International Greetings PLC

International Greetings plc

Annual report and accounts 2011

Welcome to International Greetings

We are one of the world's leading designers, manufacturers, importers and distributors of gift wrap, stationery, gift bags, crackers, greetings cards and accessories.

Our mission is to maximise profit through the creation, production and distribution of our products, by applying increasingly higher operating standards throughout the Group.

Visit us online

Our website contains the most up-to-date news and investor information:

www.internationalgreetings.co.uk

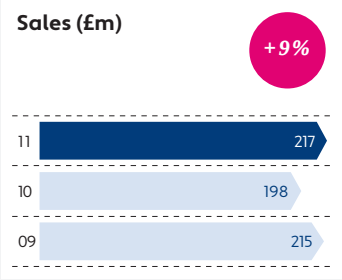
Contents

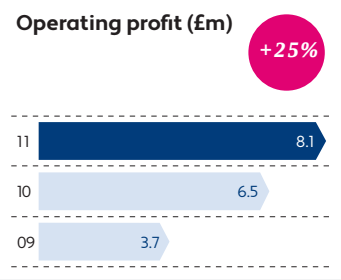
During the year we manufactured in excess of 1.9 billion feet of gift wrap...

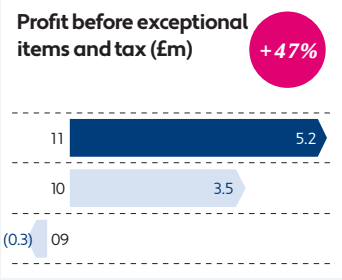
Highlights

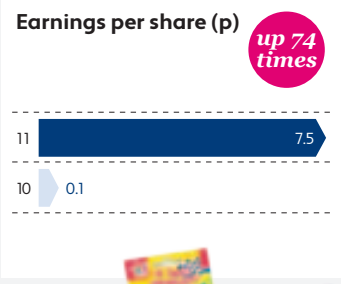
- Sales up 9% to £217 million from continuing operations
- Operating profit before exceptional items up 25% to £8.1 million
- Profit before exceptional items and tax up 47% to £5.2 million (2010 restated: £3.5 million)
- Profit before tax from continuing operations up 76% to £4.3 million
- Profit for the year of £4.9 million (2010: £0.7 million)
- Earnings per share at 7.5p (2010: 0.1p)
- Debt down 9% to £44.4 million (2010: £48.8 million)
- Cash generated from operations of £10.7 million (2010: £27.5 million)
- Everyday single cards successfully launched with six major retailers across the globe

Key figures









Read our full Financial Review on p06 →

... and sold more than 70 million stationery items.

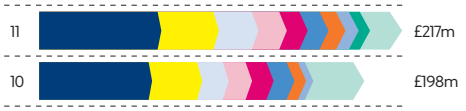
Creating a balanced business

It is our aim to deliver our major revenue streams across a "balanced" portfolio of activities.

We balance by:

- → Product category
- → Customer location
- → Season
- → Brand

Revenue by product category



- Giftwrap £78.0m 36% (2010: £72.6m 37%)
- Books/stationery £38.7m 18% (2010: £34.3m 17%)
- Greetings cards £23.4m 11% (2010: £18.1m 9%)
- Bags/boxes £18.0m 8% (2010: £15.7m 8%)
- Crackers £16.8m 8% (2010: £14.3m 7%)
- Frames/albums £9.4m 4% (2010: £10.4m 5%)
- Ribbons/bows £7.3m 3% (2010: £5.2m 3%)
- Gifts £6.2m 3% (2010: £2.6m 1%)
- Partyware/accessories £4.6m 2% (2010: £0.0m 0%)
- Other £14.5m 7% (2010: £25.0m 13%)

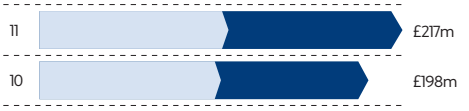
Revenue by customer location

- UK £89.9m 41% (2010: £81.8m 41%)
- USA £53.1m 25% (2010: £53.8m 27%)
- Europe £43.7m 20% (2010: £44.1m 22%)
- Australia and New Zealand £25.6m 12% (2010: £15.3m 8%)
- Rest of the world £4.6m 2% (2010: £3.3m 2%)

Revenue by season

- Everyday £101.3m 47% (2010: £99.4m 50%)
- Christmas £115.6m 53% (2010: £98.9m 50%)

Revenue by brand



- IG Group brand and licensed £112.9m 52% (2010: £109.5m 55%)
- Customer own brands £104.0m 48% (2010: £88.7m 45%)

Chairman's statement
Continued progress and profits growth

Last year I was able to report that the actions taken over the recent past were bearing fruit and that the Group had both returned to profit and further reduced its indebtedness. I am pleased to say that upward trend has continued this year, resulting in further profit growth and strengthening of our balance sheet.

This has been achieved at a time when the Group has faced stiff competition in the market place and has had to cope with inflationary pressures on raw material and transport costs.

Revenues for the year ended 31 March 2011 were up 9.4% to £216.9 million (2010 restated: £198.2 million). Profit before tax and exceptional items was up 47% to £5.2 million (2010: £3.5 million). Taking into account exceptional items of £0.9 million (2010 restated: £1.1 million), tax credits of £0.7 million (2010 restated: £0.0 million), and a loss from discontinued operations of £0.1 million (2010 restated: £1.8 million), profit for the year was £4.9 million (2010: £0.7 million). The basic earnings per share was 7.5p (2010: 0.1p).

We made further progress during the year in bringing down the level of debt on our balance sheet. Net debt was reduced by 9.1%, and as at 31 March 2011 was £44.4 million (2010: £48.8 million), whilst the equity attributable to our shareholders grew 13% to £48.1 million (2010: £42.6 million).

The Board is not recommending the payment of a dividend but will keep this policy under review. Our focus continues to be on debt reduction.

During the year we concentrated on three things. Firstly we have improved the range and quality of our products and services. As a result we have not only retained the business of key customers but also gained important new ones with whom we hope to develop a long-term relationship. Secondly, we have harnessed the collaborative energies of our global business to maximise cross-selling opportunities and to better target areas for investment. The third area is cost control. Each year our management is charged with the task of improving our margins, not only by controlling the cost of raw materials but also improving our productivity across the business. Good progress has been made and further improvements are expected during the current financial year.

Key achievements

- → Profit after tax up from £0.7 million to £4.9 million.
- → Earnings per share at 7.5p (2010: 0.1p).
- → Debt down 9% to £44.4 million.
- → Equity attributable to shareholders up 13% to £48.1 million.
- → The Group is now in a good shape to exploit market opportunities.

Our strategy remains unaltered, namely to concentrate on profitable organic growth.

In May I announced that I shall be retiring from the Board at the Annual General Meeting. I became a Director in 2004 and subsequently was appointed Chairman in 2006. I am impressed by the quality of people and products we now have. It is an exciting business that, following the actions taken by the Group over the past few years, is in good shape to exploit future opportunities in the market place.

I should like to thank all my colleagues for their hard work and for the help they have given me during my time as Chairman. As announced in May, John Charlton, who was appointed a Non-Executive Director in 2010, will succeed me as Chairman. I wish John and the team every success. I am confident that the progress we have made in the recent past will continue under his leadership of the Board.

Charles Uwakaneme, one of our Executive Directors, will also be retiring at the Annual General Meeting. Charles has worked with the Group for many years and latterly has played a pivotal role in reorganising and strengthening our business in the UK and on the continent of Europe for which we are very grateful. I am pleased to say that he has agreed to continue working with us as a consultant on a part-time basis.

Finally I should like to thank our shareholders, bankers, customers, suppliers, and of course our staff for their loyalty and continuing support of our business.

Keith James
Chairman

Business review
Operational review


Paul Fineman
Chief Executive

Key achievements

- Record breaking production levels achieved – 1.5 million metres of giftwrap reached in Hoomark and 1 million crackers a day reached in our China factory.
- Prompt and effective action taken to mitigate cost inflation.
- Significant expansion of internet based activities providing services to customers.
- Successful launch of everyday single cards with six major retailers across the globe.

Following the restructuring of the past few years, we are a leaner, fitter business and I am delighted to report that this has contributed to another good year of progress for the Group.

Since returning the business to profit last year, we have continued to focus on increasing sales and profitability, generating cash and reducing our debt. We have also invested in the business to ensure we have a solid platform in place to continue to deliver on our growth strategy.

Geographical highlights

UK and Asia

The UK businesses accounted for 54% (2010: 55%) of the Group's revenue for the year, seeing an increase in sales of 8%. We were pleased with our performance in the UK, in which market conditions remained challenging during the year.

The main growth areas were increased volumes of giftwrap, everyday greetings cards and licensed stationery. This was the first full year the Group produced single greetings cards, and we were delighted to supply everyday greetings cards to two of the UK's leading multiple grocery chains during the year. We also saw strong sales of Christmas crackers, supported by record breaking production from our factory in China which enabled us to take a greater share of the market. This was against a backdrop of mitigating strong cost inflation.

The decision was made to focus Asia as a service provider of manufacturing and procurement operations, whose main customers are our UK businesses. Both the China factory and the majority of the Hong Kong procurement operations are now managed by our UK operational management team, and we have therefore now included Asia within the reporting of the UK operations in line with our internal reporting framework.

Anker and Alligator benefitted from strong sales of licensed stationery, boosted by the success of Toy Story 3. We integrated the UK logistical requirements of Scoop into Anker during the year. Scoop grew its packaging business as the Company developed innovative packaging for confectionery gifts.

USA

The USA operations accounted for 19% (2010: 20%) of the Group's revenue for the year and, importantly, it returned to profit for the first time in four years. Sales were down slightly, as we focused our activities on profitable product categories and channels of distribution.

We grew our product offering in the area of School Fundraising (a market which provides income for schools via sales of consumer products), following the Group entering this sector last year. We experienced strong sales in the entry price point value market, where our market share and customers continued to grow.

Mainland Europe

Europe accounted for 15% (2010: 17%) of the Group's revenue for the year, and achieved like-for-like sales growth from continued operations of about 1%. More importantly, all our continuing European businesses were profitable, with particularly strong growth in Eastern Europe. The Group exerted considerable focus on expanding its product offering in Europe, increasing in particular our supply of greetings cards

and stationery. As announced last July, the Board took the difficult decision to close the Eick Pack counter rolls business in Germany.

Australia

Australia accounted for 12% (2010: 8%) of the Group's revenue for the year, and grew like-for-like sales by 21% in a buoyant market. In addition to creating its own commercially successful products targeted at the market in both Australia and New Zealand, Artwrap benefitted from increased utilisation of Group products, design formats and services, and continued to take market share, winning contracts with large volume retail chains.

New customers and licences

We continue to expand our customer base and licensed products business. Toy Story 3 was a fantastic performing licence for the Group, and was one of Disney's most successful franchises. We saw strong sales in both stationery and gift packaging products.

Our licensed products portfolio launched during the year include stationery and gift packaging ranges under the "Hello Kitty" and "Smurfs" licences in Europe and "Me To You" in the UK.

Post year end we were delighted to gain the National Geographic licence in the US. The brand was voted the "Most Desired Brand in America" by Forbes magazine. It has the number one selling children's magazine in the world, and includes the website nationalgeographickids.com. As of summer 2011, we will supply branded greetings cards, magnets, stickers, novelty pens and activity books to retailers across the US, and this remains a global opportunity.

The use of the internet for providing services to our customers, and to their consumers, has significantly increased, enabling us to supply a myriad of information and services to all markets and territories cost-effectively. We are confident that profitable new activities will be facilitated through embracing this exciting technology.

Improving the efficiency of our Group

Across the Group, our challenges included combatting significant inflation in raw materials, as well as the impact of Chinese labour and freight costs. We responded well by finding new ways to engineer cost out of products and add value through design, innovation and service. In addition, we increased our utilisation of recycled materials and reduced our wastage. In IG UK we are seeking to flatten out production peaks and, by analysing the challenges and working in partnership with our major customers, we have implemented changes to reduce production costs for the coming year.

IG UK also successfully integrated its design and product innovation service into its South Wales operation, and repatriated the former Far East based automated ribbon and bow manufacturing into Wales. The efficient ribbon and bow manufacturing processes in Wales combined with the saving in freight from China, especially applicable to this product category, has helped us to achieve a year-on-year 100% sales growth.

We successfully implemented new ERP computer systems in both Artwrap (Australia) and Hoomark (Holland), which have shown benefits in the level of analysis, warehouse management and accuracy as well as efficiency in those businesses.

Anchor BV in Holland relocated its Weltec business from Northern Holland to become fully integrated within the Anchor business.

Our team

We are grateful to our colleagues globally for helping us make good strides in operating as a leaner business that works and innovates more cohesively.

On behalf of the Board and all Group colleagues, I would like to sincerely thank our Chairman, Keith James for his years of service as a Director and Chairman and, in particular, his excellent stewardship during the restructuring of the Group and our return to profit. We also welcome John Charlton to the role of Chairman and look forward to a continued period of profitable growth.

The business today is one which sees our Group utilising and sharing resources in an intelligent way, while each business manages to retain its individuality and focus on the needs of its customers and markets.

Current trading and outlook

The year to date has started well and we are trading in line with expectations. Following the return to profit in the US, the Group is in good shape and, in addition, we have identified further opportunities to reduce manufacturing costs which we will see benefits of in the coming years.

While global market conditions remain challenging, we are confident in our ability to achieve our growth ambitions for the current year.

Paul Fineman
Chief Executive

Business review
Financial review


Sheryl Tye
Group Financial Director

Group performance
The Board has continued its focus on cash management and increasing profit, and hence has further strengthened the financial position of the business.

Continuing operations
Revenues from continuing operations for the year to 31 March 2011 were up by 9.4% to £216.9 million (2010 restated to disclose discontinued operations: £198.2 million). The main growth areas were in the UK, which grew by 8%, and Australia. Part of the reported 67% sales growth against prior year in this segment is due to the Group only including Artwrap PTY as a subsidiary since 1 August 2009. If we had included Artwrap for the full year to March 2010, Group sales would have increased by 6.5%. The effect of US dollars and euro against sterling reduced revenue this year by 0.4%.

Gross profit margin from continuing operations and before exceptional items has increased to 17.4% (2010 restated: 17.0%) and reflects improved margin performance in USA and Europe, mitigated by a slightly reduced margin in Australia due to the high volume growth in sales. We have increased the margin despite our continued efforts to sell older stock and being subject to significant inflationary pressures from raw materials, sea freight and, in the Far East, from significant inflation in labour costs and the strengthening Chinese currency.

Whilst underlying **overheads** have reduced year-on-year by 2.2%, the full year inclusion of Artwrap and the effect of currency exchange gains means that, in total, overheads increased by 6% to £30.7 million (2010 restated: £28.9 million).

Key achievements

- → Sales up 9% to £217 million from continuing operations.
- → Operating profit before exceptional items up 25% to £8.1 million.
- → Profit before exceptional items and tax up 47% to £5.2 million (2010 restated: £3.5 million)
- → Profit before tax from continuing operations up 76% to £4.3 million.
- → Profit for the year of £4.9 million (2010: £0.7 million).
- → Cash generated from operations of £10.7 million (2010: £27.5 million).
- → Principal bank now given five year loan of £30 million plus new US bank funding up to $25 million.

Operating profit before exceptional items increased by 25% to £8.1 million (2010 restated: £6.5 million). After exceptional items, our operating profit was £7.2 million (2010 restated: £5.4 million).

Exceptional items during the year amounted to £0.9 million before tax (2010: £1.1 million, excluding discontinued business). These relate to:

- → restructuring relating mainly to redundancy of senior personnel from the Group centre and Anker businesses; and
- → impairment of the value of a US property acquired when a senior employee returned to the UK.

Finance expenses in the year remained at £2.9 million (2010 restated : £2.9 million) reflecting the overall debt reduction throughout the period, which mitigated the increased bank fees and margins.

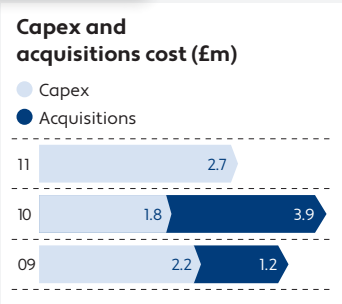
Profit before exceptional items, and tax was up 47% to £5.2 million (2010 restated: £3.5 million).

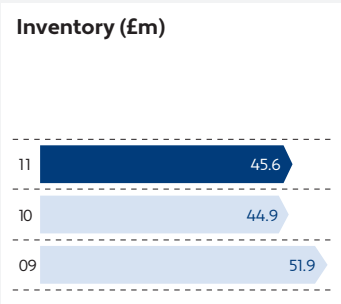
Profit before tax from continuing operations was up 76% to £4.3 million (2010 restated: £2.4 million).

Discontinued operations
As disclosed last year, in July 2010 the Board took the difficult decision to close the Eick Pack business. The results of Eick Pack are now shown as a discontinued business, and the comparatives have been adjusted accordingly. Details are shown in note 11.

What we're doing

Improving our gross stock performance





Taxation

The continued profits of the Group this year have enabled tax losses from previous years to be used both against profits for this year and provided against foreseeable profits in the future. In addition, a change in the US tax regulations has allowed losses to be carried back for three years, giving rise to a tax repayment during the year. With our European businesses now all under one Dutch holding company, IG Europe BV, we have this year also been able to secure tax repayments from losses carried back.

These have given an effective tax credit of 16% (2010 restated: 2% credit). The main segment able to use the brought forward losses is the UK. There are still £5.8 million of losses not recognised as an asset in the US and the UK.

Profit for the year

We are pleased to report that profit for the year was up to £4.9 million (2010: £0.7 million).

Earnings per share and dividends

The basic earnings per share was 7.5p (2010: 0.1p). The basic earnings per share from continuing operations was 7.7p (2010 restated: 3.6p). After removing the effect of exceptional items and discontinued business, the adjusted earnings per share increases to 8.9p (2010 restated: 4.4p).

No dividend was paid during the year (2010: £Nil) and the Board does not propose a final dividend for the year. Our core focus continues to be on growing the profitability of the business and reducing bank debt. Dividends will be recommended as soon as the Board considers it appropriate.

Balance sheet and cash flow

Net debt at 31 March 2011 reduced by 9.1% to £44.4 million (2010: £48.8 million) (see notes 19 and 29 to the financial statements).

