

**IG Design Group plc (formerly International Greetings plc)**

**Preliminary Results for the year ended 31 March 2016**

***Strong growth coupled with defined vision for the future***

IG Design Group PLC ('Design Group' or the 'Group'), one of the world's leading designers, innovators and manufacturers of gift packing and greetings, social expression giftware, stationery and creative play products, is pleased to announce its preliminary results for the year ended 31 March 2016.

**Financial Highlights**

- Group revenue up 3.5% to £237 million (2015: £229 million), and up 4.4% at like for like exchange rates
- Overall gross margin up 0.8% (before exceptional items in prior year) underpinned by a full year's impact of manufacturing efficiencies and commercial initiatives
- Group operating profit increased by 26% to £12.7million (2015: £10.0 million). Underlying operating profit\* increased by 14% to £13.5 million (2015: £11.9 million).
- Profit before tax up 35% to £9.9 million (2015: £7.3 million). Underlying profit before tax\* up 18% to £10.8 million (2015: £9.2 million).
- Fully diluted earnings per share up 29% at 12.0p. Adjusted fully diluted earnings per share\* up 15% at 13.2p (2015: 11.5p)
- Group cash generated from operations up 16% to £20.7 million (2015: £17.9m)
- Net debt down 40% to £17.5m (2015: £29.4m), with leverage down 0.8 times to 1.0 times comfortably ahead of schedule
- Increased final dividend per share at 1.75p for the year (2015: 1p), which together with the interim dividend of 0.75p (2015: NIL), produces a total dividend in respect of the year of 2.5p per share.

**Operational Highlights**

- Significant progress across all geographies:
  - Non-UK revenues by customer destination are now 66% (2015: 67%) of Group
  - In local currency, sales and operational initiatives drive 66% profit growth in Australia
  - Strengthened management team in USA delivers 34% growth in profits in local currency
- Capital investments deliver improved productivity and quality with fast payback
  - Major capital investment project to drive efficiencies in paper converting completed on time and on budget in the USA
- Existing categories performing strongly
  - Record Group sales of gift packaging and greetings related products, including over 60 million gift bags sold
  - High volume sales of Star Wars, Spiderman, Minions and Peppa Pig products
- Product design and service standards remain high, resulting in a 'No one tries harder for customers' Supplier Award from Tesco
- Completed sale for £1.45 million of property in Aberargoed, Wales
- Post period, flexible and competitive global funding arrangements secured for all wholly owned businesses

\*(stated before exceptional items and LTIP charges)

**Paul Fineman, CEO Commented**

*"I am delighted to report that the Group has delivered another year of strong growth with all metrics again exceeding our financial, commercial and operational goals. We have, once again, demonstrated our ability to turn profit into cash and successfully deliver fast payback on investments made, allowing us to increase dividends from 1p to 2.5p.*

*"We have a defined vision for the future, focused on profit growth alongside a unique blend of creativity and reliability. As such, our new brand will provide the platform for this next phase of Group development, accelerating our ability to leverage our global scale, simplifying our structure and illustrating the extent of our offering to our existing and future customers.*

*The evolution of our Group into a multi-category, design-focused and global business signals a new phase of growth opportunities both through exciting organic opportunities and through well considered acquisitions."*

**EU Referendum Outcome**

Whilst it is too early to know the full long-term impacts of the UK's exit from the EU, the Board feels that Design Group's diversified global portfolio of activity, together with our new global funding arrangements, means we are well positioned to manage the effects, and this outcome of itself results in no material change in outlook for the Group's near term financial results or future growth prospects.

**For further information:**

**IG Design Group plc**

Paul Fineman, Chief Executive  
Anthony Lawrinson, Chief Financial Officer

01525 887310

**Cenkos Securities plc**

Bobbie Hilliam, Corporate Finance

020 7397 8900

**Redleaf Communications**

Rebecca Sanders-Hewett  
Sarah Fabietti-Dallison  
Susie Hudson

020 7382 4730

[igr@redleafpr.com](mailto:igr@redleafpr.com)

The financial information set out below does not constitute the company's statutory accounts for the years ended 31 March 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were:

- i. Unqualified <sup>(3)</sup>.
- ii. did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and
- iii. did not contain a statement under section 498 (2) or (3) of the Companies Act 2006

## **OUR YEAR AT A GLANCE**

### **UK**

- A further year of ongoing improvements in manufacturing efficiencies
- Additional enhancements and refinements of wrap manufacturing capability
- Successful launch of Star Wars licensed products
- Enlarged customer base includes broader presence in discount sector
- Sales to over 250 UK customers of new everyday gift bags through channel focused teams
- Product design and service standards results in a "No One Tries Harder for Customers" Supplier Award from Tesco
- Pan- European approach to materials sourcing and collaborative sharing of technical expertise
- Completed the sale of our property at Aberbargoed, Wales, previously vacated following the installation of new printing presses in our gift wrap manufacturing plant in Ystrad Mynach, Wales

### **Asia**

- Record levels of cracker manufacturing with over 72 million crackers produced on time, in full
- Production of gift bags and cards also reached record levels underpinned by a perfect execution of customer requirements
- Enhanced manufacturing efficiencies through fast payback investment in semi-automated processes
- Ongoing focus on Quality Control and Quality Assurance standards meeting the world's largest retailers and licensors' needs
- Product sourcing and Quality Control capability managed through Hong Kong and Ningbo based teams
- A cohesive and collaborative Group- wide approach to third party sourcing

### **USA**

- Management Team strengthened in all aspects of the business, providing a strong platform for future growth
- Asia based sourcing and supplier management resources also enhanced to support growth
- Record sales and trading profit levels
- US focused phase of upgrading global manufacturing platform completed on time and on budget
- Commercially focused design and product innovation, combined with excellent customer service, facilitates sales growth in all channels
- Successful launch in USA of "Kids Create" branded products demonstrates the scope to leverage Group- wide product knowledge and expertise

### **Mainland Europe**

- Gift wrap manufacturing volumes at highest ever level
- Continued fast payback of investment recently made in wrap manufacturing capability
- Sales growth particularly strong in Poland and Slovakia
- European profits growth achieved despite significant dollar/euro foreign exchange headwinds
- Additional resources now in place to grow new product development capability outside of gift packaging category

### **Australia**

- In local currency 17% sales and 66% profits growth driven by commercial and operational initiatives put in place in previous year
- Complete re- modelling of design studio, product development and showroom facilities
- New regional showroom and marketing facilities now planned
- Successful implementation of enhanced logistics/order picking facilities
- Another year of excellent growth in sales of licensed partyware products

### **Group**

- Group sales up £7.9 million (3.5%) or £10.0 million (4.4%) at like- for- like foreign exchange compared to 2014/15
- Non- UK revenues by customer destination now 66%
- Gross margin increased 0.8%
- Profit before tax, exceptional items and LTIP increased to £10.8m (18%)
- Cash generated from operations was up 16% to £20.7 million
- Leverage reduction from 1.8x to 1.0x (44%)
- Adjusted fully diluted earnings per share up from 11.5p to 13.2p (15%)
- Dividend up 150% from 1p to 2.5p, proposed final dividend of 1.75p

## **CHIEF EXECUTIVE OFFICER'S REVIEW**

The growing sense of "community" that prevails amongst our global team is positively impacting our bottom line, enabling broad solutions for our global customers and helping us to leverage expertise and scale across all areas of our business. We are excited to foster a new level of coherence and collaboration symbolised throughout the Group by our refreshed brand "Design Group".

I am delighted to report a strong set of results for the year during which we have, once again, exceeded our objectives in profit generation, cash generation and earnings per share growth.

It is especially pleasing to have achieved excellent financial performance whilst also making good progress in meeting commercial and operational goals, including making further fast-payback capital investments, which will underpin future opportunities across our Group.

During a year when sales increased by 3.5% to £237 million, profit before tax, exceptional items and LTIP charges increased by 18% to £10.8 million, whilst net debt reduced by a very satisfactory 40% from £29.4 million in 2015 to £17.5 million in 2016, reflecting the effectiveness of our focus on converting profit into cash and the highly cash generative dynamics within our business.

Continuing the trend of recent years, we have substantially reduced year-end leverage with the reduction to 1.8x in 2015 progressing to 1.0x in 2016. The combination of reduced leverage and significant cash generation has underpinned a material increase in dividend payments from a level of 1p for 2014/15 to a total of 2.5p for 2015/16.

Fully diluted earnings per share (pre- exceptional items and LTIP charges) are up by 15%, on the prior year, to 13.2p (2015: 11.5p).

Having very successfully enhanced and contemporised our manufacturing facilities in Holland and the UK, we can report that the next phase of creating a "state of the art" gift wrap manufacturing platform has been completed on time and on budget in the USA, where we have installed new wrap converting facilities. This investment will underpin our ability to drive further growth opportunities.

### **Geographical highlights**

Our businesses focus activities around customer channels, supported by dedicated teams deployed in core product categories. This product expertise is shared across all Group companies thereby leveraging design, product development and innovation across our global customer base.

#### **UK and Asia**

Our UK and Asia business accounted for 46% (2015: 47%) of our Group's revenue for the year.

Revenues included contributions from a portfolio of generic, customer bespoke and licensed brands with the "Star Wars" range of gift packaging and stationery products proving highly successful. Additionally we achieved record sales of the ever-popular Tom Smith branded range of gift packaging and greetings products and we are honoured to remain Royal Warrant holders for gift wrap and crackers.

Our recent years of growth reflect the changing dynamics in the UK marketplace with our subsequent focus on:

- value and innovation tailored for the traditionally dominant grocery multiples;
- a bespoke product offering that meets the needs of the rapidly expanding Pan-European discounters;
- providing compelling products created for the specialist £1 only retail multiples; and
- the ever expanding online presence of existing and new customers.

The seamless collaboration of our teams based in the UK and also within our sourcing and manufacturing operations based in Hong Kong, Ningbo and Huizhou, China, have further continued their terrific track record of delivering a standard of service that encourages the ongoing loyalty of our large customer base.

We have exceeded efficiency levels targeted as a result of our major programme of investment in gift wrap manufacturing and now will enhance our capability even further with new added features to our facilities, ensuring that we remain market leading in all aspects of our operation. The year ended with the completion of the sale of a property at Aberbargoed, Wales, which we vacated having installed our new state of the art printing presses at our plant in Ystrad Mynach.

Whilst our share of the UK market for gift packaging remains substantial, there is still scope for profitable growth, across this and other categories – both online and through "bricks and mortar" retailers – particularly specialist areas, including garden centres and card and gift multiples, as well as through a broad network of regional groups and independent stores.

#### **Mainland Europe**

Our business in Mainland Europe accounted for 14% (2015: 16%) of the Group's sales.

The polarisation of buying power has continued within Continental Europe, with the top 10 retail groups enjoying a very dominant market share. We are now trading with each of these top 10 retail groups, having enjoyed strong trading relationships with many of them for a considerable number of years.

Through a focus on design and innovation and by adding value through incremental service to our customers, our businesses successfully combatted the headwinds that prevailed on imports from China into Europe as a result of adverse foreign exchange rates during the year. Of particular note, our sales to customers in Poland and Slovakia enjoyed double digit growth, underpinned by our strong track record of trading partnerships with those major retail groups in Western Europe who have expanded into fast growing markets to the East.

## **USA**

In the USA, our business has grown its share of overall Group sales to 28% (2015: 25%) with sales now reflecting the broader opportunities being developed in other countries within the Americas.

The powerful combination of experience, energy and inspiration in our new leadership team has resulted in outperformance against each and every metric that was set, with sales growth, achieved across all channels, totalling 13% and with stronger foundations laid for future sales and profits growth through enhanced commercial and operational capability.

Our business is significantly design- led, and our insight into consumer and customer trends and demands is greater than ever through the use of enhanced market research and analytics.

This enhanced understanding of growth opportunities has been reflected in the establishment of some significant new customers and product launches as well as activity in new channels and territories across the broader "Americas" reflected in the launch of Spanish language greeting cards to satisfy the demands of the more than 40 million Spanish speaking citizens of the USA.

In a year of tremendous progress for our US business, we were honoured to establish the Rick Eckman Scholarship programme in memory of our former CEO and to provide an inaugural award to its first beneficiary.

## **Australia**

Our strategy to combat the overall slow down in the Australian economy has delivered excellent results with Australian revenues still representing 12% of Group sales (2015 12%), but with a greatly improved bottom line result reflecting a very effective outcome to the commercial and operational initiatives put in place during 2015.

Despite an overall "flat" market, we achieved 17% sales growth during the year in local currency. All product categories enjoyed market share growth, largely through a highly effective combination of great design, together with tremendous value for money being applied to our overall product offering.

Partyware sales were especially buoyant, with the combination of our own generic designs alongside a portfolio of leading licensed brands, providing us with a potent product offering for many customers throughout Australia and New Zealand.

