.

Notes to the financial statements

at 28 January 2017

16. Long term borrowings

	Group		Company	
	28 January 2017	30 January 2016	28 January 2017	30 January 2016
	£000	£000	£000	£000
Long term loan	31,740	30,475	-	–
Bank facility	2,500	3,000	-	–
Amounts owing to group undertakings *	-	–	1,058	886
	34,240	33,475	1,058	886

* Amounts owing to group undertakings relate to administrative and professional fees paid on behalf of the company by the company's subsidiary Paperchase Products Limited. No interest is charged on this balance and it is not repayable for a period of at least 12 months from the date of approval of the financial statements.

Maturity of debt:

Long term loan

	28 January 2017	30 January 2016
	£000	£000
Within one year	52	62
In one to two years	–	–
In two to five years	–	–
In more than five years	33,198	32,239
Issue costs to be amortised	(1,458)	(1,764)
	31,792	30,537

Notes to the financial statements

at 28 January 2017

16. Long term borrowings (continued)

Long term loan	Maturity	Interest rate	Nominal 28 January 2017 £000	Nominal 30 January 2016 £000
Long term loan	Oct 2021	Cash Interest: 3.75% + LIBOR PIK Interest: 3.25%	32,000	32,000

The long term loan is unsecured. The fair value of the long term loan approximates to the book value. The effective average interest rate is 9.17% based on the current LIBOR rate and the minimum floor rate of 1% within the facility terms.

Cash interest on the long term loan of 3.75% + LIBOR accrues daily and is payable quarterly in arrears on 15 January, 15 April, 15 July, and 15 October.

PIK interest on the long term loan of 3.25% accrues daily, and is capitalised annually on 29 October each year so as to form part of the long term loan. The capitalised PIK interest has the same terms and maturity as the principal loan.

Liquidity risk and interest rate risk are discussed in the strategic report on page 2.

17. Provisions

	28 January 2017 £000	30 January 2016 £000
Onerous lease provisions	576	636

The majority of the provisions balance relates to an onerous lease on the Paperchase standalone store in the Liverpool Met Quarter shopping centre. The provision was first recognised at 1 February 2014. The lease is due to expire in July 2021.

Notes to the financial statements

at 28 January 2017

18. Issued share capital

Allotted, called up and fully paid	No.	28 January 2017 £	No.	30 January 2016 £
Class A ordinary shares of £0.01 each	2,633,226	26,332	2,333,333	23,333
Class B ordinary shares of £0.01 each	600,103	6,001	899,996	9,000
Class C ordinary shares of £0.01 each	–	–	–	–
Class D ordinary shares of £0.01 each	78,660	787	99,996	1,000
Class E ordinary shares of £1,500 each	4	6,000	4	6,000
Class F ordinary shares of £0.001 each	192,764	193	–	–
Deferred shares of £0.01 each	–	–	40,804	408
		39,313		39,741

During the year 299,893 B shares were converted to A shares, the A and B shares have the same rights. Furthermore, 40,804 deferred shares were redeemed by the company and cancelled.

During the year 192,764 F shares were issued for consideration of £0.001 each. The F shares do not have voting rights but are able to (but not entitled to) be included in dividend distribution.

Dividends shall be distributed amongst the holders of the A ordinary shares, B ordinary shares, and E ordinary shares pari passu according to the number of shares held by the relevant shareholders at the relevant time.

Notes to the financial statements

at 28 January 2017

18. Issued share capital (continued)

On the return of capital on liquidation or otherwise, the surplus assets of the company remaining after the payment of its liabilities shall be applied in the following order of priority

- first, in paying to each holder of A ordinary shares, in respect of each ordinary A share of which it is the holder, an amount equal to the issue price thereof,
- second, in paying to each holder of B ordinary shares and E ordinary shares in respect of each B ordinary share and E ordinary share of which it is the holder, an amount equal to the issue price thereof,
- third, in paying to each holder of C ordinary shares in respect of each C ordinary share of which it is the holder, an amount equal to the issue price thereof,
- fourth, in paying to each holder of Deferred shares in respect of each Deferred share of which it is the holder, an amount equal to £1 for all such shares,
- fifth, to the extent that the balance of such assets (if any) is greater than £100,000, £100,000 shall be distributed amongst the holders of the A Ordinary Shares, the B Ordinary Shares and the E Ordinary Shares (pari passu as if the same constituted one class of Shares) according to the amount paid up or credited as paid up on each such Share, save that for this article the E Ordinary Shares shall be deemed to be paid up to £1; and
- the remaining balance of such assets (if any) shall be distributed among the holders of the A ordinary shares, the B ordinary shares, the D ordinary shares and the E ordinary shares (pari passu as if the same constituted one class of Shares) according to the amount paid up or credited as paid up on each such Share, save that for this article the E Ordinary Shares shall be deemed to be paid up to £1.

In terms of voting rights the A ordinary shares, B ordinary shares, C ordinary shares, D ordinary shares, and E ordinary shares rank pari passu.

19. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares sold.