Our year end net debt includes amounts denominated in US dollars of $21.4 million (2010: $18.9 million), and in euros of €14.9 million (2010: €18.1 million). The year end exchange rates were $1.61 (2010: $1.51), and €1.13 (2010: €1.12). Using the 2010 exchange rates our net debt at 31 March 2011 would have been £45.4 million, a reduction of 7.1% from 2010 (2010: 27.0% from 2009).

We have continued to focus attention on reducing our outstanding debtors, both to maximise cash but also to reduce our credit risk. Trade debtors fell from £17.6 million to £17.4 million (1%), despite the 9% increase in sales. The effect of currency translation on this reduction is minimal. Days' sales outstanding fell from 59 to 52 days.

Stock levels rose by 2% from £44.9 million to £45.6 million reflecting the success in obtaining some firm customer orders to begin factory production for the coming season ahead of the traditional summer peak, which should in turn enable more efficient use of resources in the coming year. Older stock (measured as over 15 months since last purchase) has continued to fall by 25%, so the mix of stock is now far more current.

Business review
Financial review continued

We have raised the profile of IG brands and licensed products with sales in this category increasing by 3.1%

Balance sheet and cash flow continued

Group cash generated from operations was £10.7 million (2010: £27.5 million). In the previous year we had been very successful in reducing stock and debtors to their current levels which had generated nearly £20 million cash.

There was no cash paid out in the year in respect of deferred consideration for acquisitions (2010: £0.8 million), and the final liability for deferred consideration for Glitterwrap was settled in September 2010 by issuing 1.5 million shares.

The Group has again maintained capital expenditure at a low level being £2.7 million for the year (2010: £1.8 million). It realised £0.1 million (2010: £0.3 million) from asset sales in the year. The Group also invested £0.7 million to purchase a property in the US to honour a guarantee given five years ago on behalf of a former CEO of the US business. It is intended to sell this property as soon as practicable. In the coming year it is intended to invest in new state of the art print machinery in Europe which will further improve efficiency. In addition our planned relocation and re-organisation of our operations in China will further enhance our competitive portfolio of products and services.

Equity attributable to shareholders has increased from £42.6 million to £48.1 million.

Risks and key performance indicators

Key risks are discussed in the Directors' Report on pages 11 to 15.

Our key performance indicators are set out in graphical format on page 1. We are focusing on reducing debt, reducing overheads and improving profits to regain our financial strength. On reducing debt, we are managing both working capital and our investments in fixed assets. All of these have been discussed above. Operationally we are increasing the spread of our revenue base across:

- different territories – where turnover to UK destinations has remained at 41% (see note 4);
- different products – giftwrap turnover has fallen from 37% of revenue to 36% (see note 4);
- more even-phasing across the year – despite our success in growing new product areas such as every day single cards, which grew by 15% this year, growth in sales of crackers and giftwrap meant a reversal of our desired trend for a more even business, hence everyday products now represent 47% of revenue, down from 50% last year; and
- brands – we have raised the profile of IG brands and licenced products with sales in this category increasing by 3.1%, but the growth in customer own brand giftwrap and crackers increased more, reversing the trend overall, to represent 52% of our revenue from 55% last year.

Proforma balance sheet showing effect of £30 million five year term loan, on net current assets

	As at 31 March 2011 £000	As at 31 March 2010 £000
Non-current assets	69,519	70,839
Current assets	69,458	68,377
Total assets	138,977	139,216
Equity	52,310	45,957
Non-current liabilities	43,028	14,351
Current liabilities	43,639	78,908
Total equity and liabilities	138,977	139,216
Net current assets	25,819	(10,531)

Treasury operations

The Board is delighted to announce that in July 2011 the principal bank of the Group has agreed to restructure its facilities as follows:

- two term loans, totalling £30 million, split between US dollars and sterling, and repayable over five years, with a £15.2 million repayment on the fifth anniversary. The interest on these loans is at an average rate of 4.2% over LIBOR;
- a two year asset backed loan facility secured on the stock and debtors of the two largest UK businesses;
- a one year rolling revolving multi-currency credit facility of up to £33 million; and
- a one year rolling multi-currency overdraft facility of up to £5 million.

In addition, we are delighted to announce that a US bank has now agreed to provide a three year asset backed loan facility of up to $25 million, at a rate of 2.5% over US LIBOR.

These new facilities significantly change the balance between short term and longer term liabilities, and the accompanying chart shows how the balance sheet would have been presented if these facilities had been in place at the year end. The net current liabilities of £4.2 million would have been presented as net current assets of £25.8 million.

We are increasing the spread of revenue across our product ranges — giftwrap has reduced to 36% of total revenue.

The covenants attached to these new facilities include:

- debt service, being the ratio of cash flow available to finance costs on a rolling twelve month basis;
- interest cover, being the ratio of earnings before interest, depreciation and amortisation to interest on a rolling twelve month basis;
- leverage being the ratio of debt to earnings before interest, depreciation and amortisation on a rolling twelve month basis; and
- covenants, in the individual businesses which have asset backed loans, of earnings before interest, depreciation and amortisation on a rolling twelve month basis compared with the forecast, and the dilution of credit notes as a percentage of invoices issued.

See the Directors' Report and notes 3 and 29 to the financial statements for further information on managing treasury risks.

Sheryl Tye
Finance Director

Directors and advisers

From left to right: Charles Uwakaneme, Chris Howell, Sheryl Tye, Paul Fineman, Keith James, Anders Hedlund, Martin Hornung, John Charlton

Keith James
Non-Executive Chairman

Keith joined the Board in August 2004 as a Non-Executive Director. Keith is also a Director of Admiral Group PLC. Keith was appointed Chairman of International Greetings plc in September 2006. He is a member of the Audit Committee and Chairman of the Remuneration Committee. Keith will retire from the Board at the next AGM.

Anders Hedlund
Founder and Non-Executive Deputy Chairman

Anders founded the Group in 1979 and was joint Chief Executive Officer of International Greetings until December 2007, when he was appointed Non-Executive Deputy Chairman.

Paul Fineman
Chief Executive Officer

Paul joined the Board in May 2005 as Chief Executive Officer of Anker International PLC. He was appointed Group Managing Director in January 2008 and then appointed Group CEO in January 2009.

Sheryl Tye
Group Finance Director and Company Secretary

Sheryl joined the Board in September 2008. She is a fellow of the Institute of Chartered Accountants and was formerly a Finance Director of Autoglass Ltd, Computacenter UK Ltd, Microlease PLC, Lex Transfleet and VT Vehicle Solutions.

Martin Hornung
Executive Director

Martin joined the Group in 1991 and is currently based in Hong Kong, where he oversees the Group's Hong Kong trading business.

Charles Uwakaneme
Executive Director

Charles was appointed Executive Director in April 2009. He was previously Managing Director responsible for restructuring the UK Greetings division and has been a Non-Executive Director of Anker International PLC since 2003. He brings over thirty years of business experience including Executive and Non-Executive roles in Europe, US and the Far East.

Chris Howell
Non-Executive Director

Chris joined the Board in April 2009. He is highly experienced in Executive, Non-Executive and advisory roles within large companies working extensively with banks and Private Equity houses. He is a Fellow of the Institute for Turnaround and the Association of Business Recovery Professionals. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

John Charlton
Non-Executive Director

John joined the Board in April 2010. John is also Chairman of Amscan UK and Chairman of South Africa Greetings Corporation (PTY) Ltd. He was previously Senior Vice President International of American Greetings Corporation and Chief Executive of UK Greetings Ltd. He is a member of the Audit Committee and the Remuneration Committee. John will take over as Chairman of the Board and of the Remuneration Committee at the next AGM.

Advisers

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Email: shareholder.services@capitaregistrars.com

Directors' report

The Directors present their annual report, and the audited financial statements for the year ended 31 March 2011.

Principal activities

The principal activity of the Group is the design, manufacture and distribution of greetings and related products, specifically gift wrapping paper, stationery, gift bags, crackers, greetings cards, photo frames, albums and other decorative accessories.

The subsidiaries and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 4 to the Company financial statements.

Business review

Full details of the results for the year are set out in the attached financial statements.

A review of the performance of the business during the year and an indication of its future developments can be found in the Chairman's Statement on page 3 and Operational Review on page 4.

A summary of the financial impact of major events during the year and the financial position at 31 March 2011 can be found in the Financial Review on pages 6 to 9. Information about the use of financial instruments by the Company and its subsidiaries is given in note 29 to the financial statements.

Dividends

No interim dividend was paid (2010: £Nil). The Directors do not recommend a final dividend (2010: £Nil).

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 25. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

Details on share-based payments are set out in note 28 to the financial statements and the Directors' Remuneration Report. No person has any special rights or control over the Company's share capital and all issued shares are fully paid.

Directors and Directors' interests

The Directors who held office during the year were as follows:

J Charlton (appointed 28 April 2010)
K James
P Fineman
S A Hedlund
C Howell
M Hornung
S Tye
C Uwakaneme

Keith James has announced that he will retire as both Chairman and Director at the forthcoming Annual General Meeting and does not offer himself for re-election. The Board has elected John Charlton as Chairman to succeed Keith. In accordance with the Company's Articles of Association, Sheryl Tye and Charles Uwakaneme will retire by rotation at the forthcoming Annual General Meeting. Charles Uwakaneme does not offer himself for re-election. Being eligible, Sheryl Tye offers herself for re-election.

Directors' report continued

Directors and Directors' interests continued

The Directors who held office during the year had the following direct interests in the ordinary shares of the Company:

	Interest at end of year		Interest at beginning of year*	
	Ordinary shares	Options	Ordinary shares	Options
J Charlton (a)	–	–	–	–
P Fineman (b)	2,188,534	2,265,000	2,188,534	2,265,000
S A Hedlund (c)	448	–	448	–
M Hornung (d)	315,019	650,000	315,019	650,000
C Howell	105,000	–	105,000	–
K James	50,562	–	50,562	–
S Tye	42,000	300,000	26,000	300,000
C Uwakaneme	40,000	250,000	40,000	250,000

* Or date of appointment, if later.

In addition to the above holdings:

(a) 57,500 shares are held by the wife of J Charlton.

(b) P Fineman owns a non-beneficial interest in 1,025,708 (2010: 1,025,708) ordinary shares of 5p each.

(c) 20,310,400 (2010: 20,310,400) and 2,819,800 (2010: 2,819,800) ordinary shares of 5p each are respectively registered in the names of AC Artistic Limited and Malios Limited, companies incorporated in the British Virgin Islands, and 500,000 (2010: 500,000) ordinary shares of 5p each are registered in the name of Artistic AG, a company incorporated in Switzerland, and all are under the ultimate control of the Hedlund family.

(d) 184,557 (2010: 184,557) ordinary shares of 5p each are held by M Hornung's pension fund.

Details of Directors' share options are provided in the Directors' Remuneration Report on page 16.

No changes took place in the interest of Directors between 31 March 2011 and the date of this annual report.

Employees

The Group recognises the benefits of keeping employees informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through employee briefings that are held in most businesses at least twice a year, and regular team briefings. Periodic newsletters are sent to all employees on our environmental progress and each business has one or more "green warriors".

The Group conforms to current employment laws on the employment of disabled persons and, where we are informed of any employee disability, management makes all reasonable efforts to accommodate that employee's requirements.

In order to recognise the efforts of UK employees the Group operates an All Employee Share Option Plan (AESOP) but due to the need to drive down debt, no shares have been purchased in either this or the previous year. Due to the restriction of the number of shares available for employee option schemes, given the number of employee options in issue and exercised over the previous ten years, no further allotments are available. Due to tax legislation it is not possible to offer this scheme to employees working outside the UK.

Health and safety

The Group is committed to maintaining high standards of health and safety in every area of the business. It is the aim of the Group to exceed the requirements of health and safety legislation, and we have established a Group Board level health and safety coordinator to ensure continuous improvement of health and safety across the Group.

Creditor payment policy

It is the Group's policy to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and to settle supplier accounts in accordance with their individual terms of business. The number of days' purchases outstanding at the year end in respect of the Company were equivalent to 60 (2010: 90), based on the average daily amount invoiced by suppliers during the year.

Political and charitable contributions

The Group made charitable contributions of £Nil during the year (2010: £1,250), principally to local charities serving the communities in which the Group operates. The Group made no political contributions in either year.

Corporate governance

The UK Corporate Governance Code (formerly the Combined Code) sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders. It is mandatory for fully listed companies. Whilst there is no obligation for AIM listed companies to comply with this code, the Directors endorse the principles of effective corporate governance and are committed to maintaining the highest standards of ethics, integrity and professional competence. The Directors do not consider full compliance with the code is appropriate for the Group at this stage of its development but will keep the matter under review and continue to develop procedures as the Group grows.

Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management systems, policies and procedures are established to identify and analyse the risks faced by the Group to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss. Risk management processes are reviewed regularly by the Audit Committee to reflect changes in market conditions and the Group's activities. The Board's oversight covers all controls, including financial, operational and compliance controls and general risk management.

It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate the need for more extensive monitoring.

Audit committee

The Group Audit Committee oversees how the Board monitors risk and reviews the adequacy of the risk management framework. During the year the Audit Committee consisted of C Howell (Chairman), K James and J Charlton (Non-Executive Directors).

The Committee meets as required during the year and at least twice with the Group's external auditors. Its role is to review the interim and final financial statements for approval by the Board, to ensure that operational and financial controls are functioning properly, and to provide the forum through which the Group's external auditors report to the Board.

In 2010 we introduced an internal audit function to the Group, with direct access to the Chairman of the Audit Committee. Internal audit reviews were carried out in China, Europe and the UK.

Risks and uncertainties

The Directors recognise that any commercial opportunity brings with it a degree of risk and, like any business, the Group must manage a range of risks in the course of its activities. An impact assessment of the scale and likelihood of the principal risks affecting the business is now reviewed annually by the Audit Committee and reported to the Board. As part of this ongoing programme of risk assessment and management, the following actual and potential key risks have been identified as those which the Directors believe could have the most material impact on the regeneration of long-term value of the Group. These may change over time and the factors described below are not intended to form a definitive list of all risks and uncertainties.

Currency risk

The biggest risk for the Group is currency risk, which affects the Group in three ways – in funding, in purchasing, and in translation of the results of our businesses.

Funding in currency

The Group's main bank facility is denominated in sterling, but some balances are drawn in US dollars (see the Financial Review for balances at 31 March 2011), and hence should the exchange rates move adversely this has implications on the available headroom. The majority of the euro funding is provided by a European bank, with the facility denominated in euros.

Directors' report continued

Risks and uncertainties continued

Currency risk continued

Purchasing in currency

Nearly half the Group's sales are of items which are bought in, mainly from Asia, using US dollars. This means that purchase prices are subject to currency fluctuations against the local currency sales price.

Translation of subsidiary results

Nearly half the Group's business is conducted through overseas subsidiaries. The businesses are seasonal and this can mean that fluctuations in periodic results can be exacerbated by exchange movements in that period.

The Directors mitigate these risks using a mixture of forward contracts, spot purchases and natural hedges.

Liquidity risk

The Group maintains borrowing lines estimated to be sufficient to cover forecast cash requirements. The Directors have negotiated a mixture of long-term and medium-term debt of between two to 20 years (17 years now remaining), alongside short-term funding in the form of overdraft and revolving credit facilities to support the business. At 31 March 2011 the Group had £19.9 million (2010: £20.9 million) headroom on its facilities (see note 29). The Group monitors cash with regular forecasting and review of cash requirements against facilities available. The Group is dependent on the continuing support of its bankers for working capital facilities. Subsequent to the year end the Group has negotiated more longer term facilities, and these are explained in the Finance Review and note 1 to the financial statements.

Credit risk

The Group's principal financial assets are trade and other receivables and therefore the Group's main credit risk is attributable to these receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash. In addition, based on previous experience, the Group makes further impairment based on the probability of a number of as yet unidentified loss events occurring in the year based on the age of specific overdue debts.

The Group has no significant concentration of credit risk, with exposure spread across a large number of customers.

Interest rate risk

All the debt finance is funded at variable rates of interest. Given the reliance of the Group on debt finance, interest rates are a risk to the Group. We have interest rate hedging for some of the funding and monitor, with external advice, the timing and extent of such hedging.

Inventory risk

The Group is focusing on reducing its inventory holding both for working capital management but also to reduce the risk of inventory being sold at below its cost, due to its age or condition. Provisions are made to ensure inventory is carried at the lower of its cost or net realisable value. Regular monitoring of inventory levels, the ageing of inventory and the provisions held is carried out by the Directors. Details of the risk and the carrying values of inventory can be found in notes 2 and 16.

Customer risk

Given the current economic circumstances, although after the previous years, fewer customers have gone into administration, customer risk remains prominent. The Group manages this risk by maintaining tight credit control procedures, regular reviews of credit limits and by avoiding concentrating on any one geographic location or placing over reliance on any one customer. The largest single customer accounts for less than 7% of overall sales. Given the relatively low value of the product within our market, with an average retail sales price of less than £2, the Directors believe that end customer demand is likely to be relatively unaffected by the current economic climate. Margin pressure however remains a threat which again is mitigated by the relative lack of concentration in our customer base.

Supplier risk

The Group uses a large number of external suppliers, with bought in goods for resale purchased mainly from Asia. To maintain control over the quality and credit worthiness of the Asia supply chain, the Group is now manufacturing, where it is expedient to do so, more of its goods from its own factory in China.

Risks and uncertainties continued

Management risk

The Group has operations in a number of different geographical locations with an Executive Board member responsible to the Board for each business. During 2010 the China factory became managed by the UK management team, as it is integral to a substantial element of sales to the UK customers, and the Asia business is now shown as part of the UK segment. The UK management team will be ensuring more efficient processing flows between the UK and Asia business, and regular monitoring of key performance indicators.

Operational risk

The Group operates four major factories, plus several trading sites. The factories operate to quality standards and are subject to regular customer, internal, health, safety and environmental audits.

The Group also operates third-party warehousing and has insurance against known operational risks.

Going concern

The Group's business activities, together with the factors likely to affect its future development, its performance and position are set out in the Operational Review. The financial position of the Group, its cash flows, liquidity position, and its management of both working capital and capital expenditure are set out in the Finance Review. Details of the bank loans and borrowings are given in note 20 to the financial statements, and liquidity risks are given in note 29 to the financial statements.