Top line growth was supported by an excellent performance in order fulfilment, the outcome being that we have returned to growth in profits in a region that has proven to be particularly challenging in recent years.

## **Our products and brands**

Design remains the "common thread" that binds our businesses together throughout the Group. This is reflected in the significant variety of products that we manufacture and source, all of which are carefully designed to optimise consumer, customer and commercial appeal.

Great "design" is, however, not only applicable to the aesthetic appeal of our products, but to every aspect of our business.

Today, Group sales are generated across three core categories. "Celebrations", including gift packaging, greetings and partyware products contribute 78% of our sales, "Stationery and Creative Play", including home, school and office products, are 16% of our sales, and "Design- led giftware" amounts to 6% of our sales. We estimate that over half a billion items have been manufactured, sourced and delivered to our customers during the year, of which 33% – £79 million carry our Group's generic and licensed brands.

We will continue to increase our capability to launch products which can be adapted for sale throughout our worldwide customer base.

## **Our team**

The appetite of our teams throughout the Group to continue to "raise the bar" in all aspects of our business is an inspiration to me and to my colleagues on the Board.

Our team's dedication was symbolised when, during the year, we received a "No one tries harder for customers" Supplier Award from Tesco. This demonstrates the culture that prevails throughout our Group and the team's wish to continuously improve. We will continue to make every effort to live up to this very pleasing accolade.

## **Our strategy**

Whilst our strategic objectives are reviewed and refined, the fundamentals have remained consistent and essential to the Group's recent years of growth and success.

## **The future**

Our Group today provides our worldwide customer base with a complete service, from design to distribution. We provide a unique blend of creativity and reliability.

Our business has been built on solid foundations and recent years of fast payback investment in state of the art capital equipment, together with the enthusiastic efforts of our capable and dedicated team, has consistently produced strong cash generation and profits growth.

Our progressively cohesive Group will continue to create value for all stakeholders as we apply our expertise across existing and new markets and product categories.

Throughout our business, irrespective of activity, discipline, season or product category our focus is on design – it is at the heart of all we do.

We remain highly focused on delivering profitable growth throughout the Group, both organically and through well considered acquisitions.

The strength of our team, combined with our financial performance and culture of continuous improvement, demonstrate that more than ever before, we are “designed to succeed”.

## **Paul Fineman**

Chief Executive Officer

28 June 2016

## **CELEBRATIONS**

Focusing on excellence in design and manufacturing as well as sourcing expertise, our product offering further expanded to include greetings cards and crackers, which are produced in customer bespoke, generic and licensed brands.

All categories are designed and tailored to help celebrate all of life's special occasions, with our products created in many languages, styles and genres to meet the demands of consumers throughout the world.

Recent years of significant investment in state of the art wrap manufacturing together with semi- automated cracker manufacturing have underpinned our position as the world's largest producers of both wrap and crackers. To illustrate the scale of our gift wrap business, our annual volumes of wrap produced and sold would stretch from the Earth to the Moon and back, whilst in 2015/16 we sold in excess of 80 million crackers.

Of particular note is the fact that whilst crackers have traditionally been a Christmas focused category, everyday and special occasion crackers are now sold to over 20 countries, with our strategy being for crackers becoming as much a part of all year round “table decor” as they are an essential feature of Christmas festivities.

With social and environmental responsibilities at the core of our values, we strive to ensure compliance with the demands of the world's leading retailers and licensors.

Our attention to detail and focus on quality is best demonstrated by the great honour of holding the Royal Warrant from Her Majesty the Queen as manufacturers of gift wrap and crackers.

Already strong in the areas of gift packaging, single cards and crackers, we seek out new related categories to drive additional growth. This year, we further enhanced our portfolio, developing a broad and innovative range of partyware products to dovetail perfectly with other “Celebrations” categories.

Our ability to provide a comprehensive “one stop shop” solution across a wide range of “Celebrations” based products provides growth opportunities throughout all regions and market channels including the fast growing market share of online retailers.

To help fill the demand for new and innovative design and products, we continuously populate our Group- wide archive of Intellectual Property, design concepts and unique products, storing them in a user friendly digital asset bank of product development, innovation and display options. This reservoir of ideas and initiatives is carefully managed to optimise speed to market and provide a nimble and flexible design to distribution service whilst also protecting customer interests.

Further scope is evolving for complete all year round programmes of “Seasonal Solutions” including our core categories and also offering us the opportunity to introduce other incremental and complementary formats, materials and components to provide our customers with an even deeper, and broader cross- category design, product and distribution based service.

## **GIFTING**

Having established ourselves as a design-led business, providing a unique blend of creativity and reliability, enables us to apply these core strengths across a number of product categories and a wide array of materials.

Today, amongst many materials used, our designs are applied to ceramics, tinware, metalware, textiles, wood and plastics all produced to exacting standards and under bespoke, generic and licensed brands.

Multi-component collections are complex and challenging to source and therefore provide incremental opportunities to benefit from the long established relationships that we enjoy with many of the world's leading retail groups.

In 2015/16 we have continued to create wonderful ranges of products providing stylish solutions and great value for gifting and also for own use.

Recent highlights include the broadly appealing "Rosie's Pantry" collection which perfectly illustrates the application of design to a wide variety of substrates, formats and price points.

Our sales of design themed and "celebrations" related collections have also included products that help capture special moments and memories, under the category of "photo related gifts", resulting in over 9 million design/gift themed photo frames being sold in UK and across Continental Europe.

Our ability to apply our strengths and expertise across core and related product categories is dependent on an approach of continuous improvement to each and every aspect of our business. In effect whilst "aesthetic" and "surface" design is the most evident aspect of our design capabilities, the reality is that each and every member of our team is a "designer". We design product that is commercial, as well as aesthetically pleasing, we design efficiency into our manufacturing and into our processes. We design innovation into everything we do. We constantly nurture our business to ensure that we remain competitive and a compelling "partner of choice" for our customers, suppliers and stakeholders.

## **STATIONERY AND CREATIVE PLAY**

With the vast majority of our global customer base retailing many categories of stationery and related product areas, the Group's stationery product offering spans a wide variety of formats, price points and brands.

No longer dominated by basic utilitarian products, the market demands design co-ordinated, fashion led collections including unique, customer bespoke ranges with a good, better, best approach. Through collaborative relationships with our key strategic suppliers, we provide exceptional value from entry level products and formats to highly innovative premium ranges.

Our own generic brands including, A Star, B Stationery, Papercraft and Pepperpot are now sold worldwide and are regularly refreshed, ensuring maximum and "on trend" appeal.

Licensed products feature strongly within the Stationery and Creative Play category, with stickers being hugely popular. In 2015/16, the Group sold over 750 million stickers.

Longstanding licensor relationships and licensing agreements covering many of the world's best-loved characters including those from Disney, Marvel, Universal and Entertainment One have resulted in high volume sales of the highly popular Star Wars, Spiderman, Minions and Peppa Pig collections with carefully considered new licences being introduced to ensure optimum appeal is maintained.

The close relationship of stationery to art, craft and creative play products has led to the opportunity to deploy our product development know-how to create globally appealing products, mainly marketed under the "Kids Create" brand. The understanding of local markets whilst leveraging our global scale has been particularly effective in 2016, with creative play products now adapted for sale in US, UK, Continental Europe and Australia. Careful attention is applied to local compliance standards, supported by our Quality Control and Assurance teams throughout the Group.

## **FINANCIAL REVIEW**

### **Group performance**

2015/16 was a strong year, with growth in profitability and especially operating cash flow exceeding our expectations, enabling us to increase the dividend to shareholders faster than previously anticipated.

All of our businesses grew sales and profitability in local currency, with only Europe declining slightly after translation into sterling. With excellent performances last year from the UK and Europe sustained into 2015/16, it was the turn of the US and Australian businesses to improve profitability substantially by 34% and 66% respectively in local currency. A number of changes in the leadership team were made in our US business early in the year by the new US CEO, and with that fresh perspective the business has thrived. Our investment in gift wrap converting

equipment in the USA also completed in Q4, generating early efficiencies. In Australia the business posted record sales levels and made significant headway in recovering margins.

Last year I reported that the Group's ability to generate cash should now be strong enough to support continued deleveraging, ongoing investment in growth and a sustainable dividend. We have exceeded expectations in all of these areas this year.

### **Continuing operations**

Revenues for the year to 31 March 2016 were up from £229 million in 2015 to £237 million, a solid 3.5%, though 4.4% at constant exchange rates. Underlying revenue in local currency grew in every marketplace, exceeding our expectations and despite some further modification of mix in the UK where our Celebrations activity grew strongly while Stationery and Creative Play sales fell back. Sales growth in Australia was particularly pleasing with new product categories and customer wins in the Celebrations space through a re-energised sales capability.

After a drop in gross profit margin last year, we recovered ground this year to 18.3% (2015: 17.5% pre-exceptional items) reflecting the continued and full year effects of our investments and constant search for efficiency. Likewise net pre-tax and exceptional profit margins have improved to 4.2% (2015: 3.7%). Pleasingly, operating margins have held steady or improved in every geographical area in the Group. In Europe the already strong 10% net operating margin was sustained (against our expectations given exchange rate headwinds) with progress in the USA and Australia the most meaningful as anticipated, up 1.3 and 1.6 percentage points respectively to 6.3% and 5.4% respectively. The full year effect of our investment in Wales contributed, lifting margins in the UK segment 0.6 percentage points to 6.7%. The Group aims to improve margins commercially by increasing the balance of own brand products and non-Christmas business but efficiencies in sourcing and manufacturing are also continuing to contribute materially.

Another important dynamic to margin continues to be the level of FOB business delivered directly to major customers at ports in China. This type of business continues to grow in all territories especially in the USA with the major value chains. This typically attracts lower gross margins but it is a means of retaining or winning large volumes of business, in a manner that avoids other costs and risks associated with domestic delivery; winning this business can therefore enhance net margins and return on capital even as gross margins are diluted.

Overheads (before exceptional items and LTIP charges) have increased slightly, reflecting mainly investment in our US business and other capability to allow us to grow, but these costs remained largely steady year-on-year as a percentage of sales. Tight cost control is a feature of our business and opportunities to remove or reduce costs are constantly sought out. As we invest to develop further sales opportunities such as we are currently doing in the USA, overheads will increase in absolute terms. We will ensure that new costs are only incurred where actual or prospective value can be demonstrated.

As a result of the above, underlying operating profit before exceptional items and LTIP charges increased by 14% to £13.5 million (2015: £11.9 million). Operating profit after exceptional items and LTIP charges increased even more markedly by 26% to £12.6 million (2015: £10.0 million).

There were no exceptional items during the year (2015: £1.2 million before tax) and this was the main reason for the strong 26% improvement in operating profit as stated above. The residual cash flow effect from prior year exceptional charges was incurred in the year but this was not material.

Finance expenses (before exceptional charges) in the year were marginally up on the prior year at £2.8 million (2015: £2.7 million) but this reflects the effect of marking to market certain hedging contracts that did not qualify to be hedge accounted, mainly in Australia. Stripping out the effect of these, the underlying interest cost and associated charges were £2.2 million (2015: £2.7 million) demonstrating that we continue to reap the rewards of lower margins and lower average debt levels. The mark to market effect reverses in 2016/17. Notes 8 and 26 to the financial statements provide further information.

Underlying profit before tax, exceptional items and LTIP charges was up 18% to £10.8 million (2015: £9.2 million) while profit before tax was up 35% to £9.9 million (2015: £7.3 million). The strong increase of course reflects the fact that there were no exceptional items in the current year (2015: £1.2 million). The largely non-cash LTIP charges of £0.9 million (2015: £0.6 million) are higher because we have a clear leadership incentive programme under which a new award is made each year for a three year period and we now have 3 awards running on a rolling basis.

### **Taxation**

The Group manages its tax affairs in an open and transparent manner, observing full compliance with all applicable rules and regulations in countries in which it operates and not entering into any tax avoidance or otherwise aggressive tax planning schemes.

The headline taxation charge is higher as anticipated at £2.2 million (2015: £1.3 million) though of course on a higher profit base. The effective underlying tax charge on profits before exceptional items is slightly higher than the prior year at 22.5% (2015: 20.0%). This is still well below the underlying blended rate that would arise from the Group's current geographical profile of profits were it not for our increasing ability to access (and therefore recognise in the accounts) tax losses arising in prior years as our profitability improves.

The underlying blended rate is currently 27%. This underlying blended rate will likely increase as our profile of profitability increases in the USA and Australia where tax rates are higher at 35% and 30% respectively and our actual tax rate will trend towards the underlying blended rate over the next few years as unrecognised losses are fully recognised in the balance sheet. There are currently tax losses not yet recognised in the balance sheet in the USA with a current tax value of £1,385,000 and in the UK and Asian segment with a current tax value of £458,000.