Notes to the financial statements

at 28 January 2017

20. Dividends

	28 January 2017 £000	30 January 2016 £000
Declared and paid during the year	–	2,995

21. Financial instruments

	Group		Company	
	28 January 2017	30 January 2016	28 January 2017	30 January 2016
	£000	£000 (restated)	£000	£000
Financial assets at fair value through profit and loss				
Foreign currency forward contracts	103	1,489	–	–
Financial assets that are debt instruments measured at amortised cost			–	
Trade debtors	1,086	1,232	–	–
Other debtors	80	65	–	–
Financial liabilities measured at amortised cost			–	
Loan notes	–	920	–	–
Trade creditors	11,237	10,525	–	–
Other creditors	438	382	–	–
Bank facility	3,000	3,000	–	–
Long term loan	33,250	32,301	–	–
Amounts owing to group undertakings	–	–	1,058	886

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates to their fair value.

Notes to the financial statements

at 28 January 2017

22. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	28 January 2017 £000	30 January 2016 £000 (restated)
Group (loss)/profit for the period	(2,381)	1,165
Depreciation of fixed assets	5,768	5,440
Amortisation of goodwill	414	414
Loss on disposal of fixed assets	97	20
Share based payment	(17)	415
Impairment of fixed assets	300	318
Net finance costs	4,475	2,634
(Increase) in inventories	(1,348)	(2,664)
(Increase) in debtors	(777)	(425)
Increase in creditors	2,680	2,703
(Decrease) in provisions	(60)	(54)
Corporation tax paid	(167)	(1,010)
Net cash inflow from operating activities	8,984	8,956

(b) Cash and cash equivalents

	28 January 2017 £000	30 January 2016 £000
Cash at bank in hand	7,926	7,160

Notes to the financial statements
at 28 January 2017

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

	28 January 2017 £000	30 January 2016 £000
Forward foreign currency contracts	103	1,489

Forward foreign currency contracts are recorded on the balance sheet at their fair value and accounted for at fair value through profit and loss. Changes in the fair value are recognised in the consolidated income statement. Transaction costs for instruments which are measured at fair value through profit and loss are expensed to the income statement.

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

24. Share-based payments
On 20 November 2013, shares in Paperchase Worldwide Holdings Limited were issued to senior management of Paperchase Products Limited.

No amounts were paid or payable by the senior management on grant of the shares. The shares carry similar rights to the existing shares in Paperchase Worldwide Holdings Limited. The shares vest fully on a sale of the business or sale of shares of the business; the shares are forfeited if the employee leaves the group before this date.

There were no shares granted in the current or prior period. No shares vested in the current period (period ended 30 January 2016: 35,988 shares vested). There were 10,668 shares forfeited in the current period (period ended 30 January 2016: 10,668 shares forfeited).

During the period the vesting date of the remaining shares was reviewed and extended to May 2019 (period ended 30 January 2016: vesting date of the remaining shares was reviewed and extended to July 2017).

The fair value per share is £2.24 as at the grant date and the vesting date.

The total credit recognised in Paperchase Products Limited during the period for share-based payments was £17,000 (period ended 30 January 2016: expense of £415,000). The credit was due to shares forfeited in the year as well as an extension of the vesting period in the year. The shares are measured at fair value at the date of grant and recognised as an expense over the vesting period. The shares are not publicly traded and hence were valued at an estimated market price based on EBITDA multiples. There are no market conditions or non-vesting conditions affecting the fair value.

Notes to the financial statements

at 28 January 2017

25. Related party transactions

During the period the group and company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 28 January 2017 are as follows:

Group

	Loan notes brought forward £000	Loan notes issued £000	Accrued interest on loan notes £000	Loan notes redeemed £000	Total amounts owed at the period end £000
Primary Capital III (Nominees) Ltd:					
52 weeks ended 28 January 2017	899	21	63	(983)	–
52 weeks ended 30 January 2016	27,894	–	2,101	(29,075)	920

The loan notes remaining at 30 January 2016 were redeemed by the group on 1 November 2016, along with the accrued interest up to the same date.

Group	Sales to related party £000	Purchases from related party £000	Amounts owed from related party £000	Amounts owed to related party £000
Primary Capital III (Nominees) Ltd:				
At 28 January 2017	–	55	–	–
At 30 January 2016	–	56	–	–
Esteem Holdings Limited:				
At 28 January 2017	–	355	–	–
At 30 January 2016	–	265	–	–
Company				
Paperchase Products Limited:				
At 28 January 2017	–	–	–	1,058
At 30 January 2016	–	–	–	886

Primary Capital III (Nominees) Ltd are the principal investors in the company. The transactions between the group and Primary Capital relate to advisory fees.

Esteem Holdings Limited are owned by Primary Capital II (Nominees) Limited a fund managed by Primary Capital Limited.

Notes to the financial statements

at 28 January 2017

25. Related party transactions (continued)

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the group are considered to be key management personnel. Total remuneration is respect of these individuals is £1,746,000 (2016 - £1,521,000).

There are no outstanding loans or other similar transactions between the group or company and the key management team of the group.

26. Other financial commitments

At 28 January 2017 the group had outstanding commitments for future lease payments under non-cancellable operating leases which fall due as follows:

		28 January 2017		30 January 2016
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	19,416	117	20,081	104
In two to five years	56,122	161	62,980	202
Over five years	24,397	-	31,156	–
	99,935	278	114,217	306

27. Ultimate parent undertaking and controlling party

The company is 81% owned by Primary Capital III (Nominees) Limited which is a nominee company which holds the legal title to shares on behalf of Primary III A LP and Primary III B LP, which together own the beneficial interest in those shares and together constitute the Primary III Fund. As a result of these arrangements, there is no ultimate parent undertaking.