The Group relies on its banks for financial support and is confident that the facilities that are in place are sufficient to meet its needs for the foreseeable future (see note 1 to the financial statements). Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

Purchase of own shares

The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the last Annual General Meeting. The Directors will seek renewal of this authority at the forthcoming Annual General Meeting. During the year the Company did not buy back any of its shares. If passed, the resolution would give the Company authority to purchase in the market up to 5,396,662 ordinary shares (representing approximately 10% of the Company's issued share capital).

Any shares purchased under this authority would either be treated as cancelled (and the number of shares in issue reduced accordingly) or held in treasury, available for re-sale by the Company or transfer to an employees' share scheme.

This general authority, if approved, would expire on the date of the Company's 2012 Annual General Meeting or, if earlier, fifteen months from the date the resolution is passed. The Directors presently intend that a resolution to renew this authority will be proposed at next year's Annual General Meeting and at each succeeding Annual General Meeting.

Auditors

The Directors who held office at the date of approval of this annual report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and, each Director has taken all the steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Ernst and Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

S Tye
Director
9 August 2011

Belgrave House
Frobisher Way
Hatfield
Herts AL10 9TQ
Company number 1401155

Directors' remuneration report

Remuneration Committee

The Remuneration Committee was established by the Board and operates under terms of reference agreed by the Board on 29 September 2008.

The Remuneration Committee consists of K James (Chairman), C Howell (Non-Executive Director) and J Charlton (Non-Executive Director and who will succeed Keith James as Chairman after the forthcoming AGM). The Committee meets as required. The Committee determines the service contract terms, the remuneration and benefits, including bonuses, of the Executive Directors, and senior management. It is also responsible for granting share options.

Remuneration policy

The Group's remuneration policy is to ensure that the remuneration of Executive Directors is sufficiently competitive to enable the Group to retain and motivate existing Directors and attract high quality performers in the future. The Group aims to incentivise and reward its Executive Directors in a way that is consistent with the Group's commercial objectives and to align the interests of the Directors with those of the shareholders. To achieve this, the Executive Directors' total remuneration comprises both fixed remuneration and variable reward, the latter reflecting Company performance. The main elements of remuneration for Executive Directors are set out below. Only the basic salary is pensionable.

The Group's remuneration policy in respect of Non-Executive Directors is to pay annual fees which reflect the responsibilities and duties placed upon them, whilst also having regard to market practice. The remuneration of the Non-Executive Directors is set by the Board.

Service contracts

The Executive Directors have service contracts which can be terminated by either side on no greater than one year's notice. Non-Executive Directors do not have service contracts and their appointments may be terminated without compensation at any time. All Non-Executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to approval by shareholders.

Bonuses

Bonus objectives for Executive Directors and senior management during the last year were based on Group profit achievement, as long as personal performance is at the level required. The level of the bonuses is approved by the Remuneration Committee who retain discretion over the level of payout depending on the quality of the financial performance in achieving the result. The bonus scheme for the coming year for Executive Directors and other senior management includes both profit, working capital and other performance targets.

Executive share options

No options were exercised by Directors during the year or prior year.

In September 2008, the Board approved an HMRC approved employee share options scheme to assist in the motivation of Executive Directors and senior managers. Some Directors and managers received shares that were in addition to the HMRC approved amounts (which was 214,285 options each), and these are denoted as "unapproved".

Executive share awards are awarded at the prevailing market rate on the date of the grant. Options are normally exercisable between three and ten years after grant, and upon the achievement of stated performance criteria. The first options issued in December 2008 were not subject to performance criteria (other than continued employment), except for unapproved options issued to Executive Directors. Holders of options of the previous share option scheme had already met their performance criteria, but had waived their options.

The exercise of the unapproved options granted to the Executive Directors under this scheme was subject to conditions relating to the cumulative profitability of the Group over the two years to March 2011. The conditions have all been met and hence none of the options will be forfeited.

Executive share options continued

Details of the options granted (both approved and unapproved) are as follows. The options have remained unchanged compared with last year.

	Date granted	Number of options granted	Option price per share	Exercise date between
Paul Fineman	17 December 2008	1,052,556	£0.14	December 2011–December 2018
Martin Hornung	17 December 2008	650,000	£0.14	December 2011–December 2018
Sheryl Tye	17 December 2008	300,000	£0.14	December 2011–December 2018
Charles Uwakaneme	17 December 2008	250,000	£0.14	December 2011–December 2018

In addition to options granted by the Company, the Hedlund family confirmed on 17 December 2008 that it had agreed to grant P Fineman an option over 1,212,444 shares held by AC Artistic Ltd a company under the control of the Hedlund family. The exercise price of these options is 14p and may be exercised between 17 December 2011 and 17 December 2018. Performance conditions relating to these options have been met.

The mid-market price of the Company's shares on 31 March 2011 was 74.5p per share, the highest and lowest mid-market prices of the Company's shares during the year were 79.5p and 54.5p respectively.

Directors' remuneration

The summary of Directors' remuneration is as follows:

	Aggregate for all Directors		Highest paid Director	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Remuneration	**1,181**	1,176	**316**	305
Pension contribution	**90**	45	**9**	9
Total remuneration per table below	**1,271**	1,221	**325**	314

The remuneration of the Directors by individual is as follows:

	Salary/fees	Bonus	Benefits*	Subtotal 2011	Pension 2011	Total 2011
Executive Directors						
Paul Fineman	286,534	–	15,701	302,235	–	302,235
Martin Hornung	189,198	–	126,495	315,693	8,925	324,618
Sheryl Tye	150,500	22,500	625	173,625	27,768	201,393
Charles Uwakaneme	163,942	–	7,822	171,764	53,620	225,384
Total Executive	**790,174**	**22,500**	**150,643**	**963,317**	**90,313**	**1,053,630**
Non-Executive Directors						
John Charlton	27,500	–	–	27,500	–	27,500
Keith James	70,000	–	2,084	72,084	–	72,084
Anders Hedlund	85,000	–	1,501	86,501	–	86,501
Chris Howell	30,000	–	1,314	31,314	–	31,314
Total Non-Executive	**212,500**	**–**	**4,899**	**217,399**	**–**	**217,399**
Total Directors	**1,002,674**	**22,500**	**155,542**	**1,180,716**	**90,313**	**1,271,029**

* The benefits relate primarily to Company car benefits, and health benefits, and for M Hornung to overseas housing benefits.

Directors' remuneration report continued

Directors' remuneration continued

	Salary/fees	Bonus	Benefits*	Subtotal 2010	Pension 2010	Total 2010
Executive Directors						
Paul Fineman	282,700	–	17,430	300,130	–	300,130
Martin Hornung	189,947	–	115,384	305,331	8,925	314,256
Sheryl Tye	160,500	15,694	491	176,685	17,128	193,813
Charles Uwakaneme	169,166	21,274	13,905	204,345	19,331	223,676
Total Executive	802,313	36,968	147,210	986,491	45,384	1,031,875
Non-Executive Directors						
John Charlton	–	–	–	–	–	–
Keith James	70,000	–	1,868	71,868	–	71,868
Anders Hedlund	85,000	–	1,178	86,178	–	86,178
Chris Howell	30,000	–	1,178	31,178	–	31,178
Total Non-Executive	185,000	–	4,224	189,224	–	189,224
Total Directors	987,313	36,968	151,434	1,175,715	45,384	1,221,099

* The benefits relate primarily to Company car benefits, health benefits and for M Hornung to overseas housing benefits.

The highest paid Director is M Hornung in each year.

The Group operated a Group personal pension plan to which the Group contributed for three Directors (2010: three). The Group also provides death in service life assurance to the value of between two and four times pensionable salary.

Keith James
Chairman of the Remuneration Committee

Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Independent auditors' report
to the members of International Greetings plc

We have audited the Group financial statements of International Greetings plc for the year ended 31 March 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet and the Consolidated Cash Flow Statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement as set out on page 19 the Directors are responsible for the preparation of the Group 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 Group 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 Annual Report and 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 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 Chairman's Statement, the Chief Executive's Operational Review and the Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

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:

- 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.

Other matter

We have reported separately on the Parent Company financial statements of International Greetings plc for the year ended 31 March 2011.

Andy Clewer (Senior Statutory Auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
Luton
9 August 2011

Consolidated income statement
year ended 31 March 2011

	Note	2011 Before exceptional items £000	2011 Exceptional items (note 10) £000	2011 Total £000	2010 restated Before exceptional items £000	2010 restated Exceptional items (note 10) £000	2010 restated Total £000
Continuing operations							
Revenue	4	**216,857**	**–**	**216,857**	198,246	–	198,246
Cost of sales		**(179,108)**	**(27)**	**(179,135)**	(164,530)	333	(164,197)
Gross profit		**37,749**	**(27)**	**37,722**	33,716	333	34,049
		17.4%		**17.4%**	17.0%		17.2%
Selling expenses		**(12,698)**	**(401)**	**(13,099)**	(12,039)	(160)	(12,199)
Administration expenses		**(18,021)**	**(472)**	**(18,493)**	(16,859)	(2,181)	(19,040)
Other operating income	7	**1,019**	**–**	**1,019**	1,643	–	1,643
Disposal of subsidiary		**–**	**–**	**–**	–	907	907
Profit on sales of property, plant and equipment		**33**	**–**	**33**	26	–	26
Operating profit/(loss)	5	**8,082**	**(900)**	**7,182**	6,487	(1,101)	5,386
Finance expenses	8	**(2,917)**	**–**	**(2,917)**	(2,930)	–	(2,930)
Share of loss from associates (net of tax)		**–**	**–**	**–**	(39)	–	(39)
Profit/(loss) before tax		**5,165**	**(900)**	**4,265**	3,518	(1,101)	2,417
Income tax credit/(charge)	9	**426**	**267**	**693**	(649)	693	44
Profit/(loss) from continuing operations		**5,591**	**(633)**	**4,958**	2,869	(408)	2,461
Discontinued operations							
Loss from discontinued operations (net of tax)	11	**(100)**	**–**	**(100)**	(494)	(1,263)	(1,757)
Profit/(loss) for the year		**5,491**	**(633)**	**4,858**	2,375	(1,671)	704
Attributable to:							
Owners of the Parent Company				**4,010**			55
Non-controlling interests				**848**			649

		Diluted	Basic	Diluted	Basic
Earnings per ordinary share	26				
Earnings per share		**6.9p**	**7.5p**	0.1p	0.1p
Continuing operations		**7.1p**	**7.7p**	3.3p	3.6p
Discontinued operations		**(0.2)p**	**(0.2)p**	(3.2)p	(3.5)p
Adjusted earnings per share excluding exceptional items and discontinued operations		**8.2p**	**8.9p**	4.0p	4.4p

Consolidated statement of comprehensive income
year ended 31 March 2011

	2011 £000	2010 restated £000
Profit for the year	**4,858**	704
Other comprehensive income:		
Recycling translation reserves on closure of subsidiary	**(97)**	(907)
Exchange difference on translation of foreign operations	**529**	1,654
Net loss on cash flow hedges (net of tax)	**(124)**	–
Other comprehensive income for period, net of tax	**308**	747
Total comprehensive income for the period, net of tax	**5,166**	1,451
Attributable to:		
Owners of the Parent Company	**4,300**	265
Non-controlling interests	**866**	1,186
	5,166	1,451

Consolidated statement of changes in equity
year ended 31 March 2011

	Share capital £000	Share premium and capital redemption reserve £000	Merger reserves £000	Hedging reserves £000	Translation reserve £000	Retained earnings £000	Shareholder equity £000	Non-controlling interest £000	Total £000
At 1 April 2009	2,425	4,346	14,885	–	152	18,934	40,742	–	40,742
Profit for the year	–	–	–	–	–	55	55	649	704
Other comprehensive income	–	–	–	–	210	–	210	537	747
Total comprehensive income for the year	–	–	–	–	210	55	265	1,186	1,451
Equity-settled share-based payment	–	–	–	–	–	82	82	–	82
Shares issued	182	–	1,331	–	–	–	1,513	–	1,513
Options exercised	1	–	–	–	–	–	1	–	1
Acquisition in the year	–	–	–	–	–	–	–	2,168	2,168
At 31 March 2010	2,608	4,346	16,216	–	362	19,071	42,603	3,354	45,957
Profit for the year	–	–	–	–	–	4,010	4,010	848	4,858
Other comprehensive income	–	–	–	(124)	414	–	290	18	308
Total comprehensive income for the year	–	–	–	(124)	414	4,010	4,300	866	5,166
Equity-settled share-based payment	–	–	–	–	–	109	109	–	109
Shares issued	74	–	948	–	–	–	1,022	–	1,022
Options exercised	16	40	–	–	–	–	56	–	56
At 31 March 2011	2,698	4,386	17,164	(124)	776	23,190	48,090	4,220	52,310

Merger reserve
The merger reserve comprises premium on shares issued in relation to business combinations. This year, and last year the additions are in relation to the final deferred consideration for the Glitterwrap business.

Capital redemption reserve
The capital redemption reserve comprises amounts transferred from retained earnings in relation to the redemption of preference shares. For ease of presentation, the amount of £1.34 million relating to the capital redemption reserve has been included within the column of share premium and capital redemption reserve in the balances at both the beginning and end of each year, with no movements.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Shareholders' equity
Shareholders' equity represents total equity attributable to owners of the Parent Company.

Consolidated balance sheet
as at 31 March 2011

	Notes	As at 31 March 2011 £000	As at 31 March 2010 £000
Non-current assets			
Property, plant and equipment	12	**31,518**	34,199
Intangible assets	13	**33,385**	33,139
Deferred tax assets	15	**4,616**	3,501
Total non-current assets		**69,519**	70,839
Current assets			
Inventory	16	**45,582**	44,911
Assets classified as held for sale	17	**497**	–
Trade and other receivables	18	**21,494**	21,421
Cash and cash equivalents	19	**1,885**	2,045
Total current assets		**69,458**	68,377
Total assets		**138,977**	139,216
Equity			
Share capital	25	**2,698**	2,608
Share premium		**3,046**	3,006
Reserves		**19,156**	17,918
Retained earnings		**23,190**	19,071
Equity attributable to owners of the Parent Company		**48,090**	42,603
Non-controlling interests		**4,220**	3,354
Total equity		**52,310**	45,957
Non-current liabilities			
Loans and borrowings	20	**8,377**	9,397
Deferred income	21	**2,429**	2,979
Provisions	22	**1,847**	1,722
Other financial liabilities	23	**375**	253
Total non-current liabilities		**13,028**	14,351
Current liabilities			
Bank overdraft	19	**3,620**	3,038
Loans and borrowings	20	**34,312**	38,455
Deferred income	21	**550**	821
Provisions	22	**–**	467
Income tax payable		**162**	26
Trade and other payables	24	**25,353**	21,422
Other financial liabilities	23	**9,642**	14,679
Total current liabilities		**73,639**	78,908
Total liabilities		**86,667**	93,259
Total equity and liabilities		**138,977**	139,216

These financial statements were approved by the Board of Directors on 9 August 2011 and were signed on its behalf by:

P Fineman
Director

S Tye
Director

Company number
1401155

The notes on pages 28 to 62 form part of the financial statements.

Consolidated cash flow statement
year ended 31 March 2011

	Notes	2011 £000	2010 restated £000
Cash flows from operating activities			
Profit for the year		4,858	704
Adjustments for:			
Depreciation	12	4,108	4,543
Impairment of tangible fixed assets	12	–	1,094
Amortisation of intangible assets	13	331	287
Finance expenses – continuing operations	8	2,917	2,930
Finance expenses – discontinued operations	11	26	94
Share of loss from associates		–	39
Recycling of translation reserves on closure of subsidiary		(97)	(907)
Income tax credit – continuing operations	9	(693)	(44)
Income tax credit – discontinued operations	11	–	(135)
Profit on sales of property, plant and equipment	5	(33)	(26)
Impairments of assets held for resale	17	238	–
Equity-settled share-based payment	28	109	82
Operating profit after adjustments for non-cash items		11,764	8,661
Change in trade and other receivables		173	7,288
Change in inventory		(303)	13,524
Change in trade and other payables		(381)	(2,181)
Change in provisions and deferred income		(518)	169
Cash generated from operations		10,735	27,461
Tax paid		(420)	(372)
Interest and similar charges paid		(3,226)	(3,421)
Acquisition of property for resale	17	(780)	–
Net cash inflow from operating activities		6,309	23,668
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		73	306
Acquisition of subsidiary, including overdrafts acquired	14	–	(3,918)
Acquisition of intangible assets	13	(521)	(646)
Acquisition of property, plant and equipment		(1,900)	(1,121)
Net cash outflow from investing activities		(2,348)	(5,379)
Cash flows from financing activities			
Proceeds from issue of share capital		56	1
Repayment of borrowings		(4,169)	(3,064)
Payment of finance lease liabilities		(113)	(12)
New bank loans raised		–	28,732
Net cash (outflow)/inflow from financing activities		(4,226)	25,657
Net increase in cash and cash equivalents		(265)	43,946
Cash and cash equivalents at 1 April		(993)	(45,375)
Effect of exchange rate fluctuations on cash held		(477)	436
Cash and cash equivalents at 31 March	19	(1,735)	(993)

Financial statements

Contents

Notes to the financial statements

1 Accounting policies

International Greetings plc is a public limited company, incorporated and domiciled in England and Wales. The Company's ordinary shares are listed on AIM.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account for the Group's interest in associates prior to gaining control of the former associate during 2009/2010. The Company financial statements present information about the Company as a separate entity and not about its group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its Company financial statements in accordance with UK GAAP; these are presented on pages 64 to 72.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements. Prior year comparatives have been restated to remove the discontinued operation from continuing operations (see note 11).

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the policies below.

Going concern basis

The financial statements have been prepared on the going concern basis, notwithstanding the net current liabilities of £4.2 million (2010: £10.5 million).

As in previous years, the Group has relied primarily on a short term facility for its working capital needs. In July 2011 the Group has negotiated with its principal bank more structured borrowings (split between US dollars and sterling) comprising a five year loan of £15.2 million with a bullet repayment on the fifth anniversary, a four year amortising loan of £14.8 million, a one year revolving multi-currency credit facility of up to £33 million and a one year rolling multi-currency overdraft facility of up to £5 million, plus a two year asset backed loan facility secured on the UK business inventory and debtors.