Actual taxation paid in cash during the year was greater than the prior year at £1.8 million (2015: £1.3 million) as our businesses in Australia, the Netherlands and China do not have losses to shield their profits. With improving and sustained profitability, we expect to pay cash tax in the UK in the near future, and in the USA shortly thereafter.

### **Profit for the year**

Overall net profit for the year increased by a very material 28% to £7.6 million (2015: £6.0 million); even after removing the effect of exceptional items and LTIP charges the underlying profitability still improved by 15% to £8.6 million (2015: £7.5 million).

### **Earnings per share and dividends**

Basic earnings per share were 12.3p (2015: 9.7p). After removing the effect of exceptional items and LTIP charges, the adjusted earnings per share were 13.5p (2015: 12.0p) representing an increase of 13%.

However, in order to properly reflect the dilutive effect of employee share incentive schemes, the Company's key target is determined by reference to adjusted fully diluted earnings per share (which is stated before the effect of exceptional items and the largely non cash LTIP charges but after the dilutive effect of share options which have vested but not yet been exercised). This ensures that incentive plan outcomes and shareholder interests remain aligned. Details of share plans can be found in note 25 to the financial statements.

Fully diluted earnings per share (stated before exceptional items and LTIP charges) were 13.2p, up 14.8% on the prior year (2015: 11.5p), securing another year of double digit growth in earnings.

Accordingly, the Board is pleased to propose a final dividend of 1.75p per share for the year (2015: 1p) which will be paid during September, subject to shareholder approval. Together with the interim dividend of 0.75p (2015: nil) this makes for a total dividend in respect of the year of 2.5p per share. This dividend is comfortably covered by underlying earnings and there should be scope to increase this further in future periods while still investing in growth and managing average leverage still lower. The Board has determined that any dividend will always be covered not less than three times by underlying earnings per share and the Company currently intends to trend towards this level of pay-out over time. Dividend policy will be balanced against the attractive opportunities to invest in efficiency and growth that continue to present themselves and the desire to further reduce average net leverage to our target of 2.5 times.

### **Balance sheet and cash flow**

Net debt at 31 March 2016 was again much improved at £17.5 million (2015: £29.4 million). The ratio of year end net debt to EBITDA, exceptional items and LTIP charges (leverage) was 1.0 times (2015: 1.8 times) and having easily achieved our target in this respect of no more than 2.0 times, the Company now targets average leverage (the ratio of average net debt to EBITDA). At the year end this metric was 3.2 times, much improved on 4.0 times in 2015 and entirely on track to achieve our target of 2.5 times by 2018/19 or earlier.

Year- end net debt included amounts denominated in US dollars of \$0.3 million (2015: \$7.9 million) and in euros of €7.2 million (2015: €7.2 million). The year- end exchange rates were \$1.44 (2015: \$1.48) and €1.26 (2015: €1.38). Therefore, at like- for- like exchange rates debt would have improved by a further £0.7 million.

Working capital management continues to be a priority. Outstanding debtors are monitored closely, both to maximise cash but also to reduce our credit risk. Trade debtors remained largely stable at £18.6 million (2015: £18.3 million) at the year end despite generally higher sales.

The charge for bad and doubtful debts in the year was £0.2 million again less than 0.1% of turnover.

Net stock levels after provisioning for older stock also remained largely flat at £46.0 million (2015: £46.2 million) even as the business is growing. Stock levels fell particularly in the UK through good working capital management enabled by the investment in Wales, offsetting increases in faster growing geographies.

Older stock (measured as over 15 months since last purchase) increased slightly to £5.9 million (2015: £5.6 million). Provisioning remains adequate and similar to prior periods. Our businesses consistently achieve 100% recovery against written down values of old stock.

Group cash generated from operations was again very strong at £20.7 million (2015: £17.9 million), reflecting the strength of operating profitability and assisted again by a net reduction in working capital of £3.4 million (2015: reduction of £2.0 million).

Investment in capital expenditure during the year was slightly higher than depreciation at £4.4 million and certainly higher than the prior year (2015: £2.3 million). The Group continues to invest wherever we see strong returns and improved efficiencies. The manufacturing platforms across all our sites in China, UK and Europe are up to date underpinning our competitive position and yet we still see further opportunities for bolt on capital investment in these locations to add further capability.

However, the greatest opportunity remains the USA where we have now invested in a Casepacker and a high efficiency gift wrap converting line. The business case for the final phase to update our printing capability in the USA is now under way. Other modest but still seven figure organic capital investment opportunities are now arising, offering the opportunity to expand into new product categories and customer channels.

These are not built into our existing core plans but we look favourably upon such opportunities where the payback is sufficiently attractive. Our cash flow is strong enough to absorb these investments and build foundations for additional future growth.

At the half year, we reported that our site at Aberbargoed was now available for sale and at the very end of the financial year we completed the sale of this site, releasing £1.4 million in cash net of costs, just over book value. The Group is also now in the fourth year of a five- year period by which a company has the option to purchase part of another under- utilised site (net book value £0.8 million) for a price of £2.4 million. This is also generating premium income of £0.1 million p.a. over the option period, recognised within other operating income.

Equity attributable to shareholders has increased to £68.0 million from £59.7 million predominantly reflecting profits generated in the year.

## **Risks and key performance indicators**

### ***Our areas of primary focus are:***

- improved earnings attributable to shareholders, which we aim to achieve through top- line growth and mix management in selected markets and channels together with strong cost and gross margin management; and
- lower average leverage measured as the ratio of average net debt to pre- exceptional EBITDA, which we aim to achieve through improved profitability together with close management of our working capital and focused investment.

### ***Operationally this means a focus on:***

- nurturing valuable relationships: monitoring the profitability, product mix and service delivered in respect of our customer base; growing those relationships in existing and new territories and product categories;
- creating a toolbox of expertise: ensuring that we have market- leading design and product capability in our categories, sharing knowledge through common platforms;
- providing best quality, value and service: monitoring and benchmarking the key elements of our cost bases, buying or manufacturing as efficiently and effectively as possible from a total cost perspective across the whole season so that we can deliver great value to customers and strong returns to shareholders;
- balancing our business: we monitor the mix and profitability in each of our businesses across season, brand and product categories, seeking out those opportunities that yield the best returns on our scarce capital while rooting out those activities that consume resources for little or no gain; and
- providing differentiated product offerings: across the value, mass and upscale markets.

## **Foreign exchange impact to profit and earnings**

Our diverse geographical revenue and profit streams continue to provide us with market resilience, but naturally this carries with it the volatility of currency.

As noted above in the context of net debt, foreign exchange rates can impact significantly on the translation of our overseas figures relative to prior years. During the year the US dollar rate moved from 1.48 to 1.44, the euro from 1.38 to 1.26 and the Australian dollar rate from 1.95 to 1.87. As noted above, this change in rates had a material impact on the sterling value of sales although the impact to net profit during the year was modest at only £0.4 million because the Group matches the currency of costs and funding where possible.

Additionally, the relative strength of the US dollar against other currencies can materially impact purchase prices out of China. This is most noticeable in the weakness of the euro and Australian dollar and our European and Australian businesses are finding their margins are squeezed through substantial foreign exchange headwinds on products bought in from the Far East. Balanced against this, we have seen the renminbi weaken against the US dollar and thus it has been possible to negotiate lower prices to mitigate at least in part. It is also a feature of our business that we innovate, invest and commercially redesign product to combat this effect but this can take more than one season.

Of course, as I write, the risk of Britain's exit from the European Union is particularly high profile. Our business would undoubtedly be impacted by this but our global presence and diversity is again our protection in this regard. The principal impact would manifest itself through movements in foreign exchange rates as our European businesses largely sell in the European markets with limited export from the UK to the European Union or vice versa other than one major customer where existing hedging for the 2016/17 season would provide protection. Weaker sterling against the dollar would make those goods we import from China more expensive but again, we are well hedged into 2016/17 allowing us the benefit of time to see macroeconomic considerations settle and for us to re- engineer our product to hit required price points. Meanwhile our earnings from our US and European businesses would be translated at more favourable rates. Conversely a substantially stronger sterling would result in weaker translated overseas earnings but provide us with a platform for cost efficient imports into the UK, still our largest business segment. As we fund the working capital needs of our overseas businesses in local currency, the translation impact is in any event less pronounced than otherwise would be the case.

## **Treasury operations**

Our global refinancing (announced in June 2016) is a milestone moment for the Group as it represents the opportunity to fund our operations in an innovative and truly joined- up manner, optimising efficiency and cost. The terms and conditions of the refinancing are materially more favourable than those previously in place both financially and in respect of freedom to act. While there are costs associated with cancelling the old facilities and setting up the new, we still expect to see some benefit in 2016/17.

The Group is now funded globally with HSBC providing a full suite of cost effective facilities available to all wholly owned businesses while Westpac continues to support our Australian Joint Venture. To support this structure, we will move our worldwide operational banking to HSBC other than minor niche requirements in selected territories. The HSBC facilities comprise:

- a particularly low cost three- year revolving credit facility (“RCF”) for £18 million which is sufficient to fund the Group’s core financing requirements at year end. This facility is capable of extension on the same terms for a further two years if the parties agree;
- a hire purchase agreement for £2.3 million in respect of the equipment installed in Wales in 2014 and maturing in 2021 – this is the only part of our facilities that is unchanged in the new arrangements;
- invoice financing arrangements for an initial term of three years in the UK, European, US and Asian markets; and
- a further flexible RCF with availability varying from month to month. This is reviewed annually but capable of extension to match the maturity of the core RCF. This working capital RCF is designed to meet our requirements during those months when stock is being built but will be undrawn for that part of the year where the invoice financing facilities are sufficient to provide our needs.

In total we estimate the effectively available facilities at over £110 million, more than sufficient to cover even our peak requirements. The facilities have additional flexible elements within them that mean they can also grow with us. The facilities do not amortise with time.

There are financial covenants, tested quarterly, attached to our new facilities as follows:

- interest cover, being the ratio of earnings before interest, depreciation and amortisation to interest on a rolling twelve-month basis; and
- leverage, being the ratio of debt to pre- exceptional EBITDA on a rolling twelve-month basis.

There is a further covenant tested monthly in respect of the working capital RCF by which available asset cover must not fall below agreed levels relative to amounts drawn.

Since the year end, the Group’s remaining interest rate swaps and caps have now either expired or been cancelled. While we will keep this risk under review, our debt is at its lowest point in many years and expected to fall further relative to profitability. Interest rates and margins alike remain low such that we are comfortable with this position. The hire purchase arrangement noted above is at a fixed rate but this is immaterial. The Group also actively manages FX transaction exposure in each of its businesses, with advice and support from the central treasury team.

Note 26 to the financial statements provides further information in respect of treasury matters.

## **Conclusion**

The Group delivered another very strong year, with all metrics well beyond our initial expectations. We are still building further foundations for success, investing carefully and creating new competencies that will power our continued growth in profitability for many years ahead. Net debt and earnings per share performance were especially pleasing and continued outperformance in the arena of cash management is providing the Group with additional flexibility and options to create value for shareholders in the future.

## **Anthony Lawrinson**

Chief Financial Officer

28 June 2016

## **CHAIRMAN’S CORPORATE GOVERNANCE REVIEW**

Dear shareholder

As you will have already seen, we are very pleased indeed with the performance of our Group, during the year ended 31 March 2016. We have exceeded the goals that we set ourselves in terms of profit and earnings per share, but we are particularly pleased that we have continued to reduce our debt, which in turn has improved our borrowings to profit ratio considerably. Over the past four years we have authorised significant capital expenditure projects to reduce costs and improve efficiencies, mainly within our operations in Holland, UK, USA and Australia. These projects have been well implemented and the benefits are now coming through in respect of cost efficiencies. At the end of the financial year being reported, we embarked upon some capital expenditure initiatives to improve manufacturing efficiency and increase capacity within our Company in the USA.

We operate within a climate whereby pressure on margins is relentless. Accordingly, one of our key strategies is to improve efficiencies, reduce our cost of goods and eliminate unnecessary expense. To this end, we believe that we are continuing to strengthen our position as one of the world’s leading designers, manufacturers, importers and distributors of each of the core product categories on which we focus.

As advised in previous reports, as Chairman, my role is to lead the Board and help promote a culture of respect, integrity, openness, honesty and enjoyment within each of the businesses within our Group. We believe in this objective strongly and we endeavour to practise this in the way that we communicate with our customers, suppliers, shareholders, advisers and of course all our people. The Board continues to operate under a governance structure which is designed to be flexible and efficient in creating sustainable long-term growth in shareholder value.

## **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, audit, risk management and relations with shareholders.

Whilst there is no obligation for AIM- listed companies to comply fully with this Code, the Board endorses the principles of effective corporate governance and we are committed to maintaining the highest standards of ethics, and professional competence. That said, the Directors do not consider that full compliance with every aspect of the Code is appropriate for our Group at this stage in its development. However, we shall keep the matter under review and continue to develop procedures and policies as the Group grows.