We have also secured a three year asset backed loan facility of up to $25 million with a US bank to assist in the funding of the US business and to mitigate the currency effect on our facility headroom. Details of the Group's facilities and borrowings in place at the year end are given in notes 20 and 29. Note 29 also describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives, details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk. Full details of the new facilities are included in Treasury Operations in the Financial Review.

The Board has prepared a working capital forecast which shows that the borrowing requirement of the Group increases steadily from July 2011 and peaks in September and October 2011 due to the seasonality of the business, as the sales of wrap and crackers are mainly for the Christmas market, before then reducing. Over this period due to production lead times the orders for pre-Christmas delivery have largely been received and therefore the principal sensitivities considered in the forecasts relate to the exchange rate between the US dollar and sterling for both trade and borrowing requirements. The working capital forecasts show the Group will operate within its facility limits for the foreseeable future.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments used for hedging are stated at their fair value.

1 Accounting policies continued

Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except for the adoption of new standards and interpretations as of 1 April 2010.

IFRS 2 Group cash-settled share-based payment arrangements

The amended standard clarifies the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. This amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 Business combination (revised January 2008)

The revised standard requires acquisition-related costs to be expensed and not included in the purchase price and contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interests (formally minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 27 Consolidated and separate financial statement (revised January 2008)

The revised standard no longer restricts the allocation to non-controlling interest of losses incurred by a subsidiary to the amount of the minority equity investment in the subsidiary. Any future partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill, nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be remeasured to fair value, which will impact the gain or loss recognised on disposal. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 39 Financial instruments: Recognition and measurement – Eligible hedged items

The amended standard clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

In May 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition.

The consolidated financial statements include the Group's share of other comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to Nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Notes to the financial statements continued

1 Accounting policies continued

Foreign currency translation

The consolidated financial statements are presented in pounds sterling, which is the Company's functional currency and the Group's presentational currency.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income in the translation reserve. The cumulative translation differences previously recognised in other comprehensive income (or where the foreign operation is part of a subsidiary, the parent's interest in the cumulative translation differences) are released into the income statement upon disposal of the foreign operation or on loss of control of the subsidiary that includes the foreign operation.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium exclude amounts in relation to those shares.

Trade and other receivables

Where it is likely to be materially different from the nominal value, trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Where it is likely to be materially different from the nominal value, trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1 Accounting policies continued

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised as other comprehensive income in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income are transferred to the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contract hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains or losses previously recognised in other comprehensive income, are transferred from other comprehensive income and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold (in case of inventory).

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised in the income statement immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

→ freehold buildings	25–30 years
→ leasehold land and buildings	life of lease
→ plant and equipment	4–25 years
→ fixtures and fittings	3–5 years
→ motor vehicles	4 years

No depreciation is provided on freehold land.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 April 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Notes to the financial statements continued

1 Accounting policies continued

Intangible assets and goodwill continued

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1 April 2006, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

If the cost of an acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

The main classes of intangible assets are computer software and publishing imprints.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful life of computer software ranges between three and five years. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are three to five years.

Amortisation charges are included under "administrative expenses" in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a combination of weighted average and the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of the Group's assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment in respect of goodwill is not reversed. In respect of other assets, an impairment is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

1 Accounting policies continued

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and announced its main provisions. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as borrowing costs.

Deferred consideration

Where considered material, the Group calculates deferred consideration by discounting it to its fair value. This fair value is used to calculate the total purchase consideration and hence the goodwill figure. As the discount unwinds it is charged as a finance expense within the income statement and added to the deferred consideration creditor.

Revenue recognition

Revenue represents the amounts, net of discounts, allowances for volume and promotional rebates and other payments to customers (excluding value added tax) derived from the provision of goods and services to customers during the year. Sales of goods are recognised when a Group entity has despatched products to the customer, legal title has passed and the collectability of the related receivable is reasonably assured.

Exceptional items

Exceptional items are those items of financial performance which, because of size or incidence, require separate disclosure to enable underlying performance to be assessed.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative income statement is represented as if the operation had been discontinued from the start of the comparative period.

Government grants

Capital based government grants are included within other financial liabilities in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on finance leases and unwinding of the discount on provisions. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity respectively.

Notes to the financial statements continued

1 Accounting policies continued

Taxation continued

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Dividend distribution

Final dividends to shareholders of International Greetings plc are recognised as a liability in the period that they are approved by shareholders.

Employee benefits

Pensions

The Group operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group to the fund.

The Netherlands subsidiary operates an industrial defined benefit fund, based on average wages, that has an agreed maximum contribution. The pension fund is a multi-employer fund and there is no contractual or constructive obligation for charging the net defined benefit cost of the plan to participating entities other than an agreed maximum contribution for the period, that is shared between employer (4/7) and employees (3/7). The Dutch Government is not planning to make employers fund any deficits in industrial pension funds; accordingly the Group treats the scheme as a defined contribution scheme for disclosure purposes. The Group recognises a cost equal to its contributions payable for the period.

Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition or a non-vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

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 vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition or a non-vesting condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1 Accounting policies continued

New standards and interpretations not applied

The following standards and interpretations issued by the IASB have an effective date after the date of these financial statements:

IAS 24 Related party disclosures (Amendment)

The amended standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect any impact on its financial position or performance.

IFRS 9 Financial instruments: Classification and measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the IASB will address impairments, hedge accounting and derecognition. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated financial statements includes a new definition of control, which is used to determine which entities are consolidated, and describes consolidation procedures.

IFRS 11 Joint arrangements describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined).

IFRS 12 Disclosures of interests in other entities includes all of the disclosure requirements for subsidiaries, joint ventures, associates, and "structured entities".

IFRS 13 Fair value measurement provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Other new standards

Management continually reviews the impact of newly published standards and amendments and considers, where applicable, disclosure of their impact on the Group.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

In addition to the forward operating profit and cash flow projections, the estimates and assumptions that have had a significant bearing on the financial statements in the current year or could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Exceptional items

The Directors have chosen to separate certain items of financial performance which they believe, because of size or incidence, require separate disclosure to enable underlying performance to be assessed. These items are fully described in note 10.

Notes to the financial statements continued

2 Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in the Directors' Report and below.

Impairment of goodwill and property, plant and equipment

Determining whether goodwill and property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated or to which property, plant and equipment belong. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £31.8 million (2010: £31.7 million). No impairment (2010: Nil) was required. The carrying amount of property, plant and equipment was £31.5 million (2010: £34.2 million). No impairment loss (2010: £1.1 million) was required.

Details of the impairment loss calculations are provided in notes 12 and 13.

Provision for slow moving inventory

The Group has guidelines for providing for inventory which may be sold below cost due to its age or condition. Directors assess the inventory at each location, and in some cases decide that there are specific reasons to provide more than the guideline levels, or less if there are specific action plans in place which mean the guideline provision level is not required. Determining the level of inventory provision requires an estimation of likely future realisable value of the inventory in various time frames, and comparing with the cost of holding stock for those time frames. Regular monitoring of stock levels, the ageing of stock and the level of the provision is carried out by the Directors. Details of inventory carrying values are provided in note 16. At March year end, stock purchased more than 15 months previously has reduced from £10.6 million to £7.9 million (at March 2011 exchange rates) and the Group has provisions of £6.0 million (2010: £8.2 million).

Share-based payments

The Directors are required to estimate the fair values of services received in return for share options granted to employees which are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is based on a Black Scholes model (with the contractual life of the option and expectations of early exercise incorporated into the model). Details of the key assumptions made in the measurement of share-based payments are provided in note 28.

Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain. Significant judgement is required in determining the Group's tax assets and liabilities. Deferred tax assets have been recognised to the extent they are recoverable based on profit projections for future years. Income tax liabilities for anticipated issues have been recognised based on estimates of whether additional tax will be due. Notwithstanding the above, the Group believes that it will recover tax assets and has adequate provision to cover all risks across all business operations. See note 15 for more details.

3 Financial risk management

Risk management is discussed in the Directors' Report, along with the Group's key risks. See note 29 for additional information about the Group's exposure to each of these risks and the ways in which they are managed. Below are key financial risk management areas:

- Currency risk is mitigated by a mixture of forward contracts, spot currency purchases and natural hedges.
- Liquidity risk is managed by monitoring daily cash balances, weekly cash flow forecasts, regular reforecasting of monthly working capital and regular dialogue with the Group's banks.
- Credit risk is managed by constant review of key debtors and banking with reputable banks.

4 Segmental information

The Group has one material business activity being the design, innovation and manufacture of giftwrap, crackers, cards, stationery and gift accessories.

For management purposes the Group is organised into four geographic business units.

The results below are allocated based on the region in which the businesses are located; this reflects the Group's management and internal reporting structure. The decision was made during the last year to focus Asia as a service provider of manufacturing and procurement operations, whose main customers are our UK businesses. Both the China factory and the majority of the Hong Kong procurement operations are now managed by our UK operational management team, and we have therefore now included Asia within the internal reporting of the UK operations, such that UK and Asia comprise an operating segment. The Chief Operating Decision Maker is the Board.

Intra-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Financial performance of each segment is measured on operating profit. Interest expense or revenue and tax are managed on a Group basis and not split between reportable segments.

Segment assets are all non-current and current assets, excluding deferred tax and income tax receivable. Where cash is shown in one segment, which nets under the Group's banking facilities, against overdrafts in other segments, the elimination is shown in the eliminations column. Similarly inter-segment receivables and payables are eliminated.

	UK and Asia £000	Europe £000	USA £000	Australia £000	Eliminations £000	Group £000
Year ended 31 March 2011						
Continuing operations						
Revenue – external	117,806	33,493	39,980	25,578	–	216,857
– intra-segment	11,895	1,336	–	–	(13,231)	–
Total segment revenue	129,701	34,829	39,980	25,578	(13,231)	216,857
Segment result before exceptional items and discontinued operations	2,673	2,107	2,096	2,455	–	9,331
Exceptional items	(510)	–	(238)	–	–	(748)
Segment result from continuing operations	2,163	2,107	1,858	2,455	–	8,583
Loss from discontinued operations (see note f)	–	(100)	–	–	–	(100)
Segment result	2,163	2,007	1,858	2,455	–	8,483
Loss from discontinued operations						100
Central administration costs						(1,249)
Central administration exceptional items						(152)
Net finance expenses						(2,917)
Income tax						693
Profit from continuing operations for the year ended 31 March 2011						4,958
Balances at 31 March 2011						
Continuing operations						
Segment assets	100,853	18,112	6,272	9,438	4,302	138,977
Segment liabilities	(41,243)	(15,721)	(27,245)	(2,611)	153	(86,667)
Capital expenditure						
– property, plant and equipment	1,334	297	231	279	–	2,141
– intangible	307	17	16	181	–	521
Depreciation	2,346	821	780	161	–	4,108
Amortisation	161	44	64	62	–	331
Impairment of property, plant and equipment	–	–	238	–	–	238

Notes to the financial statements continued

4 Segmental information continued

	UK and Asia £000	Europe £000	USA £000	Australia £000	Eliminations £000	Group £000
Year ended 31 March 2010 restated						
Continuing operations						
Revenue – external	108,993	33,121	40,839	15,293	–	198,246
– intra-segment	1,805	1,043	50	–	(2,898)	–
Total segment revenue	110,798	34,164	40,889	15,293	(2,898)	198,246
Segment result before exceptional items and discontinued operations	4,486	1,051	415	1,930	–	7,882
Exceptional items	(34)	(380)	175	–	–	(239)
Segment result from continuing operations	4,452	671	590	1,930	–	7,643
Loss from discontinued operations	–	(1,757)	–	–	–	(1,757)
Segment result	4,452	(1,086)	590	1,930	–	5,886
Loss from discontinued operations						1,757
Central administration costs						(1,395)
Central administration exceptional items						(862)
Net finance expenses						(2,930)
Share of profit of associates						(39)
Income tax						44
Profit from continuing operations year ended 31 March 2010						2,461
Balances at 31 March 2010						
Segment assets from continuing operations	101,898	24,578	17,416	7,516	(12,354)	139,054
Segment assets from discontinued operations	–	162	–	–	–	162
Segment assets	101,898	24,740	17,416	7,516	(12,354)	139,216
Segment liabilities	(43,612)	(23,186)	(39,359)	(2,121)	15,019	(93,259)
Capital expenditure						
– property, plant and equipment	752	283	34	52	–	1,121
– intangible	456	6	8	176	–	646
Depreciation	2,585	1,123	750	85	–	4,543
Amortisation	123	39	125	–	–	287
Impairment of fixed property, plant and equipment	–	767	–	–	–	767
Impairment of fixed property, plant and equipment central administration	–	–	–	–	–	327

(a) Capital expenditure consists of additions of property, plant and equipment, intangible assets and goodwill.

(b) No single customer accounts for over 10% of total sales.

(c) The assets and liabilities that have not been allocated to segments consist of deferred tax assets of £4,617,000 (2010: £3,501,000), and income tax payable of £162,000 (2010: £26,000). In addition, the assets and liabilities have been grossed up for VAT of £315,000 (2010: £268,000) to reflect the net position of the Group.

(d) No operating segment has been aggregated in determining reportable segments.

(e) Central recharges are included within the result of the segment that takes the recharge. The balance of the central costs are not allocated to segments.

(f) The discontinued operation all relates to the Europe segment. See note 11 for results. The loss includes £26,000 (2010: £94,000) of finance expenses and £Nil (2010: £135,000 credit) in respect of tax.

4 Segmental information continued

Geographical information

The Group's information about its segmental assets (non-current assets excluding deferred tax assets and other financial assets) and turnover by customer destination and product are detailed below:

	Non-current assets	
	2011 £000	2010 £000
UK	**39,705**	41,241
Asia	**1,929**	2,377
USA	**6,850**	7,856
Europe	**14,285**	14,105
Australia and New Zealand	**2,134**	1,759
	64,903	67,338

	Turnover			
	2011 £000	2010 restated £000	**2011 %**	2010 restated %
UK	**89,916**	81,818	**41**	41
USA	**53,076**	53,761	**25**	27
Europe	**43,711**	44,051	**20**	22
Australia and New Zealand	**25,578**	15,293	**12**	8
Rest of world	**4,576**	3,323	**2**	2
	216,857	198,246	**100**	100

Turnover by product

Turnover analysis by product

	2011 £000	2010 restated £000	**2011 %**	2010 restated %
Giftwrap	**77,991**	72,645	**36**	37
Books and stationery	**38,659**	34,251	**18**	17
Greetings cards	**23,371**	18,148	**11**	9
Bags and boxes	**18,039**	15,744	**8**	8
Crackers	**16,843**	14,322	**8**	7
Albums and frames	**9,366**	10,367	**4**	5
Other	**32,588**	32,769	**15**	17
Total	**216,857**	198,246	**100**	100

Notes to the financial statements continued

5 Expenses and auditors' remuneration

Included in profit/loss are the following charges/credits:

	Notes	2011 £000	2010 £000
Depreciation	12	4,108	4,543
Profit on sales of property, plant and equipment		(33)	(26)
Release of deferred grant income	7	(550)	(550)
Amortisation of intangible assets	13	331	287
Impairment of property, plant and equipment	12	–	1,094
Operating lease payment – minimum lease payment	30	4,422	4,794
Sublease rental income	7	(73)	(452)
Write-down of inventories to net realisable value	16	2,552	4,638
Reversal of previous write-downs	16	(603)	(962)
Gain on foreign exchange		(616)	(1,621)

Auditors' remuneration:

	2011 £000	2010 £000
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	54	38
Audit of financial statements of subsidiaries pursuant to legislation		
– overseas subsidiaries	193	117
– UK subsidiaries	62	64
Other services relating to taxation	100	39

6 Staff numbers and costs

This note includes staff numbers and costs from both continuing and discontinued operations.

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2011	2010
Selling and administration	434	440
Production and distribution	1,996	1,811
	2,430	2,251

The aggregate payroll costs of these persons were as follows:

	Note	£000	£000
Wages and salaries		37,578	33,414
Share-based payments	28	109	82
Social security costs		2,945	2,974
Other pension costs		1,962	1,421
		42,594	37,891

For information on Directors' remuneration please refer to the sections titled "Executive Share Options" and "Directors' Remuneration" within the Directors' Remuneration Report.

7 Other operating income

	2011 £000	2010 £000
Lease premium	271	403
Grant income received	550	550
Sublease rentals credited to the income statement	73	452
Other	125	238
	1,019	1,643

8 Finance expenses

	2011 £000	2010 restated £000
Interest payable on bank loans and overdrafts	2,295	2,132
Other similar charges	751	682
Finance charges in respect of finance leases	4	2
Unwinding of discount on deferred consideration	–	83
Interest payable under the effective interest method	3,050	2,899
Derivative financial instruments at fair value through income statement	(133)	31
	2,917	2,930

9 Taxation

Recognised in the income statement

	2011 £000	2010 restated £000
Current tax expenses		
Current year – UK corporation tax	–	–
Current year – foreign tax	1,144	569
Adjustments for prior years (see below)	(605)	(643)
	539	(74)
Deferred tax expense		
Original and reversal of temporary differences	(765)	214
Adjustments in respect of previous periods	(467)	(184)
	(1,232)	30
Total tax in income statement	(693)	(44)

Reconciliation of effective tax rate

	2011 £000	2010 restated £000
Profit before tax	4,265	2,417
Tax using the UK corporation tax rate of 28% (2010: 28%)	1,194	677
Expenses not deductible for corporation tax purposes	21	349
Recycle of translation gain on closure of subsidiary	(3)	(262)
Tax losses on which deferred tax has not been recognised	633	84
Deferred tax assets in respect of losses previously unprovided	(1,291)	–
Non-taxable income	(32)	(80)
Impact of the tax rate change on deferred tax	159	–
Refund carryback due to change in tax law	(427)	–
Differences between UK and overseas tax rates	125	15
Over provided in prior years	(1,072)	(827)
Total tax in income statement	(693)	(44)

Included in the adjustments in respect of prior years above is a credit for £427,000 arising from a change in legislation in the US enabling the Group to utilise further tax losses carried back.