## **Board of Directors**

The principal duty of the Board is to represent and protect the interests of the Company's shareholders. The Board plays an important role in working with the executive management in each of our businesses to ensure that our businesses are well governed, financially strong, and that we mitigate any risks that our managers identify. Your Board works hard to strike that essential balance between achieving our short- term objectives and longer- term growth and development. To this end, your Board has a policy to work closely with management in developing proposals on strategy for each of our businesses and for our Group, as a whole.

## **Division of responsibilities**

There is a distinct and defined division of responsibilities between the Chairman and the Chief Executive Officer (CEO). The Chairman is primarily responsible for the effective working of the Board in conjunction with management and the CEO for the operational management of the business and for the implementation of the strategy agreed by the Board.

## **Composition of the Board**

I advised last year that Phil Dutton, one of our Non- Executive Directors and also Chair of our Audit Committee, would be stepping down at our AGM in September last year, since it became necessary for him and his family to live in the USA. We are however delighted to have appointed Mark Tentori to succeed Phil. Mark is an ACA, who qualified with Price Waterhouse. Mark has considerable Board, Audit Committee, Non- Executive and Group CFO experiences in both the public and private arena. Mark was appointed to the Board in January 2016. There were no other changes to the composition of the Board during the year. We continue to operate with three Executive Directors balanced by three Non- Executive Directors, with myself then as Chairman. Our Non- Executive Directors have an important role of constructively challenging, and working closely with the Executive Directors to develop and agree proposals on strategy, to scrutinise management's performance in meeting agreed goals and objectives and monitoring performance reports.

The Board has three committees – Remuneration, Audit and Nomination. Our Remuneration Committee is chaired by Elaine Bond, one of our Non- Executive Directors and the Committee comprises Mark Tentori and myself. Our Audit Committee comprises Elaine and myself and is chaired by Mark. Our Nomination Committee is chaired by myself, and Elaine and Mark sit on that Committee.

The Audit Committee satisfies itself on the integrity of financial information and that controls and risk management systems within our businesses are robust and defensible. The Committee meets as required during the year and at least twice with the Group's external auditor. 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 auditor reports to the Board.

Following a competitive tender process for the audit of the Company and its subsidiary undertakings in the year ended 31 March 2016 KPMG LLP ("KPMG") were appointed to replace Ernst and Young LLP as the Company's auditor and consequently were appointed to fill a casual vacancy in accordance with the Companies Act 2006. The appointment of KPMG will be put forward for approval at the next AGM.

The Remuneration Committee determines appropriate levels of remuneration and compensation for Executive Directors. The Committee meets as required during the year and is closely involved in agreeing the positions within our senior management team that should participate in our Long Term Incentive Plan ("LTIP"), together with the level of awards. The Remuneration Committee is also responsible for agreeing the performance criteria for annual bonuses and LTIP for Executive Directors and senior management.

Anders Hedlund also holds the position of Non- Executive Director on the Board. Anders Hedlund is presumed not independent, because as founder, he has served on the Board since the Company's inception, his family hold significant interests in the shareholding of the Company and he also fulfils a consultancy role within one of the Group's businesses. As reported in the financial statements, there are also some related party transactions between certain of the subsidiaries within our Group and companies under the ultimate control of the Hedlund family.

As at the date of this report, all of the other Non- Executive Directors are considered independent under the UK Corporate Governance Code.

## **Board process and information**

The Board met eight times during the year, including an in- depth review of 2016/17 budgets, annual operating plans and strategic objectives with senior management of each of our businesses. This took place over four days during March 2016. The Board aims to meet at least six times a year for formal Board meetings and up to six further times in between for informal business reviews, to review budgets and to focus on strategy. Where possible and cost effective, the Board tries to meet on the premises of various of its subsidiaries during the year, which provides an opportunity for the Directors to visit our businesses, meet with the senior management and be seen by our associates as a Board that genuinely wishes to be involved.

Dialogue occurs regularly between Directors outside of scheduled meetings. Meeting agendas include review and approval of minutes recorded, matters arising, a review of material operational matters relating to our businesses and other special items for discussion or consideration. Board papers are usually circulated at least three business days in advance to allow Directors adequate time to prepare.

Our Non- Executive Directors also meet as a team outside of Board meetings to discuss the performance of our Board as a whole and various topics and matters that require their specific input and attention.

The Board receives operational and financial information and reports from the CEO/CFO to assist in monitoring and assessing the ongoing performance of the businesses on a monthly basis.

#### **Accountability and audit**

All Directors have accepted a duty of care and accountability to act in the interests of the Company.

As stated, the Audit Committee oversees how the Board monitors risk and reviews the adequacy of the risk management framework.

#### **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.

Finally, whilst this report provides an overview of the policies and procedures that we adopt in following good corporate governance, I wish to thank my fellow Directors for their hard work, commitment, loyalty and support that they give to our Group. I also wish to place on record once again our thanks and appreciation to all our employees and associates throughout the Group. It is through their efforts and support that we continue to make the excellent progress that we have. We value greatly their commitment and loyalty.

I should also take this opportunity to thank our shareholders, bankers, customers, suppliers and advisers for their input and contributions to all our businesses throughout the world. We never take their support for granted and we are grateful for the excellent working relationship and partnership that we enjoy with them.

#### **John Charlton**

Chairman

28 June 2016

### **DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements for the year ended 31 March 2016.

On 24 June 2016 the Company changed its name from International Greetings plc to IG Design Group plc.

#### **Dividends**

A final dividend for the year ending 31 March 2015 of 1p was paid on 22 September 2016 (year ending 31 March 2014: nil). An interim dividend for the year ended 31 March 2016 of 0.75p was paid on 18 January 2016 (2015: nil). The Directors are recommending a final dividend for the year ended 31 March 2016 of 1.75p per share (2015: 1p). If approved it will be paid in September 2016 to shareholders on the register at the close of business on 8 July 2016.

#### **Capital structure**

Details of the Company's issued share capital, together with details of movements in the Company's issued share capital during the year are shown in note 22. 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 25 to the financial statements. 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:

Elaine Bond	Lance Burn
John Charlton	Paul Fineman
Anders Hedlund	Anthony Lawrinson
Phil Dutton (resigned 16 September 2015)	
Mark Tentori (appointed 1 January 2016)	

In accordance with the Company's Articles of Association, Lance Burn and Anders Hedlund will stand for re-election and Mark Tentori will stand for election at the forthcoming Annual General Meeting.

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	LTIP		LTIP	Ordinary shares	Executive share options 2008 <sup>(d)</sup>	LTIP	
		vested	not yet vested	not yet vested			vested	not yet vested
	2012-2015 <sup>(d)</sup>	2014-2017 <sup>(d)</sup>	2015-2018 <sup>(d)</sup>			2012-2015 <sup>(d)</sup>	2014-2017 <sup>(d)</sup>	
Lance Burn	—	—	262,083	185,877	—	—	—	262,083
John Charlton <sup>(a)</sup>	620,000	—	—	—	620,000	—	—	—
Paul Fineman <sup>(b)</sup>	4,453,534	—	—	200,948	4,239,249	214,285	—	—
Anders Hedlund <sup>(c)</sup>	448	—	—	—	448	—	—	—
Anthony Lawrinson	—	500,000	283,334	160,759	60,000	—	1,107,652	283,334

In addition to the above holdings:

- 37,500 (2015: 57,500) shares are held by the wife of John Charlton.
- Paul Fineman owns a non-beneficial interest in 174,608 (2015: 174,608) ordinary shares of 5p each.
- 17,142,640 (2015: 17,142,640) and 5,275,116 (2015: 5,275,116) ordinary shares of 5p each are respectively registered in the names of AC Artistic Limited ("Artistic") and Malios Limited, companies incorporated in the British Virgin Islands, and under the ultimate control of the Hedlund family. In addition to the Hedlund family's beneficial interest set out above, the Hedlund family is also interested in a further 1,150,790 ordinary shares, representing a further 1.98% of the current issued share capital of the Company. These ordinary shares are held by West Coast Trust, a trust for the benefit of Anders Hedlund's adult children, which holds 900,790 ordinary shares and Claes Hedlund, Anders Hedlund's brother, who owns 250,000 ordinary shares. In total the Hedlund family is interested in 23,568,994 ordinary shares, representing 39.77% of the current issued share capital of the Company.

No shares were purchased by Directors between 31 March 2016 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.

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.

## 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 co-ordinator to ensure continuous improvement of health and safety across the Group.

## 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 Chief Executive Officer's 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 financial review. Details of bank loans and borrowings are given in note 17 to the financial statements and liquidity risks are given in note 26 to the financial statements.

The Group relies on its banks for financial support and is confident that the facilities 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. During the year the Company did not buy back any of its shares. The Directors will seek renewal of this authority at the forthcoming Annual General Meeting and at each succeeding Annual General Meeting.

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 transferred to an employee share scheme.

#### Auditor

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 auditor is 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 auditor is 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.

By order of the Board

#### Anthony Lawrinson

Director

28 June 2016

## FINANCIALS – GROUP

### Consolidated income statement

year ended 31 March 2016

	Notes	2016		2015	
		£000	Before exceptional items £000	Exceptional items (note 10) £000	Total £000
<b>Revenue</b>	4		229,025	—	229,025
Cost of sales		<b>236,950</b>	(189,048)	(592)	(189,640)
<b>Gross profit</b>		<b>(193,552)</b>	39,977	(592)	39,385
		<b>43,398</b>	18.3%	17.5%	17.2%
Selling expenses		<b>(12,609)</b>	(11,063)	—	(11,063)
Administration expenses		<b>(18,395)</b>		(716)	(19,111)
Other operating income	7	<b>758</b>	745	73	818
<b>Operating profit/(loss)</b>	5	<b>12,624</b>	11,264	(1,235)	10,029
Finance expenses	8	<b>(2,763)</b>	(2,726)	—	(2,726)
<b>Profit/(loss) before tax</b>		<b>9,861</b>	8,538	(1,235)	7,303
Income tax (charge)/credit	9	<b>(2,219)</b>	(1,708)	362	(1,346)
<b>Profit/(loss) for the period</b>		<b>7,642</b>	6,830	(873)	5,957
Attributable to:					
Owners of the Parent Company		<b>7,261</b>			5,605
Non- controlling interests		<b>381</b>			352

### Earnings per ordinary share

	Notes	2016		2015	
		Diluted	Basic	Diluted	Basic
Adjusted earnings per share excluding exceptional items and LTIP charges	23	<b>13.2p</b>	<b>13.5p</b>	11.5p	12.0p
Cost per share on LTIP charges	23	<b>(1.2p)</b>	<b>(1.2p)</b>	(0.8p)	(0.8p)
Adjusted earnings per share excluding exceptional items	23	<b>12.0p</b>	<b>12.3p</b>	10.7p	11.2p
Cost per share on exceptional items	23	—	—	(1.4p)	(1.5p)
<b>Earnings per share</b>		<b>12.0p</b>	<b>12.3p</b>	9.3p	9.7p

### Consolidated statement of comprehensive income

year ended 31 March 2016

	2016 £000	2015 £000
<b>Profit for the year</b>	<b>7,642</b>	5,957
Other comprehensive income:		
Exchange difference on translation of foreign operations (net of tax)	<b>1,794</b>	(1,405)
Transfer to profit and loss on maturing cash flow hedges (net of tax)	<b>(572)</b>	577

Net (loss)/profit on cash flow hedges (net of tax)	<b>(223)</b>	572
Other comprehensive income for period, net of tax items which may be reclassified to profit and loss in subsequent periods	<b>999</b>	(256)
<b>Total comprehensive income for the period, net of tax</b>	<b>8,641</b>	5,701
<b>Attributable to:</b>		
Owners of the Parent Company	<b>8,191</b>	5,601
Non- controlling interests	<b>450</b>	100
	<b>8,641</b>	5,701

### Consolidated statement of changes in equity

year ended 31 March 2016

	Share capital	Share premium and capital redemption reserve	Merger reserves	Hedging reserves	Translation reserve	Retained earnings	Shareholder equity	Non-controlling interest	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 March 2014	2,896	4,776	17,164	(577)	(672)	29,925	53,512	3,649	57,161
Profit for the year	—	—	—	—	—	5,605	5,605	352	5,957
Other comprehensive income	—	—	—	1,149	(1,153)	—	(4)	(252)	(256)
Total comprehensive income for the year	—	—	—	1,149	(1,153)	5,605	5,601	100	5,701
Equity- settled share- based payment (note 25)	—	—	—	—	—	512	512	—	512
Options exercised (note 22)	14	25	—	—	—	—	39	—	39
Equity dividends paid	—	—	—	—	—	—	—	(829)	(829)
At 31 March 2015	2,910	4,801	17,164	572	(1,825)	36,042	59,664	2,920	62,584
Profit for the year	—	—	—	—	—	7,261	7,261	381	7,642
Other comprehensive income	—	—	—	(795)	1,725	—	930	69	999
Total comprehensive income for the year	—	—	—	(795)	1,725	7,261	8,191	450	8,641
Equity- settled share- based payment (note 25)	—	—	—	—	—	596	596	—	596
Tax on equity- settled share- based payments	—	—	—	—	—	509	509	—	509
Options exercised (note 22)	53	51	—	—	—	(30)	74	—	74
Equity dividends paid	—	—	—	—	—	(1,032)	(1,032)	—	(1,032)
<b>At 31 March 2016</b>	<b>2,963</b>	<b>4,852</b>	<b>17,164</b>	<b>(223)</b>	<b>(100)</b>	<b>43,346</b>	<b>68,002</b>	<b>3,370</b>	<b>71,372</b>

#### Merger reserve

The merger reserve comprises premium on shares issued in relation to business combinations.