Notes to the financial statements continued

10 Exceptional items

2011 continuing operations	Cost of sales £000	Selling expenses £000	Admin expenses £000	Total £000
Restructuring of operational activities				
– redundancies (note a)	27	401	234	662
– impairment of asset for resale (note b)	–	–	238	238
Total restructuring costs	27	401	472	900
Income tax credit				(267)
				633

2010 continuing operations restated	Cost of sales £000	Selling expenses £000	Admin expenses £000	Profit on disposal £000	Total £000
Restructuring of operational activities					
Impairment of leasehold improvements and fittings at Hatfield Head office (note c)	–	–	327	–	327
– lease provision (note c)	–	–	1,300	–	1,300
– redundancies (note d)	–	160	554	–	714
Recycling of translation reserve on closure of subsidiary (note e)	–	–	–	(907)	(907)
Asia supplier disruption – insurance proceeds (note f)	(333)	–	–	–	(333)
	(333)	160	2,181	(907)	1,101
Income tax charge					(693)
					408

(a) The UK Greetings design studio moved down to Wales, senior management were made redundant within Anker and the Group Centre due to restructuring within those businesses, and the decision was made to bring the China Factory under the control of the UK management team, resulting in a senior manager in Asia being made redundant. These redundancies have cost £662,000.

(b) During the year the Group was called upon to repay the mortgage of a former senior employee of the US business upon his repatriation to the UK, according to a guarantee given by the Group about five years ago. The Group has purchased the property and is looking to dispose of it as soon as practicable. It is disclosed on the balance sheet as an asset held for sale, and has been impaired to its fair value less costs to sell.

Year ended 31 March 2010

(c) During the year the Group announced its decision to the staff to relocate its UK Greetings design studio from the Hatfield head office to the rest of the UK Greetings business based in Wales. With this, and the previous restructuring, the offices in Hatfield are oversized for the current remaining staff and activities. An onerous lease provision was therefore made of £1.3 million, of which £200,000 was used during the year to 31 March 2010. The Group has been exploring opportunities to relocate its head office, and removed many of the offices that had been built within the warehouse in order to be able to sublet the property to an incoming tenant. It therefore impaired the value of these leasehold improvements and fittings being £327,000.

(d) During the year the Board took the decision to relocate the operations of its Weltec business in Holland into the Anchor BV operation and, in the UK, to relocate its Gift Design business into the Scoop business. These, and other minor restructuring, incurred costs of £714,000 mainly in staff redundancy, and some equipment operational contracts.

(e) In early 2008 the Group closed its Latvian business, which has been winding down with the final staff leaving and the premises shut during this year. The Latvian companies were put into administration and, in accordance with IAS 21, the translation reserves relating to that business are recycled back through the income statement (£907,000).

(f) The Group submitted an insurance claim in relation to the fire at one of our Asia suppliers in 2008.

11 Discontinued operations

In July 2010, the Board took the difficult decision to close the Eick Pack counter rolls business in Germany that it bought in 2007. It made losses since its acquisition and, despite investing extra management time and further sales resource, there were insufficient indicators that a sustained improvement could be made.

	2011 £000	2010 £000
Revenue	**390**	1,906
Cost of sales	**(358)**	(1,823)
Gross profit	**32**	83
Selling expenses	**(17)**	(120)
Administration expenses	**(89)**	(363)
Operating loss	**(74)**	(400)
Finance expenses	**(26)**	(94)
Loss before tax and exceptional items	**(100)**	(494)
Income tax	**–**	–
Loss from discontinued operation before exceptional items	**(100)**	(494)
Exceptional items		
Impairment of fixed assets (see below)	**–**	(767)
Impairment of stock (see below)	**–**	(631)
Total exceptional items	**–**	(1,398)
Tax credit on exceptional items	**–**	135
Exceptional items after tax	**–**	(1,263)
Loss from discontinued operation	**(100)**	(1,757)
The tax credit is analysed as follows:		
On the loss on discontinuance	**–**	135
	–	135

The net cash flows attributable to Eick Pack are as follows:

	2011 £000	2010 £000
Operating cash flows	**(13)**	(25)
Investing cash flows	**–**	10
Net cash flows	**(13)**	(15)
Loss per share from discontinued operation:		
Basic	**(0.2)p**	(3.5)p
Diluted	**(0.2)p**	(3.2)p

As a result of the decision to close its German subsidiary as at 31 March 2010, the Group impaired the fixed assets of that subsidiary, being printing equipment and fittings totalling £767,000 to the Directors' estimate of its fair value on sale less costs of sale which netted to £Nil. In addition the Group reviewed the carrying value of the related inventory and provided £631,000 against these.

Notes to the financial statements continued

12 Property, plant and equipment

	Land and buildings					
	Freehold £000	Leasehold £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
Balance at 1 April 2009	22,183	7,324	48,092	8,189	876	86,664
Transfer between categories (see note below)	371	(371)	–	–	–	–
Balance at 1 April 2009 – restated	22,554	6,953	48,092	8,189	876	86,664
Additions	220	–	286	589	26	1,121
Acquisition through business combinations	–	–	129	100	68	297
Disposals	(392)	(31)	(624)	(639)	(234)	(1,920)
Transfers between categories	(22)	1,455	1,545	(3,620)	231	(411)
Effect of movements in foreign exchange	(223)	(312)	(784)	(299)	21	(1,597)
Balance at 31 March 2010 – restated	22,137	8,065	48,644	4,320	988	84,154
Balance at 1 April 2010 – restated	**22,137**	**8,065**	**48,644**	**4,320**	**988**	**84,154**
Additions	**246**	**6**	**991**	**782**	**116**	**2,141**
Disposals	**–**	**(605)**	**(2,643)**	**(2,883)**	**(262)**	**(6,393)**
Effect of movements in foreign exchange	**(68)**	**(495)**	**(1,097)**	**(196)**	**11**	**(1,845)**
Balance at 31 March 2011	**22,315**	**6,971**	**45,895**	**2,023**	**853**	**78,057**
Depreciation and impairment						
Balance at 1 April 2009	(6,536)	(370)	(33,220)	(6,075)	(741)	(46,942)
Transfer between categories	(15)	15	–	–	–	–
Balance at 1 April 2009 – restated	(6,551)	(355)	(33,220)	(6,075)	(741)	(46,942)
Depreciation charge for the year – restated	(910)	(333)	(2,387)	(742)	(171)	(4,543)
Disposals	231	31	540	616	222	1,640
Impairment	–	(290)	(622)	(182)	–	(1,094)
Transfers between categories	3	(1,389)	(1,151)	2,804	(28)	239
Effect of movements in foreign exchange	25	(15)	509	230	(4)	745
Balance at 31 March 2010 – restated	(7,202)	(2,351)	(36,331)	(3,349)	(722)	(49,955)
Balance at 1 April 2010 – restated	**(7,202)**	**(2,351)**	**(36,331)**	**(3,349)**	**(722)**	**(49,955)**
Depreciation charge for the year	**(920)**	**(349)**	**(2,179)**	**(552)**	**(108)**	**(4,108)**
Disposals	**–**	**605**	**2,634**	**2,876**	**238**	**6,353**
Effect of movements in foreign exchange	**(1)**	**127**	**866**	**182**	**(3)**	**1,171**
Balance at 31 March 2011	**(8,123)**	**(1,968)**	**(35,010)**	**(843)**	**(595)**	**(46,539)**
Net book value						
At 31 March 2011	**14,192**	**5,003**	**10,885**	**1,180**	**258**	**31,518**
At 31 March 2010 – restated	14,935	5,714	12,313	971	266	34,199

Depreciation is charged to either cost of sales, selling costs or administration costs within the income statement depending on the department to which the assets relate.

Leased plant and machinery

The net book value of property, plant and equipment included an amount of £193,000 (2010: £36,000) in respect of assets held under finance leases.

Impairment

The impairments in 2010 are explained in note 10 and note 11.

Apart from these specific terms, all other property, plant and equipment have been compared with the value in use and no further impairments are required. The basis for these conclusions are explained in note 13.

Security

All freehold properties are subject to a fixed charge.

Note

Property previously described as leasehold has been recategorised as freehold.

13 Intangible assets

	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
Cost				
Balance at 1 April 2009	38,892	1,839	471	41,202
Acquisitions through business combinations	1,023	–	18	1,041
Reclassified to/from property, plant and machinery	–	411	–	411
Additions	–	646	–	646
Disposals	–	(65)	–	(65)
Effect of movements in foreign exchange	1,043	(13)	5	1,035
Balance at 31 March 2010	40,958	2,818	494	44,270
Balance at 1 April 2010	**40,958**	**2,818**	**494**	**44,270**
Additions	**–**	**521**	**–**	**521**
Disposals	**(26)**	**(379)**	**–**	**(405)**
Effect of movements in foreign exchange	**(347)**	**(44)**	**1**	**(390)**
Balance at 31 March 2011	**40,585**	**2,916**	**495**	**43,996**
Amortisation and impairment				
Balance at 1 April 2009	(9,373)	(1,353)	(96)	(10,822)
Amortisation for the year	–	(239)	(48)	(287)
Reclassified to/from property, plant and machinery	–	(239)	–	(239)
Disposals	–	65	–	65
Effect of movements in foreign exchange	135	17	–	152
Balance at 31 March 2010	(9,238)	(1,749)	(144)	(11,131)
Balance at 1 April 2010	**(9,238)**	**(1,749)**	**(144)**	**(11,131)**
Amortisation for the year	**–**	**(283)**	**(48)**	**(331)**
Disposals	**26**	**379**	**–**	**405**
Effect of movements in foreign exchange	**390**	**57**	**(1)**	**446**
Balance at 31 March 2011	**(8,822)**	**(1,596)**	**(193)**	**(10,611)**
Net book value				
At 31 March 2010	31,720	1,069	350	33,139
At 31 March 2011	**31,763**	**1,320**	**302**	**33,385**

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2011 £000	2010 £000
UK segment		
Anker International PLC	**16,410**	16,410
Alligator Books Ltd	**6,445**	6,445
Multiple UK units without individually significant goodwill	**2,745**	2,745
Total UK segment	**25,600**	25,600
US segment	**–**	–
European segment		
Hoomark B.V.	**3,242**	3,227
Multiple European units without individually significant goodwill	**1,600**	1,660
Total European segment	**4,842**	4,887
Australia segment		
Artwrap Pty Ltd	**1,321**	1,233
Total goodwill	**31,763**	31,720

Notes to the financial statements continued

13 Intangible assets continued

Impairment

The Group tests goodwill each half year for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill considered significant in comparison to the Group's total carrying amount of such assets has been allocated to the business unit, or group of business units, that are expected to benefit from the synergies of the combination (see table above), which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is referred to below as a cash-generating unit. During the last few years the businesses have begun to work more closely with each other, exploiting the synergies that arise. The recoverable amounts of cash-generating units are determined from the higher of value in use and fair value less costs to sell.

The Group prepares cash flow forecasts for each cash-generating unit derived from the most recent financial budgets for the following three years. The key assumptions in these are sales, margins achievable and overhead costs which are reviewed and approved by the Board. The Group then extrapolates cash flows for the following ten years based on a conservative estimate of market growth of 2% (2010: 2%).

Each of the cash-generating units used a pre-tax discount rate of 13% which is derived from an estimate of the Group's future average weighted cost of capital adjusted to reflect the market assessment of the risks specific to the current estimated cash flows over the same period. In 2010 the cash-generating units for UK, Europe and Australia used a pre-tax discount rate of 13%, but for USA used a discount rate of 15% to represent the higher risk within that business given its recent performance. The risks in the USA are estimated to have reduced as the business has re-established itself in the market.

All of the cash-generating units value in use were determined to be higher than fair value less costs to sell, thus this was used as the recoverable amount. In all businesses the carrying value of the goodwill was supported by the recoverable amount, and there are currently no reasonably foreseeable changes to assumptions that would give rise to an impairment of the carrying value.

The conclusions were not considered to be sensitive to a 20% change in either the discount rate or the growth rate.

14 Acquisition of subsidiaries

Deferred consideration payable	Note	2010 £000	Settled in shares £000	Translation difference £000	2011 £000
Eick Pack (note a)		112	–	(1)	111
Glitterwrap (note b)		1,043	(1,022)	(21)	–
Balance of deferred consideration	22	1,155	(1,022)	(22)	111

	2011 £000	2010 £000
Deferred consideration on Alligator	–	750
Overdraft acquired on change of control in Artwrap (note c)	–	3,168
Total cash outlay	–	3,918

a) On 23 January 2007, the Group acquired 100% of the issued share capital of Eick Pack Werner GmbH & Co (Eick Pack) a manufacturer of giftwrap counter rolls based in Germany. Initial consideration of €1 was paid for shares. The share purchase agreement also provided for the potential payment of outstanding loans made by the previous shareholders to Eick Pack; dependent on Eick Pack's profits for the years ended 31 March 2008 to 2010, including a guaranteed minimum amount of £112,000 payable at the end of this period. Since the company has now been put into administration the Group is in discussions with the former shareholders about the applicability of this payment.

b) On 4 September 2007, the Group acquired 100% of the issued share capital of Glitterwrap Inc. a supplier of giftware and party products based in the USA. Initial consideration of £1,295,000 was paid, £635,000 in cash and £660,000 by the issue of 232,024 new ordinary shares. Directly attributable costs of £178,000 were incurred. During the year ended 31 March 2009 a payment of £938,000 was made, £469,000 in cash and £469,000 by the issue of 1,438,359 new ordinary shares. On 24 September 2009, deferred consideration of £1,513,000 was paid by the issue of 3,642,268 new ordinary shares. At 31 March 2010, the future deferred consideration payable was £1,043,000 at the exchange rate prevailing at that date. This was settled in full by the issuance of 1,491,613 shares in September 2010, which were valued at £1,022,000 on the date of issuance.

14 Acquisition of subsidiaries continued

The goodwill recognised was attributed mainly to the synergies expected to be achieved from integrating the operations into the Group's existing business. Due to the economic conditions and the revised manufacturing strategy for the US during the year ended 31 March 2009 it was felt that these synergies would not be attained within the expected timescale, and hence the goodwill arising on the acquisition was consequently impaired in full during that year. As deferred consideration is paid in shares, the amount over the nominal value of the shares is added to the merger reserve.

c) Consolidation of Artwrap Pty Ltd

On 3 October 2007, the Group acquired 50% of the ordinary shares in Artwrap Pty Ltd (Artwrap), a designer and distributor of giftwrap and greetings products based in Australia. Initial consideration of £1,701,000 was paid in October 2007 and deferred consideration of £781,000 was paid in August 2008.

The purchase agreement contained an option for the Group to buy any of the remaining 50% of the shares. Previously the Group had waived all rights to this option. This waiver expired on 31 July 2009, and accordingly, from 1 August 2009, Artwrap has been consolidated as a subsidiary and the remaining 50% interest is shown as a non-controlling interest. Previously, Artwrap had been recorded as an associate of the Group.

The fair values of the identifiable assets and liabilities of Artwrap, which were the same as the book values, as at 1 August 2009, the date of consolidation, were:

	Fair value and book value on 1 August 2009 £000
Intangible assets	18
Property, plant and equipment	297
Deferred tax assets	282
Inventory	6,809
Trade and other receivables	2,009
	9,415
Bank overdrafts	(3,168)
Trade and other payables	(1,911)
	(5,079)
Net assets	4,336
50% interest on consolidation	2,168
Goodwill arising on consolidation	1,023
Total cost of investment (see below)	3,191

The total net cash outflow to the Group was the consolidation of bank overdraft of £3.2 million.

From 1 August 2009 to 31 March 2010, Artwrap contributed, net of the amount of non-controlling interest, £649,000 profit after tax to the Group.

The goodwill recognised above is attributed to the expected synergies from combining design skills, and intellectual property of Artwrap with those of the Group.

Summary aggregated financial information up to 1 August 2009 and at 31 March 2009 are as follows:

	2010 £000	2009 £000
Assets	–	7,294
Liabilities	–	(3,013)
Revenues	3,459	13,757
Loss	78	240

Notes to the financial statements continued

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	(591)	(750)	1,155	1,755	564	1,005
Inventories	(809)	(858)	–	–	(809)	(858)
Capital gains deferred	–	–	563	606	563	606
Deferred lease premium	(79)	(150)	–	–	(79)	(150)
Provisions	(894)	(486)	–	4	(894)	(482)
Tax loss carried forward	(2,406)	(2,250)	–	–	(2,406)	(2,250)
Other timing differences	(1,555)	(1,503)	–	131	(1,555)	(1,372)
Net tax (assets)/liabilities	(6,334)	(5,997)	1,718	2,496	(4,616)	(3,501)

The deferred tax asset in respect of tax losses carried forward at 31 March 2011 of £2,406,000 (2010: £2,250,000) is comprised of UK tax losses of £1,982,000 (2010: £2,250,000), and US losses of £424,000 (2010: £Nil). US tax losses carried forward will become irrecoverable in March 2027. UK tax losses may be carried forward indefinitely. The deferred tax assets have been recognised where the Board considers there is sufficient evidence that taxable profits will be available against which the tax losses can be utilised. The Board fully expects that all the tax losses will be recoverable against future profits but given the level of tax losses brought forward recoverability has been assessed on the basis of expected profits currently forecast on a prudent basis. Deferred tax assets in respect of taxable losses that are expected to be recovered outside this forecast period have not been recognised. This includes unrecognised deferred tax assets in respect of UK tax losses in the year of £Nil (2010: £20,000) and against brought forward UK losses of £480,000 (2010: £1,356,000), and in respect of US tax losses in the year of £Nil (2010: £650,000) and £5,336,000 (2010: £6,387,000) in respect of brought forward US tax losses.

At the balance sheet date the UK government had substantively enacted a 2% reduction in the main rate of UK corporation tax from 28% to 26% effective from 1 April 2011. The government has also proposed reducing the UK corporation tax rate by a further 1% per annum to 23% by 1 April 2014. However, these further rate changes had not been substantively enacted at the balance sheet date and their effects are not, therefore, included in these financial statements. We do not expect that the enactment of these changes will have a material impact on the deferred tax balance of the Group.