#### 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 qualify for hedge accounting and have not yet matured.

#### 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 2016

<b>As at</b>	As at
<b>31 March</b>	31 March

	Notes	2016 £000	2015 £000
<b>Non- current assets</b>			
Property, plant and equipment	11	30,190	29,875
Intangible assets	12	32,236	31,692
Deferred tax assets	13	4,296	4,121
<b>Total non- current assets</b>		<b>66,722</b>	<b>65,688</b>
<b>Current assets</b>			
Inventory	14	46,006	46,162
Trade and other receivables	15	21,187	21,525
Derivative financial assets	26	218	779
Cash and cash equivalents	16	8,380	2,846
<b>Total current assets</b>		<b>75,791</b>	<b>71,312</b>
<b>Total assets</b>		<b>142,513</b>	<b>137,000</b>
<b>Equity</b>			
Share capital	22	2,963	2,910
Share premium		3,512	3,461
Reserves		18,181	17,251
Retained earnings		43,346	36,042
<b>Equity attributable to owners of the Parent Company</b>		<b>68,002</b>	<b>59,664</b>
Non- controlling interests	30	3,370	2,920
<b>Total equity</b>		<b>71,372</b>	<b>62,584</b>
<b>Non- current liabilities</b>			
Loans and borrowings	17	18,349	23,089
Deferred income	18	1,145	1,277
Provisions	19	869	862
Other financial liabilities	20	2,095	3,466
Deferred tax liability	13	352	—
<b>Total non- current liabilities</b>		<b>22,810</b>	<b>28,694</b>
<b>Current liabilities</b>			
Bank overdraft	16	1,508	1,568
Loans and borrowings	17	3,584	3,546
Deferred income	18	118	632
Provisions	19	212	106
Income tax payable		1,945	2,192
Trade and other payables	21	27,221	26,868
Other financial liabilities	20	13,743	10,810
<b>Total current liabilities</b>		<b>48,331</b>	<b>45,722</b>
<b>Total liabilities</b>		<b>71,141</b>	<b>74,416</b>
<b>Total equity and liabilities</b>		<b>142,513</b>	<b>137,000</b>

These financial statements were approved by the Board of Directors on 28 June 2016 and were signed on its behalf by:

**Paul Fineman**      **Anthony Lawrinson**  
Director              Director

#### Consolidated cash flow statement

	Notes	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Profit for the year		7,642	5,957
Adjustments for:			
Depreciation	11	3,596	4,535
Amortisation of intangible assets	12	285	428
Finance expenses	8	2,763	2,726
Income tax charge	9	2,219	1,346
Loss on sales of property, plant and equipment	5	(186)	206
Loss on external sale of intangible fixed assets		1	10
Equity- settled share- based payment	25	908	623
<b>Operating profit after adjustments for non- cash items</b>		<b>17,228</b>	<b>15,831</b>

Change in trade and other receivables		<b>1,041</b>	(1,269)
Change in inventory		<b>1,219</b>	3,223
Change in trade and other payables		<b>1,863</b>	1,409
Change in provisions and deferred income		<b>(607)</b>	(1,343)
<b>Cash generated from operations</b>		<b>20,744</b>	17,851
Tax paid		<b>(1,797)</b>	(1,263)
Interest and similar charges paid		<b>(1,961)</b>	(2,775)
<b>Net cash inflow from operating activities</b>		<b>16,986</b>	13,813
<b>Cash flow from investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>1,568</b>	55
Acquisition of businesses	31	—	(1,451)
Acquisition of intangible assets	12	<b>(382)</b>	(234)
Acquisition of property, plant and equipment	11	<b>(4,377)</b>	(2,322)
Receipt of government grants		—	401
<b>Net cash outflow from investing activities</b>		<b>(3,191)</b>	(3,551)
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	22	<b>74</b>	39
Repayment of secured borrowings		<b>(5,708)</b>	(7,133)
Net movement in credit facilities		<b>184</b>	(4,840)
Payment of finance lease liabilities		<b>(1,712)</b>	(599)
New bank loans raised		—	365
Loan arrangement fees		—	(183)
Equity dividends paid	24	<b>(1,032)</b>	—
Dividends paid to non- controlling interests		—	(829)
<b>Net cash outflow from financing activities</b>		<b>(8,194)</b>	(13,180)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,601</b>	(2,918)
Cash and cash equivalents at beginning of period		<b>1,278</b>	5,582
Effect of exchange rate fluctuations on cash held		<b>(7)</b>	(1,386)
<b>Cash and cash equivalents at 31 March</b>	16	<b>6,872</b>	1,278

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Accounting policies

IG Design Group plc (formerly 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").

The Group financial statements have been prepared and approved by the Directors in accordance with EU adopted International Financial Reporting Standards.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

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.

In forming their conclusion that the business is and will remain a going concern, the Directors have reviewed the budgets and forecasts prepared and sensitivity analysis thereon. The business is highly seasonal and this results in peak funding demands.

To meet the funding requirements the business has agreed funding in place with HSBC and this has been renegotiated as part of a new three year deal in place from 3 June 2016. As with any company placing reliance on external entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of this report, they have no reason to believe that it will not do so.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have 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 derivative financial instruments are stated at their fair value.

### ***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 2015.

### ***Basis of consolidation***

Subsidiaries are entities controlled by the Group. The Group considers all facts and circumstances in assessing whether it has the power to control the relevant activities of investee and to benefit from the results thereof, including rights arising from shareholder agreements, contractual arrangements and potential voting rights held by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceased.

### ***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:

- 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
- 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***

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other debtors are subsequently reviewed for recoverability and impairment with any losses taken to profit and loss immediately. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

### ***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.

### ***Derivative financial instruments and hedging***

#### ***Derivative financial instruments***

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement 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.

#### ***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 the 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 is 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 four–25 years
- fixtures and fittings three–five years
- motor vehicles four years

No depreciation is provided on freehold land.

Included within plant and machinery are assets with a range of depreciation rates. These rates are tailored to the nature of the assets to reflect their estimated useful lives.

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.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested every half year 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 at that time 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 class of other intangible assets is 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. All other intangible assets are amortised from the date they are available for use. The estimated useful life of computer software and other intangibles 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 weighted average 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.

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.

#### ***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. 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.

#### ***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 delivered products to the customer or transferred legal title and the collectability of the related receivable is reasonably assured. Provisions are made for volume and promotional rebates where they have been agreed or are reasonably likely to arise, based upon actual and forecast sales.

#### ***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.

**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.

**Supplier income**

The Group does not have material retrospective supplier incentive arrangements but where these do arise, they are recognised within cost of sales on an accruals basis as earned for each relevant supplier rebate.

**Expenses***Operating lease payments*

Payments made and lease incentives received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

*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.

Net movements in the fair value of derivatives which have not been designated as an effective hedge, and any ineffective portion of fair value movement on derivatives designated as a hedge are also included within finance income or expense.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

**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.

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 IG Design Group plc (formerly 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 of the options at the date on which they are granted. The fair value is determined by using an appropriate pricing model. The fair value cost is then recognised over the vesting period, ending on the date on which the relevant employees become fully entitled to the award. The quantum of awards expected to vest and the

relevant cost charged is reviewed annually such that at each balance sheet date the cumulative expense is the relevant share of the expected total cost, pro-rated across the vesting period. No expense is recognised for awards that are not expected to ultimately vest, for example due to an employee leaving or business performance targets not being met. The annual expense for equity settled transactions is recognised in the income statement with a corresponding entry in equity.

#### *National Insurance ("NI") on share-based incentives*

Employer's NI is accrued, where applicable, at a rate which management expects to be the prevailing rate when share-based incentives are exercised and is based on the latest market value of options expected to vest or having already vested.

#### **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 asset. Costs directly attributable to the arrangement of new borrowing facilities are included within the fair value of proceeds received and amortised over the life of the relevant facilities. 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.

#### **New standards**

There are no IFRS or IFRIC interpretations or amendments effective for the first time this financial year that have any material impact on the Group.

#### **New standards and interpretations not applied**

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

The following standards, interpretations and amendments issued by the IASB have an effective date after the date of these financial statements and are considered by management to be relevant to the Group:

New pronouncement	Effective date	To be adopted by the Group
Annual Improvements		
2012-2014 Cycle	1 Jan 2016	1 Apr 2016
IFRS 15 Revenue from Contracts with Customers <sup>(a)</sup>	1 Jan 2017	1 Apr 2017
IFRS 9 Financial Instruments(a)	1 Jan 2018	1 Apr 2018
IFRS 16 Leases	1 Jan 2019	1 Apr 2019

(a) Not yet endorsed by EFRAG.

- IFRS 9 Financial Instruments replaces the existing requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group are currently assessing the impact of IFRS 9.
- IFRS 15: IFRS 15 replaces existing IFRS revenue recognition requirements in IAS 18 Revenue. The standard applies to all revenue contracts and provides a model for the recognition and measurement of sales of some non-financial assets (e.g. disposals of property, plant and equipment). The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application is required for annual periods beginning on or after 1 January 2017. The Group are currently assessing the impact of IFRS 15.
- IFRS 16 Leases: will bring all leases onto the balance sheet. The Group are currently assessing the impact of IFRS 16.

No other standards, interpretations or amendments which have been issued but are not yet effective are expected to significantly impact the Group's results or assets and liabilities and are not expected to require significant disclosure.

## **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.

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***

In the prior year the Directors had 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. There are no exceptional items in the current year.

### ***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 strategic 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 £31.5 million (2015: £31.1 million). No impairment (2015: nil) was required. The carrying amount of property, plant and equipment was £30.2 million (2015: £29.9 million). No impairment loss (2015: nil) was required (see note 12).

### ***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 14. At the year end, stock acquired more than 15 months previously had increased from £5.6 million to £5.9 million and the Group has provisions of £4.6 million (2015: £3.8 million) over the total inventory value.

### ***Share-based payments***

The Directors are required to estimate the fair value of the awards granted and the quantum of awards expected to vest. This entails the use of pricing models for the fair value calculation and the Directors use specialist advisers to support on this calculation where the pricing model is complex. The estimate of awards expected to vest required judgement and is reliant on the accuracy of management forecasts. Details of the key assumptions made in the measurement of share-based payments are provided in note 25.

### ***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 13 for more details.

## **3 Financial risk management**

Risk management is discussed in the strategic report of the financial statements and a discussion of risks and uncertainties can be found in the financial statements along with the Group's key risks. See note 26 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; and
- 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, manufacture and distribution of gift packaging and greetings, stationery and creative play products, and design-led giftware.

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 2011 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 overseen by our UK operational management team and we therefore continue to include 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. However the related financial liability and cash has been allocated out into the reportable segments as this is how they are managed by the Group.

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

	UK and Asia £000	Europe £000	USA £000	Australia £000	Eliminations £000	Group £000
<b>Year ended 31 March 2016</b>						
Revenue						
– external	109,723	34,097	65,259	27,871	—	236,950
– inter segment	2,085	337	—	—	(2,422)	—
<b>Total segment revenue</b>	<b>111,808</b>	<b>34,434</b>	<b>65,259</b>	<b>27,871</b>	<b>(2,422)</b>	<b>236,950</b>
<b>Segment result</b>	<b>5,700</b>	<b>2,874</b>	<b>3,465</b>	<b>1,494</b>	<b>—</b>	<b>13,533</b>
Central administration costs						(909)
Net finance expenses						(2,763)
Income tax						(2,219)
<b>Profit for the year ended 31 March 2016</b>						<b>7,642</b>
<b>Balances at 31 March 2016</b>						
<b>Segment assets</b>	<b>114,171</b>	<b>18,029</b>	<b>(3,789)</b>	<b>9,806</b>	<b>4,296</b>	<b>142,513</b>
<b>Segment liabilities</b>	<b>(46,711)</b>	<b>(10,499)</b>	<b>(6,678)</b>	<b>(4,956)</b>	<b>(2,297)</b>	<b>(71,141)</b>
Capital expenditure						
– property, plant and equipment	1,508	530	1,924	415	—	4,377
– intangible	285	16	56	25	—	382
Depreciation	2,062	654	711	169	—	3,596
Amortisation	163	40	55	27	—	285

	UK and Asia £000	Europe £000	USA £000	Australia £000	Eliminations £000	Group £000
<b>Year ended 31 March 2015</b>						
Revenue						
– external	108,255	35,871	57,921	26,978	—	229,025
– inter segment	1,572	180	—	—	(1,752)	—
<b>Total segment revenue</b>	<b>109,827</b>	<b>36,051</b>	<b>57,921</b>	<b>26,978</b>	<b>(1,752)</b>	<b>229,025</b>
Segment result before exceptional items	5,258	3,263	2,409	1,092	—	12,022
Exceptional items (see note 10)	(786)	(99)	(350)	—	—	(1,235)
<b>Segment result</b>	<b>4,472</b>	<b>3,164</b>	<b>2,059</b>	<b>1,092</b>	<b>—</b>	<b>10,787</b>
Central administration costs				(758)		
Net finance expenses					(2,726)	
Income tax					(1,346)	
<b>Profit for year ended 31 March 2015</b>					<b>5,957</b>	
<b>Balances at 31 March 2015</b>						
<b>Segment assets</b>	<b>101,139</b>	<b>15,692</b>	<b>8,242</b>	<b>7,806</b>	<b>4,121</b>	<b>137,000</b>
<b>Segment liabilities</b>	<b>(36,695)</b>	<b>(9,957)</b>	<b>(21,725)</b>	<b>(3,721)</b>	<b>(2,318)</b>	<b>(74,416)</b>
Capital expenditure						
– property, plant and equipment	1,562	355	325	80	—	2,322
– intangible	157	12	25	40	—	234
Depreciation	2,862	731	714	228	—	4,535
Amortisation	282	41	64	41	—	428

(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 £4,296,000 (2015: £4,121,000) and income tax payable of £1,945,000 (2015: £2,192,000), deferred tax liability £352,000 (2015: £nil) and VAT payable of £nil (2015: £126,000).

(d) 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.

### 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	
	2016	2015
	£000	£000
UK and Asia	38,857	40,655
USA	7,939	6,568
Europe	13,683	12,727
Australia and New Zealand	1,947	1,617
	<b>62,426</b>	<b>61,567</b>

All turnover arose from the sale of goods.

### Turnover by customer destination

	2016	2015	2016	2015
	£000	£000	%	%
UK	80,010	75,419	34	33
USA	79,629	73,473	33	32
Europe	43,836	48,148	19	21
Australia and New Zealand	27,871	26,978	12	12
Rest of the world	5,604	5,007	2	2
	<b>236,950</b>	<b>229,025</b>	<b>100</b>	<b>100</b>

### 5 Expenses and auditor's remuneration

Included in profit are the following charges/(credits)

	Notes	2016	2015
		£000	£000
Profit on sales of property, plant and equipment and intangible assets		(186)	(216)
Release of deferred grant income	7	(645)	(645)
Sub-lease rental income	7	(547)	(447)
Depreciation	11	3,596	4,535
Amortisation of intangible assets	12	285	428
Operating lease payment – minimum lease payment	27	3,889	3,765
Write down of inventories to net realisable value	14	4,316	2,565
Reversal of previous write downs on inventory	14	—	(224)
Gain on foreign exchange		(1,100)	(896)

### Auditor's remuneration

	2016	2015
	£000	£000
Amounts receivable by auditor and its associates in respect of:		
Audit of these financial statements	30	42
Audit of financial statements of subsidiaries pursuant to legislation		
– overseas subsidiaries	143	136
– UK subsidiaries	50	58
Other services relating to taxation	26	12

### 6 Staff numbers and costs

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

	Number of employees	
	2016	2015
Selling and administration	418	370
Production and distribution	1,554	1,323
	<b>1,972</b>	<b>1,693</b>

The aggregate payroll costs of these persons were as follows:

2016	2015
£000	£000

Wages and salaries	39,647	36,848
Social security costs	2,904	2,899
Other pension costs	2,957	2,676
	45,508	42,423

## 7 Other operating income

	2016	2015
	£000	£000
Grant income received	645	645
Sub- lease rentals credited to the income statement	547	447
Other	(434)	(347)
	758	745
Exceptional items	—	73
	758	818

## 8 Finance expenses

	2016	2015
	£000	£000
Interest payable on bank loans and overdrafts	1,622	2,106
Other similar charges	349	421
Finance charges in respect of finance leases	149	190
Unwinding of fair value discounts	74	14
Interest payable under the effective interest method	2,194	2,731
Derivative financial instruments at fair value through income statement	569	(5)
	2,763	2,726

## 9 Taxation

### Recognised in the income statement

	2016	2015
	£000	£000
<b>Current tax expenses</b>		
Current year – UK corporation tax	67	(1)
Current year – foreign tax	1,506	1,264
Adjustments for prior years	(53)	215
	1,520	1,478
<b>Deferred tax expense</b>		
Original and reversal of temporary differences	913	123
Adjustments in respect of previous periods	(214)	(255)
	699	(132)
<b>Total tax in income statement</b>	<b>2,219</b>	<b>1,346</b>

### Reconciliation of effective tax rate

	2016	2015
	£000	£000
Profit before tax	9,861	7,303
Profit before tax multiplied by the standard rate of corporation tax rate of 20% in the UK (2015: 21%)	1,972	1,534
Effects of:		
Expenses not deductible for tax purposes	138	277
Previously unrecognised tax assets	(367)	(984)
Deferred tax effect on tax rate changes	140	131
Differences between UK and overseas tax rates	704	363
Other items	(102)	64
Adjustments in respect of prior years	(267)	(39)
<b>Total tax in income statement</b>	<b>2,219</b>	<b>1,346</b>

## 10 Exceptional items

There were no exceptional items in 2016.

	Cost of sales £'000	Admin expenses £'000	Other operating income £'000	Loss on disposal of property, plant and equipment £'000	Total £'000
<b>2015</b>					
Restructuring of operational activities					
Efficiency programmes in the UK and Asia <sup>(a)</sup>	481	145	(73)	233	786
Management restructuring in the USA <sup>(b)</sup>	111	239	—	—	350
Costs relating to acquisition of Enper Giftwrap Business <sup>(c)</sup>	—	99	—	—	99
Total before tax	592	483	(73)	233	1,235
Income tax credit					(362)
					873

(a) Costs associated with major upgrade to manufacturing facilities in Wales, they included accelerated depreciation of £571,000.

Other operating income relates to accelerated release of a grant.

(b) Costs associated with restructuring the leadership team in the USA.

(c) Costs relating to acquisition of trade and certain assets of Enper Giftwrap BV.

#### Impact of exceptional items on cash flow

There was a £200,000 impact on the current year's cash flow (2015: £1,114,000) which included £200,000 (2015: £812,000) of outflow deferred from last year. None of the prior year's items remains to be paid in 2016/17.

#### 11 Property, plant and equipment

	Land and buildings		Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
	Freehold £000	Leasehold £000				
<b>Cost</b>						
Balance at 1 April 2014	23,476	7,142	54,184	447	642	85,891
Additions	566	161	1,311	175	109	2,322
Disposals	—	(9)	(12,512)	(41)	(104)	(12,666)
Additions on acquisition of business	—	—	328	—	14	342
Transfer between categories	—	269	(234)	(35)	—	—
Effect of movements in foreign exchange	(922)	913	823	(73)	(48)	693
Balance at 1 April 2015	23,120	8,476	43,900	473	613	76,582
Additions	172	297	3,548	156	204	4,377
Disposals	(2,564)	(12)	(3,600)	(1,972)	(95)	(8,243)
Effect of movements in foreign exchange	676	209	1,003	114	47	2,049
<b>At 31 March 2016</b>	<b>21,404</b>	<b>8,970</b>	<b>44,851</b>	<b>(1,229)</b>	<b>769</b>	<b>74,765</b>
<b>Depreciation and impairment</b>						
Balance as at 1 April 2014	(11,031)	(2,550)	(39,701)	(119)	(441)	(53,842)
Depreciation charge for the year	(892)	(520)	(2,731)	(282)	(110)	(4,535)
Disposals	—	9	12,264	48	84	12,405
Transfer between categories	—	(269)	234	35	—	—
Effect of movements in foreign exchange	287	(361)	(767)	61	45	(735)
Balance at 1 April 2015	(11,636)	(3,691)	(30,701)	(257)	(422)	(46,707)
Depreciation charge for the year	(910)	(441)	(2,012)	(145)	(88)	(3,596)
Disposals	1,317	12	3,467	1,972	93	6,861
Effect of movements in foreign exchange	(240)	(96)	(668)	(94)	(35)	(1,133)
<b>At 31 March 2016</b>	<b>(11,469)</b>	<b>(4,216)</b>	<b>(29,914)</b>	<b>1,476</b>	<b>(452)</b>	<b>(44,575)</b>
<b>Net book value</b>						
<b>At 31 March 2016</b>	<b>9,935</b>	<b>4,754</b>	<b>14,937</b>	<b>247</b>	<b>317</b>	<b>30,190</b>
At 31 March 2015	11,484	4,785	13,199	216	191	29,875

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 £3,725,000 (2015: £5,328,000) in respect of assets held under finance leases. Depreciation with respect of these assets was £290,000 (2015: £397,000).

#### Security

All freehold properties are subject to a fixed charge.

## 12 Intangible assets

	Goodwill £000	Computer software £000	Other intangibles £000	Total £000
<b>Cost</b>				
Balance at 1 April 2014	39,826	3,641	24	43,491
Additions	—	234	—	234
Additions on acquisition of businesses	509	—	80	589
Disposals	—	(108)	—	(108)
Effect of movements in foreign exchange	(83)	54	(2)	(31)
Balance at 1 April 2015	40,252	3,821	102	44,175
Additions	—	382	—	382
Disposals	—	(694)	—	(694)
Effect of movements in foreign exchange	679	57	8	744
<b>At 31 March 2016</b>	<b>40,931</b>	<b>3,566</b>	<b>110</b>	<b>44,607</b>
<b>Amortisation and impairment</b>				
Balance at 1 April 2014	(8,628)	(2,909)	(4)	(11,541)
Amortisation for the year	—	(406)	(22)	(428)
Disposals	—	98	—	98
Effect of movements in foreign exchange	(565)	(49)	2	(612)
Balance at 1 April 2015	(9,193)	(3,266)	(24)	(12,483)
Amortisation for the year	—	(258)	(27)	(285)
Disposals	—	693	—	693
Effect of movements in foreign exchange	(246)	(46)	(4)	(296)
<b>At 31 March 2016</b>	<b>(9,439)</b>	<b>(2,877)</b>	<b>(55)</b>	<b>(12,371)</b>
<b>Net book value</b>				
<b>At 31 March 2016</b>	<b>31,492</b>	<b>689</b>	<b>55</b>	<b>32,236</b>
At 31 March 2015	31,059	555	78	31,692

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

	2016 £000	2015 £000
UK and Asia	25,600	25,600
Europe	4,797	4,409
Australia	1,095	1,050
Total	31,492	31,059

### 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 which are approved by the Board. The key assumptions in those budgets are sales, margins achievable and overhead costs, which are based on past experience and future expectations. The Group then extrapolates cash flows for the following seven years based on a conservative estimate of market growth of 2% (2015: 2%).

The cash-generating units used the following pre-tax discount rates which are derived from an estimate of the Group's future Weighted Average Cost of Capital ("WACC") adjusted to reflect the market assessment of the risks specific to the current estimated cash flows over the same period. The Group's WACC has been compared to other similar companies and is felt to be appropriate.

### Pre-tax discount rates used were:

	2016 %	2015 %
UK and Asia	11.5	13.7
Europe	11.3	13.3

All of the cash-generating units' values 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 Directors do not believe a reasonably possible change to the assumptions would give rise to an impairment. The Directors have considered a 3% movement in the discount rate and a flat budget growth rate assumption in their assessment, with these changes in assumptions there is still considerable headroom and no indication of impairment.

### 13 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Property, plant and equipment	41	1,119	(1,115)	(1,246)	(1,074)	(127)
Capital gains deferred	—	—	(184)	(280)	(184)	(280)
Tax loss carried forward	2,622	3,334	(1)	—	2,621	3,334
Other timing differences	2,583	1,194	(2)	—	2,581	1,194
<b>Net tax assets/(liabilities)</b>	<b>5,246</b>	<b>5,647</b>	<b>(1,302)</b>	<b>(1,526)</b>	<b>3,944</b>	<b>4,121</b>

Deferred tax is presented net on the balance sheet in so far as a right of offset exists. The net deferred tax asset is £4,296,000 (2015: £4,121,000) and the net deferred tax liability is £352,000 (2015: £nil).