Movement in deferred tax during the year

	1 April 2010 £000	Acquired with subsidiary £000	Disposal of subsidiary £000	Recognised in income £000	Recognised in equity £000	31 March 2011 £000
Property, plant and equipment	1,005	–	–	(430)	(11)	564
Inventories	(858)	–	135	(101)	15	(809)
Capital gains deferred	606	–	–	(43)	–	563
Deferred lease premium	(150)	–	–	76	(5)	(79)
Provisions	(482)	–	–	(376)	(36)	(894)
Tax loss carried forward	(2,250)	–	–	(155)	(1)	(2,406)
Other timing differences	(1,372)	–	–	(203)	20	(1,555)
Net tax assets	(3,501)	–	135	(1,232)	(18)	(4,616)

Movement in deferred tax during the prior year

	1 April 2009 £000	Acquired with subsidiary £000	Restated disposal of subsidiary £000	Restated recognised in income £000	Recognised in equity £000	31 March 2010 £000
Property, plant and equipment	(6)	(49)	–	1,069	(9)	1,005
Inventories	(1,450)	(71)	(135)	802	(4)	(858)
Capital gains deferred	1,507	–	–	(901)	–	606
Deferred lease premium	(189)	(54)	–	105	(12)	(150)
Provisions	(116)	(108)	–	(233)	(25)	(482)
Tax loss carried forward	(2,590)	–	–	340	–	(2,250)
Other timing differences	(226)	–	–	(1,152)	6	(1,372)
Net tax assets	(3,070)	(282)	(135)	30	(44)	(3,501)

16 Inventory

	2011 £000	2010 £000
Raw materials and consumables	**7,149**	7,101
Work in progress	**6,323**	6,579
Finished goods	**32,110**	31,231
	45,582	44,911

Of the £45,582,000 (2010: £44,911,000) stock value £39,958,000 (2010: £38,673,000) is held at cost and £5,624,000 (2010: £6,238,000) is held at net realisable value. Included within inventories is £Nil (2010: £Nil) expected to be recovered in more than twelve months. The write-down of inventories to net realisable value amounted to £2,552,000 (2010: £4,638,000). The reversal of previous write-downs amounted to £603,000 (2010: £962,000). The reversal is due to the inventory being either used or sold.

Materials and consumables, and changes in finished goods and work in progress recognised as a cost of sales amounted to £149,097,000 (2010: £141,068,000).

Part of the Group's funding is via asset backed loans from our bankers. These loans are secured on the inventory and trade receivables of the larger UK and European businesses. The amount of the inventory that is used to secure an asset backed loan is £26,651,000 (2010: £24,373,000). In addition bank loans to Hoomark and IG USA are secured on a freehold property and contents, including inventory, therein.

Refer to note 20 for outstanding balance on asset backed loans and details of the secured bank loans.

17 Assets held for sale

	2011 £000	2010 £000
Asset acquired	**780**	–
Impairment	**(238)**	–
Effect of exchange	**(45)**	–
	497	–

During the year the Group was called upon to repay the mortgage of a former senior employee of the US business upon his repatriation to the UK, according to a guarantee given by the Group about five years ago. The Group has purchased the property and is looking to dispose of it as soon as practicable. It is disclosed on the balance sheet as an asset held for sale, and has been impaired to its fair value less costs to sell.

18 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	**17,366**	17,623
Prepayments and accrued income	**1,742**	1,847
Other receivables	**1,853**	1,571
VAT receivable	**453**	380
Forward foreign currency contracts carried at fair value through the income statement	**80**	–
	21,494	21,421

Part of the Group's funding is via asset backed loans from our bankers. These loans are secured on the inventory and trade receivables of the larger UK and European businesses. The amount of the trade receivables that is used to secure an asset backed loan is £9,928,000 (2010: £9,158,000).

Refer to note 20 for outstanding balance on asset backed loans.

Included within trade receivables is £Nil (2010: £20,000) expected to be recovered in more than twelve months.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 29.

Notes to the financial statements continued

19 Cash and cash equivalents/bank overdrafts

	2011 £000	2010 £000
Cash and cash equivalents	1,885	2,045
Bank overdrafts	(3,620)	(3,038)
Cash and cash equivalents per cash flow statement	(1,735)	(993)

Net debt

	Note	2011 £000	2010 £000
Cash and cash equivalents		1,885	2,045
Bank loans and overdrafts	20	(46,309)	(50,890)
Net debt as used in the Financial Review		(44,424)	(48,845)

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 29.

The bank overdrafts are secured by a fixed charge on certain of the Group's land and buildings, a fixed charge on certain of the Group's book debts and a floating charge on certain of the Group's other assets.

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

	2011 £000	2010 £000
Non-current liabilities		
Secured bank loans (see overleaf)	8,377	9,397
Current liabilities		
Asset backed loan	4,449	8,760
Revolving credit facilities	28,901	28,625
Current portion of secured bank loans (see overleaf)	962	1,070
Bank loans and borrowings	34,312	38,455

The asset backed loans are secured on the inventory and receivables of the larger business units within the UK and European business segments.

The revolving credit facilities were put in place last year to replace part of the overdraft with the principal bank. It is secured on the assets of the Group, in the same way as the bank overdraft above. The interest rate is 2.5% over LIBOR. The facilities are drawn for periods from one day up to six months.

Terms and debt repayment schedule

Repayment analysis of bank loans and overdrafts	2011 £000	2010 £000
Due within one year:		
Bank loans and borrowings (see above)	34,312	38,455
Bank overdrafts (note 19)	3,620	3,038
Due between one and two years:		
Secured bank loans (see overleaf)	975	1,090
Due between two and five years:		
Secured bank loans (see overleaf)	2,324	2,481
Due after more than five years:		
Secured bank loans (see overleaf)	5,078	5,826
	46,309	50,890

20 Loans and borrowings continued

Secured bank loans

Loan 1

The principal of £730,000 (2010: £914,000) is repayable monthly on a reducing balance basis over a 15 year period, ending in March 2016. The loan is secured over the freehold land and buildings and the contents therein of International Greeting USA Inc. and is subject to a variable rate of interest linked to the US Federal Funds Rate (US FFR). The currency of denomination of the loan is US dollar.

Loan 2

The principal of £739,000 (2010: £927,000) is repayable monthly on a reducing balance basis over a nine year period ending in March 2016. The loan is secured over the freehold land and buildings and the content therein of International Greeting USA Inc. and is subject to a variable rate of interest linked to the US FFR. The currency of denomination of the loan is US dollar.

Loan 3

The principal of £7,069,000 (2010: £7,534,000) is repayable quarterly over a 20 year period ending in July 2028. The loan is secured over the freehold land and buildings and the content therein of Hoomark B.V. and is subject to a variable rate of interest linked to EURIBOR, that has been swapped to a fixed rate for a notional amount of £6,195,000 and a period of three years ending in January 2014. The currency of denomination of the loan is euro.

Loan 4

The principal of £801,000 (2010: £1,092,000) is repayable monthly over a five year period ending November 2013. The loan is secured over the plant and machinery of International Greetings UK Ltd and is subject to a variable rate interest linked to the UK base rate. The currency of denomination of the loan is sterling.

21 Deferred income

	2011 £000	2010 £000
Included within non-current liabilities		
Deferred grant income	**2,429**	2,979
Included within current liabilities		
Deferred grant income	**550**	550
Lease premium	**–**	271
	550	821

The deferred grant income is in respect of a government grant relating to a print plant. All conditions have now been met and there is no requirement to repay. It is being amortised in line with the depreciation on the print plant.

The lease premium was given at the inception of the lease for one of the leasehold properties.

22 Provisions

	Property £000
Balance at 1 April 2010	2,189
Provisions utilised during the year	(342)
Balance at 31 March 2011	**1,847**

	2011 £000	2010 £000
Non-current	**1,847**	1,722
Current	**–**	467
	1,847	2,189

The provision represents the estimated reinstatement cost of two of the Group's leasehold properties under fully repairing leases, and provision for an onerous lease for one of those properties. No dilapidations are expected for at least five years.

Notes to the financial statements continued

23 Other financial liabilities

	Note	2011 £000	2010 £000
Included within non-current liabilities			
Finance lease (see below)		99	38
Other creditors and accruals		276	215
		375	253
Included within current liabilities			
Deferred acquisition payments	14	111	1,155
Finance lease (see below)		76	7
Other creditors and accruals		9,331	13,429
Forward foreign currency contracts carried at fair value through the income statement		–	88
Forward foreign exchange contracts carried at fair value through the hedging reserve		124	–
		9,642	14,679

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than one year	98	(22)	76	39	(1)	38
Between one and five years	107	(8)	99	10	(3)	7
	205	(30)	175	49	(4)	45

24 Trade and other payables

	2011 £000	2010 £000
Trade payables	24,050	20,017
Other payables	1,303	1,405
	25,353	21,422

25 Share capital

	Ordinary shares	
In thousands of shares	2011	2010
In issue at 1 April	52,150	48,498
Issued as consideration for acquiring subsidiaries and associates	1,492	3,642
Options exercised during the year	325	10
In issue at 31 March – fully paid	53,967	52,150

	2011 £000	2010 £000
Allotted, called up and fully paid		
Ordinary shares of £0.05 each	2,698	2,608

During the year the Company issued 1,816,613 (2010: 3,652,268) ordinary shares of 5p each for £1,078,000 (2010: £1,514,000), 1,491,613 in respect of consideration for the cost of acquiring subsidiaries (see note 14) and 325,000 due to the exercise of share options, which generated cash proceeds of £56,000 (2010: £1,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

26 Earnings per share

	2011		2010	
	Diluted	**Basic**	Diluted	Basic
Adjusted earnings per share excluding exceptional items and discontinued operations	**8.2p**	**8.9p**	4.0p	4.4p
Loss per share on exceptional items	**(1.1)p**	**(1.2)p**	(0.7)p	(0.8)p
Earnings per share from continuing operations	**7.1p**	**7.7p**	3.3p	3.6p
Loss per share on discontinued operations	**(0.2)p**	**(0.2)p**	(3.2)p	(3.5)p
Earnings per share	**6.9p**	**7.5p**	0.1p	0.1p

The basic earnings per share is based on the profit attributable to equity holders of the Company of £4,010,000 (2010: £55,000) and the weighted average number of ordinary shares in issue of 53,127,000 (2010: 50,375,000) calculated as follows:

Weighted average number of shares in thousands of shares	2011	2010
Issued ordinary shares at 1 April	**52,150**	48,498
Shares issued in respect of acquisitions	**854**	1,876
Shares issued in respect of exercising of share options	**123**	1
Weighted average number of shares at 31 March	**53,127**	50,375

Adjusted basic earnings per share excludes exceptional items charged of £900,000 (2010: £1,101,000), the tax relief attributable to those items of £267,000 (2010: £693,000) and the loss on discontinued operations (net of tax) of £100,000 (2010: £1,757,000), to give adjusted profit of £4,743,000 (2010 restated: £2,220,000).

Diluted earnings per share

The average number of share options outstanding in the year is 6,157,000 (2010: 6,062,494), at an average exercise price of 16.4p. No share options are currently exercisable, but the diluted earnings per share is calculated assuming all these options were exercised. At 31 March the diluted number of shares was 57,805,000 (2010: 54,663,000).

27 Dividends

No dividends were paid in year (2010: Nil). The Directors do not propose a final dividend for 2011.

28 Share-based payments

Options

Options to subscribe for ordinary shares have been granted, pursuant to the Company's approved and unapproved Employee Share Option Schemes, which are exercisable at dates ranging up to January 2021. At 31 March 2011, outstanding options were as follows:

	Number of ordinary shares	Exercise price (p)	Exercise dates
Approved:	4,084,995	14	Dec 2011 – Dec 2018
	10,000	23.5	Apr 2012 – Apr 2019
	191,600	31.25	Jul 2012 – Jul 2019
	97,500	50	Sep 2012 – Sep 2019
	96,774	62	Jan 2014 – Jan 2021
Unapproved:	1,502,561	14	Dec 2011 – Dec 2018
	10,900	50	Sep 2012 – Sep 2019
	53,226	62	Jan 2014 – Jan 2021
	6,047,556		

All share-based payments are equity settled.

There were no performance or profitability conditions attached to the approved options (other than continued employment), except for 48,387 shares issued at 62p, which relate to specific performance targets related to sales of new product areas in the USA. Conditions related to profitability for the two years to March 2011 are attached to the unapproved options awarded to Executive Directors, and these conditions have now been fully met.

For the share options outstanding at 31 March 2011 the weighted average remaining contract life was 7.8 years (2010: 8.8 years).

Notes to the financial statements continued

28 Share-based payments continued

Options continued

The numbers and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	15p	6,222,556	14p	5,877,556
Approved options granted during the period	62p	96,774	37p	349,100
Unapproved options granted	62p	53,226	50p	10,900
Forfeited during the period	–	–	14p	(5,000)
Exercised during the period	17p	(325,000)	14p	(10,000)
Outstanding at the end of the period	16p	6,047,556	15p	6,222,556
Exercisable at the end of the period	N/A	–	N/A	–

The weighted average share price at the date of exercise of share options exercised during the period was 64.4p (2010: 50.5p).

The principal assumptions used in assessing the fair value of share options granted during the year were as follows:

	2011	2010
Fair value at measurement date	£0.20	£0.08
Weighted average share price	£0.62	£0.15
Exercise price	£0.62	£0.24, £0.31, £0.50
Expected volatility	50%	50%
Expected option life	3 years	3 years
Expected dividends	0%	0%
Risk free interest rate (based on national government bonds)	2.5%	3%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options).

The total expenses recognised for the period arising from share-based payments are as follows:

	2011 £000	2010 £000
Equity-settled share-based payments	109	82

29 Financial instruments

a) Fair values of financial instruments

The carrying values for each class of financial assets and financial liabilities in the balance sheet, which are given below, are not considered to be materially different to their fair values.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Doubtful receivable provisions are established based upon the difference between the receivable value and the estimated net collectible amount.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

29 Financial instruments continued

a) Fair values of financial instruments continued

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Derivative financial instruments

The fair value of forward exchange contracts is based on their list market price.

	Notes	Carrying amount 2011 £000	Fair value 2011 £000	Carrying amount 2010 £000	Fair value 2010 £000
Cash and cash equivalents	19	**1,885**	**1,885**	2,045	2,045
Trade receivables	18	**17,366**	**17,366**	17,623	17,623
Other receivables	18	**1,853**	**1,853**	1,571	1,571
Financial assets at fair value through profit or loss	18	**80**	**80**	–	–
Total financial assets		**21,184**	**21,184**	21,239	21,239
Bank loans and overdrafts	19	**46,309**	**46,309**	50,890	50,890
Finance lease liability	23	**175**	**175**	45	45
Other financial liabilities	23	**9,718**	**9,718**	14,799	14,799
Trade payables	24	**24,050**	**24,050**	20,017	20,017
Other payables	24	**1,303**	**1,303**	1,405	1,405
Total financial liabilities measured at amortised cost		**81,555**	**81,555**	87,156	87,156
Financial liabilities at fair value through profit or loss	23	**–**	**–**	88	88
Financial liabilities at fair value through hedging reserve	23	**124**	**124**	–	–
Total financial liabilities at fair value		**124**	**124**	88	88
Total financial liabilities		**81,679**	**81,679**	87,244	87,244
Net financial liabilities		**60,495**	**60,495**	66,005	66,005

b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with strong credit ratings. The Group's financial credit risk is primarily attributable to its trade receivables.

The Group has no significant concentration of credit risk exposure as revenues are split across a large number of customers in different geographical areas. The main customers of the Group are large and mid-sized retailers, other manufacturers and wholesalers of greetings products, service merchandisers and trading companies. The Group has established procedures to minimise the risk of default of trade receivables including detailed credit checks undertaken before new customers are accepted, and rigorous credit control procedures after sale. These processes have proved effective in minimising the level of impairments required.

The amounts presented in the balance sheet are net of allowances for doubtful receivables estimated by the Group's management, based on prior experience and their assessment of the current economic environment.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £21,184,000 (2010: £21,239,000) being the total of the carrying amount of financial assets, excluding equity investments, shown in the table above.

Notes to the financial statements continued

29 Financial instruments continued

b) Credit risks continued

Exposure to credit risk continued

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	2011 £000	2010 £000
UK and Asia	**8,842**	8,276
USA	**2,463**	2,777
Europe	**2,883**	4,133
Australia	**3,178**	2,437
	17,366	17,623

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	Gross 2011 £000	Impairment 2011 £000	Gross 2010 £000	Impairment 2010 £000
Not past due	**12,309**	**(74)**	13,870	(273)
Past due 0–90 days	**4,763**	**(97)**	3,746	(150)
More than 90 days	**1,170**	**(705)**	1,576	(1,146)
	18,242	**(876)**	19,192	(1,569)

There were no unimpaired balances outstanding at 31 March 2011 (2010: Nil) where the Group had renegotiated the terms of the trade receivable.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 £000	2010 £000
Balance at 1 April	**1,569**	2,451
Acquisition of subsidiary	**–**	22
Impairment loss recognised	**566**	1,438
Impairment loss reversed	**(1,248)**	(2,329)
Effects of movement in foreign exchange	**(11)**	(13)
Balance at 31 March	**876**	1,569

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. In July 2011, the principal bank of the Group agreed to restructure the Group's facilities. The Group has also secured a three year asset backed loan facility with a US bank to assist in the funding of the US business and to mitigate the currency effect on our facility headroom. See 'Treasury Operations' in the Financial Review and note 1 for further details.

The Group's policy with regard to liquidity has historically been to ensure adequate access to funds by maintaining appropriate levels of short-term overdraft facilities, which are reviewed on a regular basis. The maturity profile of debt outstanding at 31 March 2011 is set out in note 20. The Group's policy is to introduce an element of longer-term borrowing and correspondingly reduce its short-term borrowing overdraft facilities.