The deferred tax asset in respect of tax losses carried forward at 31 March 2016 of £2,621,000 (2015: £3,334,000) is comprised of UK tax losses of £907,000 (2015: £773,000) and US losses of £1,714,000 (2015: £2,561,000). 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 expects that 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 in the next three to five years. 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 losses of £340,000 (2015: £272,000), £1,385,000 (2015: £1,719,000) in respect of US tax losses and £118,000 (2015: £118,000) in respect of China.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries. Overseas reserves can now be repatriated to the UK with no tax cost. If all overseas earnings were repatriated with immediate effect, no tax charge (2015: nil) would be payable.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. An additional reduction to 17% (effective 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the Company's future current tax charge accordingly and is estimated to have a negligible effect on the deferred tax asset at the balance sheet date.

There are no deferred tax balances with respect to cash flow hedges.

#### Movement in deferred tax during the year

	1 April 2015 £000	Recognised in income £000	Recognised in equity £000	31 March 2016 £000
Property, plant and equipment	(127)	(890)	(57)	(1,074)
Capital gains deferred	(280)	96	—	(184)
Tax loss carried forward	3,334	(677)	(36)	2,621
Other timing differences	1,194	772	615	2,581
<b>Net tax assets</b>	<b>4,121</b>	<b>(699)</b>	<b>522</b>	<b>3,944</b>

#### Movement in deferred tax during the prior year

	1 April 2014 £000	Recognised in income £000	Recognised in equity £000	31 March 2015 £000
Property, plant and equipment	13	(143)	3	(127)
Capital gains deferred	(294)	14	—	(280)
Tax loss carried forward	2,488	358	488	3,334
Other timing differences	1,458	(97)	(167)	1,194

<b>Net tax assets</b>	3,665	132	324	4,121
-----------------------	-------	-----	-----	-------

#### 14 Inventory

	2016	2015
	£000	£000
Raw materials and consumables	5,981	5,495
Work in progress	8,934	7,414
Finished goods	31,091	33,253
	<b>46,006</b>	<b>46,162</b>

Of the £46,006,000 (2015: £46,162,000) stock value £40,899,000 (2015: £41,896,000) is held at cost and £5,107,000 (2015: £4,266,000) is held at net realisable value. The write down in the year of inventories to net realisable value amounted to £4,316,000 (2015: £2,565,000). The reversal of previous write downs amounted to £nil (2015: £224,000). The reversal is due to the inventory being either used or sold.

Materials, consumables, changes in finished goods and work in progress recognised as a cost of sale amounted to £169,491,000 (2015: £162,340,000).

Part of the Group's funding is via asset- backed loans from our bankers. These loans are secured on part of the inventory and trade receivables of the UK, European and American businesses. The amount of the year- end inventory used to secure an asset- backed loan was £37,981,000 (2015: £38,043,000). In addition bank loans to Hoomark and International Greetings USA are secured on a freehold property and contents, including inventory, therein.

Refer to note 17 for outstanding balance on asset- backed loans and details of the secured bank loans.

#### 15 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	18,634	18,281
Prepayments	1,645	1,226
Other receivables	790	2,018
VAT receivable	118	—
	<b>21,187</b>	<b>21,525</b>

Part of the Group's funding is via asset- backed loans from our bankers. These loans are secured on part of the inventory and trade receivables of the UK, European and American businesses. The amount of the year- end trade receivables used to secure the asset- backed loans was £14,839,000 (2015: £15,223,000)

Refer to note 17 for outstanding balance on asset- backed loans.

There are no trade receivables in the current year (2015: nil) 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 26.

#### 16 Cash and cash equivalents/bank overdrafts

	2016	2015
	£000	£000
Cash and cash equivalents	8,380	2,846
Bank overdrafts	(1,508)	(1,568)
Cash and cash equivalents per cash flow statement	<b>6,872</b>	<b>1,278</b>

#### Net debt

	2016	2015
	£000	£000
Cash and cash equivalents	8,380	2,846
Bank loans and overdrafts	17 (23,650)	(28,537)
Loan arrangement fees	209	334
Finance leases	(2,422)	(4,016)
Net debt as used in the financial review	<b>(17,483)</b>	<b>(29,373)</b>

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 26.

The bank loans and 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. See note 17 for further details of the Group's loans and overdrafts.

## 17 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 26.

	2016	2015
	£000	£000
<b>Non-current liabilities</b>		
Secured bank loans (see below)	18,425	23,259
Loan arrangement fees	(76)	(170)
	<b>18,349</b>	<b>23,089</b>
<b>Current liabilities</b>		
Asset-backed loan	797	544
Current portion of secured bank loans (see below)	2,920	3,166
Bank loans and borrowings (see below)	3,717	3,710
Loan arrangement fees	(133)	(164)
	<b>3,584</b>	<b>3,546</b>

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

### Terms and debt repayment schedule

	Note	2016	2015
		£000	£000
<b>Due within one year:</b>			
Bank loans and borrowings (see below)		3,717	3,710
Bank overdrafts	16	1,508	1,568
<b>Due between one and two years:</b>			
Secured bank loans (see below)		5,407	5,318
<b>Due between two and five years:</b>			
Secured bank loans (see below)		10,250	15,087
<b>Due after more than five years:</b>			
Secured bank loans (see below)		2,768	2,854
		<b>23,650</b>	<b>28,537</b>

In August 2014 the Group extended the maturity profile of its core borrowings as reflected in loans 5 and 6 shown below:

### Secured bank loans

#### Bank overdraft and ABL

Included in the above table are bank overdrafts and ABL balances of £1,508,000 (2015: £1,568,000) and £797,000 (2015: £544,000).

Overdrafts are secured on the assets of the Group, ABL balances are secured over inventory and trade receivable balances (see notes 14 and 15 for further details).

#### Loan 1

The principal of £176,000 at 31 March 2015 was repaid during the year. The loan was secured over the freehold land and buildings and the contents therein of International Greetings USA, Inc. and was subject to a variable rate of interest linked to the US Federal Funds Rate (US FFR). The currency of denomination of the loan was US dollars.

#### Loan 2

The principal of £132,000 was repaid during the year. The loan was secured over the freehold land and buildings and the content therein of International Greetings USA, Inc. and was subject to a variable rate of interest linked to the US FFR. The currency of denomination of the loan was US dollars.

#### Loan 3

The principal of £263,000 (2015: £365,000) is repayable over a five-year period ending September 2019. It is secured over part of the plant and machinery of International Greetings USA, Inc. It is subject to a variable rate of interest linked to the US FFR. The currency of denomination of the loan is US dollars.

#### Loan 4

The principal of £4,553,000 (2015: £4,483,000) 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 BV 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 £5,469,000 (2015: £5,072,000) over a period of five years ending in January 2017. The currency of denomination of the loan is euros.

#### Loan 5

The principal of £9,068,000 (2015: £9,010,000) is repayable in May 2018. £6,925,000 (2015: £6,925,000) is denominated in sterling and £2,143,000 (2015: £2,085,000) is denominated in US dollars. They are subject to a variable interest rate linked to LIBOR except for the element that has been swapped. At 31 March 2016 the Group had an interest rate cap on a notional amount of £8 million (2015: £8 million), and a notional amount of \$8 million (2015: \$8 million), whereby interest payable has been capped at 1.5% on both notional amounts.

#### Loan 6

The principal of £7,462,000 (2015: £12,297,000) is repayable and amortised to May 2017. £4,337,000 (2015: £7,229,000) is denominated in sterling and £3,125,000 (2015: £5,068,000) is denominated in US dollars. They are subject to a variable interest rate linked to LIBOR except for the elements that have been swapped. At 31 March 2016, the Group had an interest rate swap in place with a notional amount of £nil (2015: £0.6 million) whereby it receives a floating rate of interest based on LIBOR and pays a fixed rate of interest at 0.92% on the notional amount. The terms of the hedge have been negotiated to match the terms of the commitments. At 31 March 2016, the Group had an interest rate swap in place with a notional amount of \$nil (2015: \$2.8 million) whereby it receives a floating rate of interest based on LIBOR and pays a fixed rate of interest at 0.77% on the notional amount.

Subsequent to the year end the Group secured a global refinancing on 3 June 2016. Under the terms of the refinancing agreement the above loans, where outstanding, were repaid on 6 June 2016. See the financial review for further details.

### 18 Deferred income

	2016	2015
	£000	£000
<b>Included within non- current liabilities</b>		
Deferred grant income	1,145	1,277
<b>Included within current liabilities</b>		
Deferred grant income	105	619
Other deferred income	13	13
Deferred grant income	118	632

The deferred grant income is in respect of government grants relating to the development of the site in Wales. This is being amortised in line with depreciation on the new investment.

### 19 Provisions

	Property	Other	Total
	£000	£000	£000
Balance at 1 April 2015	968	—	968
Reclassified from accruals	—	110	110
Unwinding of discounts	74	—	74
Provisions utilised during the year	(71)	—	(71)
<b>Balance at 31 March 2016</b>	<b>971</b>	<b>110</b>	<b>1,081</b>

	2016	2015
	£000	£000
Non- current	869	862
Current	212	106
	<b>1,081</b>	<b>968</b>

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. A professional valuation was performed during 2012 for one of the leasehold properties and the provision was reassessed and is stated after discounting. £720,000 of the non - current balance relates to a lease expiring in 2025; the balance relates to items between two and five years.

Other provisions represents management's best estimate in respect of minor claims arising in the normal course of business.

### 20 Other financial liabilities

	2016	2015
	£000	£000

<b>Included within non- current liabilities</b>		
Finance lease	1,948	3,390
Other creditors and accruals	147	76
	<b>2,095</b>	<b>3,466</b>
<b>Included within current liabilities</b>		
Finance lease	474	626
Other creditors and accruals	12,020	9,867
Interest rate swaps and forward foreign currency contracts carried at fair value through the income statement	678	110
Interest rate swaps and forward foreign exchange contracts carried at fair value through the hedging reserve	571	207
	<b>13,743</b>	<b>10,810</b>

#### **Finance lease liabilities**

Finance lease liabilities are payable as follows:

	2016			2015		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£000	£000	£000	£000	£000	£000
Less than one year	562	88	474	781	(155)	626
Between one and five years	2,072	124	1,948	3,268	(317)	2,951
More than five years	—	—	—	444	(5)	439
	<b>2,634</b>	<b>212</b>	<b>2,422</b>	4,493	(477)	4,016

#### **21 Trade and other payables**

	2016	2015
	£000	£000
Trade payables	26,023	25,887
Other payables including income taxes and social security	730	855
VAT payable	468	126
	<b>27,221</b>	<b>26,868</b>

#### **22 Share capital**

Authorised share capital at 31 March 2016 and 2015 was £6,047,443 divided into 120,948,860 ordinary shares of 5p each.

In thousands of shares	Ordinary shares	
	2016	2015
In issue at 1 April	58,206	57,926
Options exercised during the year	1,051	280
In issue at 31 March – fully paid	<b>59,257</b>	<b>58,206</b>

	2016	2015
	£000	£000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of 5p each	<b>2,963</b>	2,910

Share options exercised during the year resulted in 443,000 ordinary shares being issued (2015: 280,000) which generated cash proceeds of £104,000 (2015: £39,000).

LTIP options exercised during the year amounted to 607,652 ordinary shares being issued (2015: nil) at nil cost.

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.

#### **23 Earnings per share**

	2016		2015	
	Diluted	Basic	Diluted	Basic
Adjusted earnings per share excluding exceptional items and LTIP charges	13.2p	13.5p	11.5p	12.0p
Cost per share on LTIP charges	(1.2p)	(1.2p)	(0.8p)	(0.8p)
Adjusted earnings per share excluding exceptional items	<b>12.0p</b>	<b>12.3p</b>	10.7p	11.2p

Cost per share on exceptional items	—	—	(1.4p)	(1.5p)
Earnings per share	<b>12.0p</b>	<b>12.3p</b>	9.3p	9.7p

The basic earnings per share is based on the profit attributable to equity holders of the Company of £7,261,000 (2015: £5,605,000) and the weighted average number of ordinary shares in issue of 58,843,000 (2015: 58,071,000) calculated as follows:

	<b>2016</b>	2015
Issued ordinary shares at 1 April	<b>58,206</b>	57,926
Shares issued in respect of exercising of share options	<b>637</b>	145
Weighted average number of shares at 31 March	<b>58,843</b>	58,071

Adjusted basic earnings per share excludes exceptional items charged of nil (2015: £1,235,000) and the tax relief attributable to those items of nil (2015: £362,000), to give adjusted profit of £7,261,000 (2015: £6,478,000).