29 Financial instruments continued

c) Liquidity risks continued

Financial risk management continued

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 March 2011	Notes	Nominal interest rate %	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities								
Secured bank loans – sterling		4.1	801	(884)	(318)	(318)	(248)	–
Secured bank loans – US dollar		1.7	1,469	(1,529)	(313)	(309)	(907)	–
Secured bank loans – euros		3.4	7,069	(9,191)	(411)	(423)	(1,320)	(7,037)
Total secured bank loans	20		9,339	(11,604)	(1,042)	(1,050)	(2,475)	(7,037)
Finance leases	23							
– sterling leases		5.5	113	(131)	(67)	(47)	(17)	–
– other leases		6.5	62	(74)	(31)	(19)	(24)	–
Other financial liabilities			9,718	(9,718)	(9,442)	(77)	(108)	(91)
Trade payables	24		24,050	(24,050)	(24,050)	–	–	–
Other payables	24		1,303	(1,303)	(1,303)	–	–	–
Asset backed loans		2.8–4.5	4,449	(4,449)	(4,449)	–	–	–
Revolving credit facilities		2.8–3.1	28,901	(28,901)	(28,901)	–	–	–
Bank overdraft		1.4–5.1	3,620	(3,620)	(3,620)	–	–	–
Derivative financial liabilities								
Forward foreign exchange contracts carried at fair value through the hedging reserve			124	(6,666)	(6,666)	–	–	–
Total			81,679	(90,516)	(79,571)	(1,193)	(2,624)	(7,128)

31 March 2010	Notes	Nominal interest rate %	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000	More than 5 years £000
Non-derivative financial liabilities								
Secured bank loans – sterling		4.1	1,092	(1,177)	(437)	(422)	(318)	–
Secured bank loans – US dollar		2.8	1,841	(1,953)	(322)	(334)	(992)	(305)
Secured bank loans – euros		2.8	7,534	(9,687)	(414)	(427)	(1,332)	(7,514)
Total secured bank loans			10,467	(12,817)	(1,173)	(1,183)	(2,642)	(7,819)
Finance leases								
– sterling leases		10.3	19	(22)	(20)	(2)	–	–
– other leases		8.6	26	(28)	(20)	(7)	(1)	–
Other financial liabilities			14,799	(14,821)	(14,606)	(50)	(142)	(23)
Trade payables	24		20,017	(20,017)	(20,017)	–	–	–
Other payables	24		1,405	(1,405)	(1,405)	–	–	–
Asset backed loans		2.8–4.5	8,760	(8,760)	(8,760)	–	–	–
Revolving credit facilities		2.7–3.2	28,625	(28,625)	(28,625)	–	–	–
Bank overdraft		2.8–4.5	3,038	(3,038)	(3,038)	–	–	–
Derivative financial liabilities								
Financial liabilities at fair value through the income statement			88	(5,555)	(5,555)	–	–	–
Total			87,244	(95,088)	(83,219)	(1,242)	(2,785)	(7,842)

Notes to the financial statements continued

29 Financial instruments continued

c) Liquidity risks continued

Financial risk management continued

The following shows the facilities for bank loans, overdrafts, asset backed loans and revolving credit facilities:

	31 March 2011				31 March 2010			
	Carrying amount £000	Facility used contractual cash flows £000	Facility unused £000	Total facility £000	Carrying amount £000	Facility used contractual cash flows £000	Facility unused £000	Total facility £000
Secured bank loans (see opposite)	9,339	(11,604)	–	(11,604)	10,467	(12,817)	–	(12,817)
Asset backed loans (see note (a) below)	4,449	(4,449)	(5,654)	(10,103)	8,760	(8,760)	–	(8,760)
Revolving credit facilities	28,901	(28,901)	(7,899)	(36,800)	28,625	(28,625)	(16,275)	(44,900)
Bank overdraft	3,620	(3,620)	(6,341)	(9,961)	3,038	(3,038)	(4,641)	(7,679)
	46,309	(48,574)	(19,894)	(65,468)	50,890	(53,240)	(20,916)	(74,156)

(a) The asset backed loan facilities are dependent upon the levels of the relevant inventory and receivables.

(b) The major bank facilities vary in the year depending on forecast debt requirements. The maximum facility for overdrafts and asset backed loans with the major bank was £90 million. At 31 March 2011 the facility amounted to £48 million.

(c) Additional facilities were available at other banks of £8.9 million, including asset backed loans according to the level of the receivables and inventory.

d) Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

31 March 2011	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000	More than 5 years £000
Forward exchange contracts:						
Liabilities	124	(6,666)	(6,666)	–	–	–

At 31 March 2011, the Group held forward currency hedging contracts designated as hedges of expected future sales to customers in Sweden for which the Group has firm commitments. The Group also has forward currency hedging contracts outstanding at 31 March 2011 designated as hedges of expected future purchases in US dollars for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments.

The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments.

The cash flow hedges of the expected future sales in June 2011 were assessed to be highly effective and an unrealised loss of £112,000, with a deferred tax credit of £Nil relating to the hedging instruments is included in other comprehensive income.

The cash flow hedges of the expected future purchases in 2011/2012 were assessed to be highly effective and as at 31 March 2011, a net unrealised loss of £12,000, with related deferred tax credit of £Nil was included in other comprehensive income in respect of these hedging contracts.

31 March 2010	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1–2 years £000	2–5 years £000	More than 5 years £000
Forward exchange contracts:						
Liabilities	88	(5,555)	(5,555)	–	–	–

The cash flow hedging instruments held at 31 March 2010 did not meet the criteria for hedge accounting under IAS 39 therefore the fair value of the instruments has been recognised in the income statement in the year.

29 Financial instruments continued

e) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The Group hedges a proportion, as deemed appropriate by management, of its UK subsidiaries' sales and purchases of inventory denominated in foreign currency by entering into foreign exchange contracts. Such foreign exchange contracts typically have maturities of less than one year.

The Group does not hedge profit translation exposure, since such hedges provide only a temporary deferral of the effects of movement in foreign exchange rates. Similarly, the Group does not hedge its long-term investments in overseas assets.

Foreign currency risk

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 March 2011	Notes	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	19	2	80	743	1,060	1,885
Trade receivables	18	7,208	3,006	3,613	3,539	17,366
Other receivables	18	984	144	531	194	1,853
Financial assets at fair value through income statement	18	–	80	–	–	80
Secured bank loans	20	(801)	(7,069)	(1,469)	–	(9,339)
Finance leases	23	(113)	–	(55)	(7)	(175)
Asset backed loans	20	(970)	(3,479)	–	–	(4,449)
Revolving credit facilities	20	(17,100)	–	(11,801)	–	(28,901)
Bank overdrafts	19	(219)	(2,761)	(767)	127	(3,620)
Other financial liabilities held at amortised cost		(7,004)	(1,432)	(1,282)	–	(9,718)
Trade payables	24	(11,991)	(2,577)	(6,575)	(2,907)	(24,050)
Other payables	24	(1,115)	(184)	–	(4)	(1,303)
Financial liabilities at fair value through hedging reserve	23	(124)	–	–	–	(124)
Balance sheet exposure		(31,243)	(14,192)	(17,062)	2,002	(60,495)

31 March 2010	Notes	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	19	2	1,214	277	552	2,045
Trade receivables	18	7,208	4,026	3,750	2,639	17,623
Other receivables	18	870	105	557	39	1,571
Secured bank loans	20	(1,092)	(7,534)	(1,841)	–	(10,467)
Finance leases	23	(19)	–	–	(26)	(45)
Asset backed loans	20	(4,818)	–	(3,942)	–	(8,760)
Revolving credit facilities	20	(14,000)	(3,036)	(11,589)	–	(28,625)
Bank overdrafts	19	(890)	(6,831)	4,637	46	(3,038)
Other financial liabilities held at amortised cost		(10,202)	(1,797)	(2,800)	–	(14,799)
Trade payables	24	(8,425)	(3,499)	(6,136)	(1,957)	(20,017)
Other payables	24	(1,075)	(324)	–	(6)	(1,405)
Forward exchange contracts designated at fair value through income statement	23	–	(81)	28	(35)	(88)
Balance sheet exposure		(32,441)	(17,757)	(17,059)	1,252	(66,005)

The following significant exchange rates applied during the year, for conversion to sterling:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
Euro 1	0.850	0.885	0.885	0.893
US dollar 1	0.642	0.625	0.621	0.662

Notes to the financial statements continued

29 Financial instruments continued

Sensitivity analysis

A 10% weakening of the following currencies against sterling at 31 March 2011 would have increased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 March 2010.

	Equity		Profit/(loss)	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Euro	**1,290**	1,754	**86**	373
US dollar	**1,551**	1,764	**(672)**	(655)

On the basis of the same assumptions, a 10% percent strengthening of the above currencies against the pound sterling at 31 March 2011 would have decreased equity and profit or loss by the following amounts:

	Equity		Profit/(loss)	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Euro	**(1,577)**	(1,754)	**(105)**	(411)
US dollar	**(1,896)**	(1,764)	**822**	721

Interest rate risk

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Note	**2011 £000**	2010 £000
Fixed rate instruments			
Financial liabilities		**(6,195)**	–
Variable rate instruments			
Financial assets		**1,885**	2,045
Financial liabilities		**(40,114)**	(50,935)
Net debt	19	**(44,424)**	(48,890)

The fixed rate borrowings above are shown after taking account of an interest rate swap (see note 20 loan 3 for details).

Sensitivity analysis

A change of 50 basis points (0.5%) in interest rates at the balance sheet date would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect on financial instruments with variable interest rates, financial instrument at fair value through profit or loss. The analysis is performed on the same basis for 31 March 2010.

	2011 £000	2010 £000
Equity		
Increase	**–**	–
Decrease	**191**	244
Profit or loss		
Increase	**–**	–
Decrease	**191**	244

29 Financial instruments continued

f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group is dependent on the continuing support of its bankers for working capital facilities and so the Board's major objective is to keep borrowings within these facilities.

The Board manages as capital its trading capital, which it defines as its net assets plus net debt. Net debt is calculated as total debt (bank overdrafts, loans and borrowing as shown in the balance sheet), less cash and cash equivalents. There were no externally imposed capital requirements in terms of ratios during the year however our articles currently permit borrowings (including letter of credit facilities) to a maximum of four times equity.

The main areas of capital management revolve around the management of the components of working capital including monitoring inventory turn, and months production or cost of sales outstanding, age of inventory, age of trade receivables, balance sheet reforecasting, monthly profit and loss, weekly cash flow forecasts, and daily cash balances. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires sign off by the Group Chief Executive. There were no major changes in the Group's approach to capital management during the year.

g) Fair value hierarchy

Financial instruments which are recognised at fair value subsequent to initial recognition are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The three levels are defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2011, the Group had derivative contracts, which were measured at Level 2 fair value subsequent to initial recognition, to the value of a liability of £124,000 (2010: net liability of £88,000) and an asset of £80,000 (2010: £Nil).

30 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011 £000	2010 £000
Less than one year	**5,346**	5,130
Between one and five years	**12,950**	14,228
More than five years	**12,976**	14,758
	31,272	34,116

The Group leases a number of warehouse and factory facilities as well as vehicles and office equipment under operating leases. The leases of warehouse and factory facilities typically have an option to renew at the end of the lease term and lease payments are subject to five yearly rent reviews.

One of the leased properties has been sublet by the Group. The sublease has a period to run of less than a year with an option for the lessee to renew at the end of the lease term. Sublease payments of £73,000 (2010: £91,000) are expected to be received during the financial year.

During the year £4,422,000 was recognised as an expense in the income statement in respect of operating leases (2010: £4,794,000).

Notes to the financial statements continued

31 Capital commitments

At 31 March 2011, the Group had outstanding authorised capital commitments to purchase plant and equipment for £43,000 (2010: £15,000).

32 Related parties

Identity of related parties and trading:

	2011 £000	2010 £000
Sales of goods:		
AB Alrick – Hedlund	261	193
Hedlunds Pappers Indstri AB	22	148
Festive Productions Ltd	18	36
Mrs L Hedlund	3	3
Hedlund Import AB	3,844	4,909
	4,148	5,289
Purchase of goods:		
Hedlunds Pappers Industri AB	15	–
Hedlund Import AB	4	15
	19	15
Receivables:		
AB Alrick – Hedlund	27	6
Hedlunds Pappers Industri AB	2	2
Festive Productions Ltd	–	11
Hedlund Import AB	125	345
Balance at 31 March	154	364

Hedlund Import AB and AB Alrick Hedlund are under the ultimate control of the Hedlund family. SA Hedlund is a director of Hedlunds Pappers Industri AB which is under the ultimate control of the Hedlund family. Festive Productions Ltd is a subsidiary undertaking of Malios AG, a company under the ultimate control of the Hedlund family. Mrs L Hedlund is the wife of Mr SA Hedlund.

The above trading takes place in the ordinary course of business and on normal commercial terms.

Other related party transactions

Directors of the Company and their immediate relatives have an interest in 52% (2010: 54%) of the voting shares of the Company. The shareholdings of Directors are shown in the Directors' Report on pages 11 to 15, no shares were issued to Directors during the year (2010: Nil).

During the year the Group were called upon to repay the mortgage of a former senior employee of the US business upon his repatriation to the UK, according to a guarantee given by the Group about five years ago. The Group has purchased the property, and is looking to dispose of it as soon as practicable. It is disclosed on the balance sheet as an asset held for sale, and has been impaired to its fair value less costs to sell.

Compensation of key management personnel (including Directors)

Please refer to the information given in the Directors' Remuneration Report on page 16 for details of compensation given to the Group's key management personnel. A share-based payment charge of £109,000 was made in the year (2010: £82,000), see note 28, of which £44,000 (2010: £33,000) related to Directors. There are no other key management personnel.

33 Post balance sheet events

In July 2011, the principal bank of the Group has agreed to restructure the Group's facilities. The Group have also secured a three year asset backed loan facility with a US bank to assist in the funding of the US business and to mitigate the currency effect on our facility headroom. See 'Treasury Operations' in the Financial Review and note 1 for further details.

Company financial statements

Contents

Statement of Directors' responsibilities for the parent company financial statements

The Directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report
to the members of International Greetings plc

We have audited the Parent Company financial statements of International Greetings plc for the year ended 31 March 2011 which comprise the Company Balance Sheet and the related notes 1 to 11. 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).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the Directors are responsible for the preparation of the Parent Company 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 Parent Company 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 Annual Report and 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 Parent Company's 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 Chairman's Statement, Chief Executive's Operational Review and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Independent auditors' report continued
to the members of International Greetings plc

Matters on which we are required to report by exception

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 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.

Other matter

We have reported separately on the Group financial statements of International Greetings plc for the year ended 31 March 2011.

Andy Clewer (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
9 August 2011

Company balance sheet
as at 31 March 2011

	Notes	2011 £000	2010 restated £000
Fixed assets			
Tangible assets	3	**17**	261
Investments	4	**61,084**	48,343
Total non-current assets		**61,101**	48,604
Current assets			
Debtors	5	**2,517**	16,107
Creditors: amounts falling due within one year	7	**(21,551)**	(22,998)
Net current liabilities		**(19,034)**	(6,891)
Net assets		**42,067**	41,713
Capital and reserves			
Called up share capital	8	**2,698**	2,608
Share premium account	9	**3,046**	3,006
Capital redemption reserve	9	**1,340**	1,340
Merger reserve	9	**17,164**	16,216
Profit and loss account	9	**17,819**	18,543
Equity shareholders' funds		**42,067**	41,713

International Greetings plc is registered in England and Wales, number 1401155.

These financial statements were approved by the Board of Directors on 9 August 2011 and were signed on its behalf by:

P Fineman
Director

S Tye
Director

The notes on pages 68 to 72 form part of these financial statements.

Notes to the Company financial statements

1 Accounting policies – Company

Basis of preparation

The financial statements have been prepared in accordance with applicable UK Generally Accepted Accounting Standards and under the historical cost accounting rules. The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the financial statements.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account, and under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemption in FRS 8, not to disclose transactions with its wholly owned subsidiaries.

In the light of the amendment to FRS 20 Group cash-settled share-based payments effective for the first time this year, the Company has amended their accounting policy for share-based payment schemes settled in the Company's equity where services are received by subsidiary entities. To reflect this change, the Company has recorded no increase in investment in subsidiary undertakings at 31 March 2009. Increases of £60,000 and £67,000 have been recorded in the periods to 31 March 2010, and 31 March 2011 respectively, with a corresponding credit to equity.

The Company has taken advantage of the exemption in paragraph 2d of FRS 29 Financial instruments: *Disclosures* and has not disclosed information required to that standard as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7: Financial instruments: *Disclosures*.

Investment in subsidiary undertakings

The Company's investment in subsidiary undertakings is stated at cost less any provision for impairment.

Property, plant and equipment and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Leasehold land and buildings	life of lease
Office equipment	3 to 5 years
Motor vehicles	4 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight-line basis over the life of the lease, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rentals payable are charged to the profit and loss account on a straight-line basis over the life of the lease.

1 Accounting policies – Company continued

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

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 number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post acquisition profits of the subsidiary.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand.

Deferred tax

The Company takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Full provision without discounting is made for all timing differences which have arisen, but not reversed at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

Employee benefits

Pensions

The Company operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund.

Notes to the Company financial statements continued

2 Dividends

There were no dividends paid this year (2010: Nil).

3 Tangible assets

	Land and buildings leaseholds £000	Fixtures and fittings £000	Motor vehicles £000	Software £000	Total £000
Cost					
Balance at 1 April 2010	393	511	20	268	1,192
Additions	–	13	–	19	32
Disposals	(393)	(186)	–	(278)	(857)
Balance at 31 March 2011	**–**	**338**	**20**	**9**	**367**
Depreciation and impairment					
Balance as at 1 April 2010	(393)	(511)	(20)	(7)	(931)
Depreciation charge for the year	–	23	–	4	27
Disposals	393	161	–	–	554
Balance at 31 March 2011	**–**	**(327)**	**(20)**	**(3)**	**(350)**
Net book value					
At 31 March 2011	**–**	**11**	**–**	**6**	**17**
At 31 March 2010	–	–	–	261	261

4 Investments

Shares in subsidiary undertakings	Cost £000	Impairment £000	Net book value £000
Carrying value			
At 1 April 2010 previously reported	50,943	(2,660)	48,283
Prior year adjustment – share-based payments	60	–	60
At 1 April 2010 restated	51,003	(2,660)	48,343
Loans to subsidiaries	13,409	–	13,409
Write-off of investments	(735)	–	(735)
Share options grated to subsidiary employees	67	–	67
Balance at 31 March 2011	**63,744**	**(2,660)**	**61,084**

The write off of investment is the result of the transfer of the trading assets of Gift Design Ltd to Scoop Design Ltd.

4 Investments continued

The main trading subsidiary and associate undertakings of the Company are as follows:

Company	Country of incorporation	Principal activity	Percentage of ordinary shares held
Subsidiary			
International Greetings (UK) Limited	Great Britain	Manufacture of gift wrapping paper, bows and ribbons	100
Anker International PLC	Great Britain	Distribution of photo albums, frames, stationery and Christmas related products	100
Alligator Books Ltd	Great Britain	Children's book publisher and stationery	100
Scoop Designs Limited	Great Britain	Packaged gifts	100
International Greetings USA Inc.	USA	Manufacture of gift wrapping paper, bows and ribbons	100
International Greetings Asia Limited	Hong Kong	Trading company	100
The Shenzhen Gift International Greetings Company Limited	China	Manufacture of Christmas crackers	100 (indirect holding)
Hoomark BV	Netherlands	Manufacture of gift wrapping paper	100 (indirect holding)
Anchor International BV	Netherlands	Distribution of photo albums, frames, stationery and Christmas related products	100 (indirect holding)
Artwrap Pty Ltd	Australia	Design and distribution of giftwrap and greetings products	50

Artwrap Pty Ltd has been accounted for as a subsidiary from 1 August 2009 as a result of the Group having the option to purchase the remaining 50% share.

5 Debtors

	Note	2011 £000	2010 £000
Trade debtors		**3**	2
Amounts owed by Group undertakings		**1,301**	15,225
Other debtors		**502**	248
Prepayments		**210**	229
Corporation tax		**5**	–
Deferred tax assets	6	**496**	403
		2,517	16,107

Included within debtors is £Nil (2010: £Nil) expected to be recovered in more than twelve months.

The deferred tax asset in the Company is recoverable after more than one year.

6 Deferred tax asset

	2011 £000	2010 £000
Difference between accumulated depreciation and capital allowance	**84**	101
Tax loss carried forward	**126**	–
Other timing differences	**286**	302
	496	403

At the balance sheet date the UK government had substantively enacted a 2% reduction in the main rate of UK corporation tax from 28% to 26% effective from 1 April 2011. The government has also proposed reducing the UK corporation tax rate by a further 1% per annum to 23% by 1 April 2014. However, these further rate changes had not been substantively enacted at the balance sheet date and their effects are not, therefore, included in these financial statements. We do not expect that the enactment of these changes will have a material impact on the deferred tax balance of the Group.

Notes to the Company financial statements continued

7 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Bank overdraft and revolving credit facilities and other borrowings	17,393	17,455
Trade creditors	1,292	1,188
Amounts owed to subsidiary undertakings	1,104	1,658
Other taxes and social security	65	111
Other creditors	797	1,139
Accruals	900	1,447
	21,551	22,998

Refer to note 20 of the Group's financial statements for more details of the terms of the bank borrowings.

8 Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid		
53,966,625 (2010: 52,150,012) ordinary shares of 5p each	2,698	2,608

Refer to note 25 of the Group's financial statements for details of movements and note 28 for details of share options.

9 Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Equity shareholders' funds £000
At 1 April 2009	2,425	3,006	1,340	14,885	15,437	37,093
Profit for the financial year – restated	–	–	–	–	3,024	3,024
Options exercised	1	–	–	–	–	1
New shares issued on acquisition of subsidiaries	182	–	–	1,331	–	1,513
Share-based payments – restated	–	–	–	–	22	22
Share options granted to subsidiary employees	–	–	–	–	60	60
At 1 April 2010 – restated	2,608	3,006	1,340	16,216	18,543	41,713
Loss for the year	–	–	–	–	(833)	(833)
Options exercised	16	40	–	–	–	56
New shares issued on acquisition of subsidiaries	74	–	–	948	–	1,022
Share-based payments	–	–	–	–	42	42
Share options granted to subsidiary employees	–	–	–	–	67	67
At 31 March 2011	2,698	3,046	1,340	17,164	17,819	42,067

Within the profit and loss account is a cumulative amount of £127,000 (2010: £60,000) which is unrealised in respect of share options granted to subsidiary employees.

10 Share-based payments

Please see note 28 of the Group's financial statements for details of share-based payments.

11 Contingencies

The Company has given, together with certain of its subsidiary undertakings, an unlimited composite joint and several guarantee in respect of the bank loans and overdrafts of itself and its subsidiaries. The total of this guarantee at the year end, in relation to the Company only was £32,203,000 (2010: £17,920,000) in excess of the amount dealt with in the Company's financial statements.

Dear Shareholder, 9 August 2011

Notice of Annual General Meeting

I am pleased to invite you to the Annual General Meeting (AGM) of International Greetings plc (the Company) to be held on Wednesday 7 September 2011 at 11.00 a.m. at Belgrave House, Hatfield Business Park, Frobisher Way, Hatfield, Hertfordshire AL10 9TQ United Kingdom. The formal notice of AGM is on pages 74 to 78 of this document, which sets out the business to be considered at the Meeting.

Each resolution at the AGM will be proposed and voted on separately and there will be an opportunity during the Meeting to ask questions of your Directors on the issues involved. Explanatory notes on the resolutions to be proposed are set out on pages 77 to 78 of this document.

Your Directors believe that the proposed resolutions are in the best interests of the Company and its shareholders as a whole and unanimously recommend that you vote in favour of each of the proposed resolutions.

You are entitled to appoint another person as your proxy to exercise all or any of your rights to attend and to speak and vote at the Meeting. You may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you. A proxy does not need to be a shareholder of the Company. If you wish to appoint a proxy please use the enclosed form of proxy.

Whether or not you propose to be at the AGM, you are asked to complete and return the enclosed Form of Proxy as soon as possible, but in any event so as to be received by the Company's Registrar at PXS, 34 Beckenham Road, Beckenham BR3 4TU no later than 11.00 a.m. on Monday 5 September 2011.

I look forward to meeting you at the AGM.

Yours sincerely,

Sheryl Tye
Company Secretary

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting (AGM) of the Company will be held at Belgrave House, Hatfield Business Park, Frobisher Way, Hatfield, Hertfordshire AL10 9TQ United Kingdom on Wednesday 7 September 2011 at 11.00 a.m. The business of the Meeting will be to consider and, if thought fit, to pass the following Resolutions of which Resolutions 1 to 5 are proposed as Ordinary Resolutions and Resolutions 6 to 8 as Special Resolutions.

Ordinary resolutions

To consider and, if thought fit, to pass the following resolutions, which will be proposed as Ordinary Resolutions:

1. To receive the Directors' Report and the annual report and accounts for the year ended 31 March 2011 and the auditors' report on the accounts.
2. To re-elect Sheryl Tye as a Director.
3. To re-appoint Ernst and Young LLP as auditors of the Company.
4. To authorise the Directors to determine the remuneration for Ernst and Young LLP as auditors of the Company.
5. That the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 551 of the Companies Act 2006 (the "CA 2006")) up to an aggregate nominal amount of £1,800,000 comprising:

   (a) an aggregate nominal amount of £900,000 (whether in connection with the same offer or issue as under (b) below or otherwise); and

   (b) an aggregate nominal amount of £900,000 in the form of equity securities (within the meaning of Section 560 of the CA 2006) in connection with an offer or issue by way of rights, open for acceptance for a period fixed by the Directors, to holders of ordinary shares (other than the Company) on the register on any record date fixed by the Directors in proportion (as nearly as may be) to the respective number of ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever.

This authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2012, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

Provided that all previous authorities under Section 551 of the CA 2006 Act are revoked.

Special resolutions

To consider and, if thought fit, to pass the following resolutions, which will be proposed as special resolutions:

6. That the Directors be empowered pursuant to Section 570 of the CA 2006 to allot equity securities for cash pursuant to the general authority conferred on them by Resolution 5 above as if Section 561 of the CA 2006 did not apply to any such allotment or sale, provided that this power shall be limited to:

   (a) any such allotment and/or sale of equity securities in connection with an offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the Directors, to holders of ordinary shares (other than the Company) on the register on any record date fixed by the Directors in proportion (as nearly as may be) to the respective number of ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the Directors may deem expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter; and

Special resolutions continued

(b) any such allotment and/or sale, other than pursuant to sub-paragraph (a) opposite, of relevant shares (as defined in Section 551 of the CA 2006), having an aggregate nominal value not exceeding the sum of £269,833, representing 10% of the issued share capital of the Company as at the date hereof.

This authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the Directors by Resolution 5 opposite expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the Directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

Provided that all previous authorities under Section 570 of the CA 2006 Act are revoked.

7. That pursuant to Article 9 of the Company's Articles of Association and Section 701 of the CA 2006, the Company be generally and unconditionally authorised to make market purchases (as defined in Section 693(4) of the CA 2006) of its ordinary shares of 5p each provided that in doing so it:

   (a) purchases no more than 5,396,662 ordinary shares in aggregate;

   (b) pays not less than 5p (excluding expenses) per ordinary share; and

   (c) pays a price per share that is not more (excluding expenses) per ordinary share than the higher of: (i) 5% above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately before the day on which it purchases that share; and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation.

This authority shall expire at the conclusion of the Company's next AGM in 2012 or within 15 months from the date of passing of this resolution (whichever is the earlier), but the Company may, if it agrees to purchase ordinary shares under this authority before it expires, complete the purchase wholly or partly after this authority expires.

8. That a general meeting, other than an AGM, may be called on not less than 14 days' clear notice.

On behalf of the Board

Sheryl Tye
Company Secretary
9 August 2011

Registered office
Belgrave House
Hatfield Business Park
Frobisher Way
Hatfield
Herts AL10 9TQ
Registered in England and Wales No. 1401155

Notes

1. A shareholder is entitled to appoint another person as that shareholder's proxy to exercise all or any of that shareholder's rights to attend and to speak and vote at the AGM. A shareholder may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy does not need to be a shareholder of the Company.

2. A form of proxy for use in connection with the AGM is enclosed with the document of which this notice forms part. Completion and return of a form of proxy will not prevent a shareholder from attending and voting at the AGM.

Notice of annual general meeting continued

Notes continued

3. To appoint a proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or any other authority under which it is signed, or a notarially certified copy of such authority, to the Company's Registrar at PXS, 34 Beckenham Road, Beckenham BR3 4TU; or (b) a CREST Proxy Instruction (see note 4 below), in each case so that it is received no later than 11.00 a.m. on Monday 5 September 2011.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) of the Meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed any voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) by 11.00 a.m. on Monday 5 September 2011.

   For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders included in the register of members of the Company at 6.00 p.m. on Monday 5 September 2011 (or, if the Meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting), will be entitled to attend and to vote at the AGM in respect of the number of shares registered in their names at that time. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the AGM.

6. Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays and public holidays) until the end of the AGM and will also be available for inspection at the place of the AGM for at least 15 minutes before and during the Annual General Meeting.

7. Addresses (including electronic addresses) in this document are included strictly for the purposes specified and not for any other purpose.

Explanatory notes to the notice of annual general meeting

Resolutions 1 to 5 are Ordinary Resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 – Laying of accounts

The Directors will present to the shareholders of the Company the reports of the Directors and auditors, and the audited accounts of the Company for the year ended 31 March 2011. The Directors' Report and the audited accounts have been approved by the Directors, and the report of the auditors has been approved by the auditors.

Resolution 2 – Directors' re-appointment by rotation

The Company's Articles of Association require that at each AGM one third of the Directors who are subject to retirement by rotation must retire, although they may offer themselves for re-appointment. Sheryl Tye and Charles Uwakaneme are retiring. Sheryl Tye is seeking re-election.

Resolution 3 – Auditors' appointment

The CA 2006 requires that auditors be appointed at each AGM at which accounts are laid, to hold office until the next such meeting. This resolution seeks shareholder approval for the re-appointment of Ernst and Young LLP. The Audit Committee keeps under review the independence and objectivity of the external auditors, further information on which can be found in the annual report and accounts. After considering relevant information the Audit Committee recommended to the Board of Directors that Ernst and Young LLP be re-appointed.

Resolution 4 – Auditors' remuneration

This resolution gives the Directors the authority to determine the remuneration of the auditors for the audit work to be carried out by them in the next financial year. The amount of the remuneration paid to the auditors for the next financial year will be disclosed in the next audited accounts of the Company.

Resolution 5 – Authority to the Directors to allot shares

The CA 2006 provides that the Directors may only allot shares if authorised by shareholders to do so. Resolution 5 will, if passed, authorise the Directors to allot the Company's shares up to a maximum nominal amount of £1,800,000 which represents an amount which is approximately equal to two-thirds of the issued ordinary share capital of the Company as at 29 July 2011, the latest practicable date prior to the publication of the notice. As at that date, the Company did not hold any treasury shares.

As provided in paragraph (a) of the resolution, up to half of this authority (equal to one-third of the issued share capital of the Company) will enable Directors to allot and issue new shares in whatever manner they see fit. Paragraph (b) of the resolution provides that the remainder of the authority (equal to a further one third) may only be used in connection with a rights issue in favour of ordinary shareholders. As paragraph (a) imposes no restrictions on the way the authority may be exercised, it could be used in conjunction with paragraph (b) so as to enable the whole two-thirds authority to be used in connection with a rights issue. This accords with guidance issued by the Association of British Insurers in December 2008.

The authority will expire 15 months after the date of the passing of this resolution, or if earlier, at the conclusion of the Annual General Meeting of the Company in 2012.

Passing Resolution 5 will ensure that the Directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. There are no current plans to issue new shares. The Company does not at present hold any shares in treasury.

Notice of annual general meeting continued

Explanatory notes to the notice of annual general meeting continued

Resolutions 6, 7 and 8 are Special Resolutions. These resolutions will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 6 – Disapplication of statutory pre-emption rights

The CA 2006 requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. It is proposed that the Directors be authorised to issue shares for cash and/or sell shares from treasury (if any are so held) up to an aggregate nominal amount of £269,833 (up to 5,396,662 new ordinary shares of 5p each representing approximately 10% of the Company's issued share capital as at 29 July 2011, the latest practicable date prior to the publication of the notice) without offering them to shareholders first, and to modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. If passed, this authority will expire at the same time as the authority to allot shares given pursuant to Resolution 5.

Resolution 7 – Purchase of own shares by the Company

If passed this resolution will grant the Company authority for a period of up to 15 months after the date of passing of the resolution to buy its own shares in the market. The resolution limits the number of shares that may be purchased to 10% of the Company's issued share capital as at 29 July 2011, the latest practicable date prior to the publication of the notice. The price per ordinary share that the Company may pay is set at a minimum amount (excluding expenses) of 5p per ordinary share and a maximum amount (excluding expenses) of the higher of: (i) 5% over the average of the previous five days' middle market prices; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out.

Resolution 8 – Notice period for general meetings

This resolution is required to reflect the implementation of the Shareholder Rights Directive. The regulation implementing this Directive increases the notice period for general meetings of the Company to 21 days. The Company was able to call a General Meeting (other than an annual general meeting) on 14 clear days' notice and would like to preserve this ability. In order to be able to do so shareholders must have approved the calling of meetings on 14 days' notice. Resolution 8 seeks such approval. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

International Greetings plc
Form of proxy

Before completing this form, please read the explanatory notes below.
I/We appoint the following person (called the "proxy") to vote on my/our behalf at the Annual General Meeting of International Greetings plc to be held on Wednesday 7 September 2011 and at any adjournment of the meeting. I/We would like my/our proxy to vote and to abstain on the resolutions proposed at the Meeting as indicated on this form. Unless otherwise instructed the proxy may vote as he or she sees fit or abstain in relation to any business of the Meeting.

(Please mark in one of the boxes to indicate your choice)

The Chairman ☐

Please leave this box blank if you are selecting someone other than the Chairman of the meeting.

OR

The following person

Please leave this box blank if you have selected the Chairman. Do not insert your own name(s). Otherwise write the full name of the individual or body corporate you are appointing as your proxy.

☐ Please tick here if this appointment is one of the multiple appointments being made.

For appointment of more than one proxy, please refer to note (1).

Signature

Print name

(Any one joint holder may sign)

The Board recommends a vote FOR Resolutions 1 to 8.

Vote	For	Against	Withheld
1. Ordinary Resolution to receive the report and accounts	☐	☐	☐
2. Ordinary Resolution to re-elect Sheryl Tye as a Director	☐	☐	☐
3. Ordinary Resolution to re-appoint Ernst & Young as the auditors	☐	☐	☐
4. Ordinary Resolution to authorise Directors to determine the auditors' remuneration	☐	☐	☐
5. Ordinary Resolution to allow Directors power to allot shares	☐	☐	☐
6. Special Resolution to allow Directors to disapply pre-emption rights	☐	☐	☐
7. Special Resolution to authorise the Company to make purchases of own shares	☐	☐	☐
8. Special Resolution to allow the Company to call a General Meeting on not less than 14 days' notice	☐	☐	☐

Date 2011

Note (1): The "Withheld" option above is provided to enable you to direct your proxy to abstain on any particular resolution. If a vote is withheld it will not be counted in the calculation of the proportion of votes for or against the relevant resolution.

If you intend to be at the Annual General Meeting, would you please sign this admittance card and present it at the registration point on arrival in order to assist admittance procedures. This card will be exchanged for a voting card. If you appoint a proxy it is not necessary to hand this card to your proxy.

Signature

Date 2011

Print name

Notes

1. You are entitled to appoint another person as your proxy to exercise all or any of your rights to attend and to speak and vote at the Meeting. You may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you.
2. Of the Meeting, insert the name of the person you wish to appoint in block capitals in the space provided. If the proxy is being appointed in relation to less than your full entitlement, please enter in the box next to the proxy holder's name, the number of shares in relation to which the proxy is authorised to act. If that box is left blank, the proxy will be deemed to be authorised in respect of your full voting entitlement. Where you appoint someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions.
3. In the case of joint holders the signature on this proxy form of any one holder will suffice but where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding, with the first named being the most senior.
4. Any alteration to this proxy form should be initialled.
5. The completion and return of this proxy form will not prevent a shareholder from attending the Meeting and voting in person.
6. To be effective, this proxy form, fully completed, together with the power of attorney or any other authority under which it is executed (or a notarially certified copy), must be lodged with the Company's Registrar at PXS, 34 Beckenham Road, Beckenham BR3 4TU not later than 11.00 a.m. on Monday 5 September 2011 (i.e. not later than 48 hours before the time fixed for the holding of the AGM or any adjournment thereof).
7. Please return your signed form in a stamped sealed envelope to the address in note 6. Alternatively you can send the envelope to FREEPOST RSBH – UXKS–LRBC, PXS, 34 Beckenham Road, Beckenham BR3 4TU.

International Greetings PLC

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