Adjusted earnings per share excludes exceptional items and LTIP charges of £908,000 (2015: £1,858,000) and tax relief attributable to those items of £205,000 (2015: £487,000), to give adjusted profit of £7,964,000 (2015: £6,976,000).

### **Diluted earnings per share**

The average number of share options under the Executive Share Options 2008 Scheme outstanding in the year is 1,371,739 (2015: 1,723,833) at an average exercise price of 14p (2015: 17.4p). The average number of share options under the LTIP scheme outstanding in the year is 638,178 (2015: nil) at nil cost. The diluted earnings per share is calculated assuming all these options were exercised, and taking into account LTIP awards whose specified performance conditions were satisfied at the end of the reporting period. At 31 March the diluted number of shares was 60,745,000 (2015: 60,531,000).

### **24 Dividends paid and proposed**

A final dividend for year ending 31 March 2015 of 1p (for year ending 31 March 2014: nil) was paid on 22 September 2016. An interim dividend of 0.75p was paid on 18 January 2016 (2015: nil). The Directors are recommending a final dividend of 1.75p per share in respect of the year ended 31 March 2016 (2015: 1p). If approved it will be paid in September 2016 to shareholders on the register at the close of business on 8 July 2016.

	<b>2016</b>		2015	
	<b>Pence</b>		Pence	
	<b>per share</b>	<b>£000</b>	per share	£000
Dividends paid in the year				
Final equity dividend for prior year	<b>1.00</b>	<b>582</b>	—	—
Interim equity dividend for current year	<b>0.75</b>	<b>450</b>	—	—
Dividends paid in the year		<b>1,032</b>		—

	<b>2016</b>		2015	
	<b>Pence</b>		Pence	
	<b>per share</b>	<b>£000</b>	per share	£000
Proposed for approval at Annual General Meeting				
Final equity dividend for the current year	<b>1.75</b>	<b>1,037</b>	1.00	582

### **25 Share- based payments**

#### **Executive Share Options 2008**

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 December 2018. At 31 March 2016, outstanding options were as follows:

		Exercise	
	Number of	price	Exercise
	ordinary shares	pence	dates
Approved:	988,855	14	December 2011 – December 2018
Unapproved:	107,145	14	December 2011 – December 2018
	1,096,000		

All share- based payments are equity- settled.

There were no performance conditions attached to the approved options (other than continued employment). Conditions related to profitability for the two years to March 2011 were attached to the unapproved options awarded to Executive Directors. The conditions to both schemes have now been fully met.

For the share options outstanding at 31 March 2016, the weighted average remaining contract life was 2.7 years (2015: 3.8 years).

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

	<b>2016</b>	2015
	<b>Weighted</b>	Weighted

	average exercise price pence	Number of options	average exercise price pence	Number of options
Outstanding at the beginning of the period	16	1,589,285	17	1,874,285
Lapsed during the year	62	(50,000)	14	(5,000)
Exercised during the period	17	(443,285)	14	(280,000)
Outstanding at the end of the period	14	1,096,000	16	1,589,285
Exercisable at the end of the period	14	1,096,000	16	1,589,285

The weighted average share price at the date of exercise of share options exercised during the period was 171.8p (2015: 73.7p).

No share options were granted under this scheme during the year or the previous year.

### Long Term Incentive Plan

On 31 March 2014, International Greetings plc announced the introduction of a new Long Term Incentive Plan ("LTIP"). Under the LTIP, ordinary shares of 5p each ("ordinary shares") may be awarded annually to Executive Board Directors of the Company, Managing Directors and other selected senior management team members within the Group. Ordinary shares only vest to the degree that stretching performance conditions are met. The maximum dilution under the LTIP is 15% over a ten- year period, excluding an award to Anthony Lawrinson of which 1,107,652 shares have vested. The scheme rules which have been agreed by the Remuneration Committee include reasonable provisions in the event of change of control, suitable flexibility to modify performance targets in specified situations and also a mechanism for claw- back under certain circumstances. The Board retains the flexibility for the Employee Benefit Trust to buy ordinary shares to mitigate future dilution.

The performance period for each award under the LTIP is expected to be three years. The cost to employees of ordinary shares issued under the LTIP, if the performance criteria are met, will be nil. In principle the number of ordinary shares to be granted to each employee under the LTIP will not in value be more than a 100% of the relevant employee's salary based on the relevant share price at the time of grant, although the rules allow an upper maximum of 150%.

	Number of ordinary shares	Exercise price (p)	Exercise dates
2012- 15 LTIP scheme	500,000	nil	June 2016 – March 2024

All performance criteria have been met.

	2016 Number of options	2015 Number of options
Outstanding at the beginning of the period	1,107,652	—
Options vesting during the period	—	1,107,652
Exercised during the period	(607,652)	—
Outstanding at the end of the period	500,000	1,107,652
Exercisable at the end of the period	500,000	1,107,652

The award periods now in place under the LTIP are as follows:

#### 2014- 2017: provisional share awards totalling 1,297,698 shares

Share awards totalling 1,297,698 were issued during 2014-15 to 18 members of the leadership teams across the Group. The performance condition applied is CAGR in fully diluted earnings per share (before exceptional items) and this must be not less than 10% for any initial vesting to take place and up to 20% for the whole amount to vest.

The charge for the LTIP granted during the year was based on the share price of 72p at the time the scheme was approved and the expected number of shares to vest.

#### 2015- 2018: provisional share awards totalling 1,176,860 shares

Share awards totalling 1,176,860 were issued during the year to 26 members of the leadership teams across the Group. The performance conditions applied are fully diluted earnings per share (before exceptional items and LTIP charges), profit before tax, LTIP and exceptional items and average leverage.

	Weighting	Threshold	Stretch
EPS	50%	CAGR <sup>(a)</sup> 10%	CAGR <sup>(a)</sup> 17.5%
PBT	30%	CAGR <sup>(a)</sup> 10%	CAGR <sup>(a)</sup> 17.5%
Average leverage	20%	2.5x	1.8x

(a) CAGR = compound annual growth rate.

25% of the weighted award vests if the relevant threshold target is achieved with straight-line vesting of the balance up to the stretch target at which 100% of the weighted award is made.

The charge for the LTIP granted during the year was based on the share price of £1.29 at the time the scheme was approved and the expected number of shares to vest.

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

	<b>2016</b>	2015
	<b>£000</b>	£000
Charge in relation to the 2012- 15 LTIP scheme	—	483
Charge in relation to the 2014- 17 LTIP scheme	<b>387</b>	29
Charge in relation to the 2015- 18 LTIP scheme	<b>209</b>	—
Equity-settled share-based payments	<b>596</b>	512
National Insurance charge on LTIP awards	<b>312</b>	111
Equity-settled share-based payments	<b>908</b>	623
National Insurance accrual arising from share-based payments	<b>320</b>	111

The fair value of the options granted in the year was £825,000 (2015: £95,000). The exercise price is nil.

#### **National Insurance (“NI”) on share-based incentives**

Employer’s NI is accrued, where applicable, at a rate which management expects to be the prevailing rate when share-based incentives are exercised and is based on the latest market value of options expected to vest or having already vested.

## **26 Financial instruments**

### **Derivative financial assets**

	<b>2016</b>	2015
	<b>£000</b>	£000
Financial assets designated at fair value through the profit and loss	<b>218</b>	779

#### **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.

As at 31 March 2016, the Group had derivative contracts, which were measured at Level 2 fair value subsequent to initial recognition, to the value of an asset of £218,000 (2015: £779,000) and a liability of £1,249,000 (2015: £317,000).

#### *Derivative financial instruments*

The fair value of forward exchange contracts is assessed using valuation models taking into account market inputs such as foreign exchange spot and forward rates, yield curves and forward interest rates.

#### *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.

#### **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 £28,022,000 (2015: £23,924,000) being the total of the carrying amount of financial assets.

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

	2016	2015
	£000	£000
UK and Asia	7,882	7,754
USA	4,617	5,327
Europe	3,299	2,823
Australia	2,836	2,377
	<b>18,634</b>	<b>18,281</b>

#### Credit quality of financial assets and impairment losses

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

	2016		2015	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	13,135	(39)	14,020	(8)
Past due 0- 90 days	4,365	(115)	3,704	(48)
More than 90 days	1,484	(196)	766	(153)
	<b>18,984</b>	<b>(350)</b>	<b>18,490</b>	<b>(209)</b>

There were no unimpaired balances outstanding at 31 March 2016 (2015: 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:

	2016	2015
	£000	£000
Balance at 1 April	209	281
Charge for the year	311	154
Unused amounts reversed	(68)	(105)
Amounts written off	(115)	(118)
Effects of movement in foreign exchange	13	(3)
<b>Balance at 31 March</b>	<b>350</b>	<b>209</b>

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

The Group's policy with regard to liquidity ensures adequate access to funds by maintaining an appropriate mix of short- term and longer- term facilities, which are reviewed on a regular basis. The maturity profile and details of debt outstanding at 31 March 2016 is set out in note 17.

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

		Nominal interest rate	Carrying amount	Contractual cash flows	One year or less	One to two years	Two to five years	More than five years
31 March 2016	Notes	%	£000	£000	£000	£000	£000	£000
<b>Non- derivative financial liabilities</b>								
Secured bank loans – sterling		2.8	11,262	(11,939)	(1,473)	(3,085)	(7,381)	—
Secured bank loans – US dollar		2.3 – 2.5	5,531	(5,151)	(743)	(2,205)	(2,203)	—
Secured bank loans – euros		5.0	4,552	(5,883)	(552)	(537)	(1,522)	(3,272)
Total secured bank loans	17		21,345	(22,973)	(2,768)	(5,827)	(11,106)	(3,272)
Finance leases	20							
– sterling leases		3.9	2,350	(2,555)	(529)	(528)	(1,498)	—
– euro leases		5.0	72	(79)	(33)	(33)	(13)	—
– other leases		6.0	—	—	—	—	—	—
Other financial liabilities			12,167	(12,167)	(12,020)	(147)	—	—
Trade payables	21		26,023	(26,023)	(26,023)	—	—	—

Other payables	21	1,198	(1,198)	(1,198)	—	—	—
Asset-backed loans	2.1 – 3.5	797	(797)	(797)	—	—	—
Revolving credit facilities		—	—	—	—	—	—
Bank overdraft	1.0 – 3.9	1,508	(1,508)	(1,508)	—	—	—
<b>Derivative financial liabilities</b>							
Financial liabilities at fair value through the income statement – interest rate swaps <sup>(a)</sup>		152	—	—	—	—	—
Financial liabilities carried at fair value through the hedging reserve – interest rate swaps <sup>(a)</sup>		—	—	—	—	—	—
Forward foreign exchange contracts carried at fair value through the income statement		526	—	—	—	—	—
Forward foreign exchange contracts carried at fair value through the hedging reserve		571	(2,546)	(2,546)	—	—	—
		<b>66,709</b>	<b>(69,846)</b>	<b>(47,422)</b>	<b>(6,535)</b>	<b>(12,617)</b>	<b>(3,272)</b>

(a) The interest rate swaps with fair values of £152,000 mature over a period of three years ending January 2017.

31 March 2015	Notes	Nominal interest rate %	Carrying amount £000	Contractual cash flows £000	One year or less £000	One to two years £000	Two to five years £000	More than five years £000
<b>Non- derivative financial liabilities</b>								
Secured bank loans – sterling		2.9 – 3.1	14,154	(14,596)	(1,493)	(2,982)	(10,121)	—
Secured bank loans – US dollar		3.1 – 3.5	7,788	(8,099)	(1,453)	(2,183)	(4,463)	—
Secured bank loans – euros		4.3	4,483	(6,137)	(585)	(644)	(1,518)	(3,390)
Total secured bank loans	17		26,425	(28,832)	(3,531)	(5,809)	(16,102)	(3,390)
Finance leases	20							
– sterling leases		3.9	2,773	(3,084)	(523)	(526)	(1,591)	(444)
– euro leases		4.9	1,242	(1,408)	(257)	(257)	(894)	—
– other leases		6.0	1	(1)	(1)	—	—	—
Other financial liabilities			9,943	(9,943)	(9,868)	(75)	—	—
Trade payables	21		25,887	(25,887)	(25,887)	—	—	—
Other payables	21		981	(981)	(981)	—	—	—
Asset-backed loans		2.1 – 3.5	544	(544)	(544)	—	—	—
Revolving credit facilities			—	—	—	—	—	—
Bank overdraft		1.0 – 3.9	1,568	(1,568)	(1,568)	—	—	—
<b>Derivative financial liabilities</b>								
Financial liabilities at fair value through the income statement – interest rate swaps <sup>(a)</sup>			110	—	—	—	—	—
Financial liabilities carried at fair value through the hedging reserve – interest rate swaps <sup>(a)</sup>			207	—	—	—	—	—
Forward foreign exchange contracts carried at fair value through the income statement			—	—	—	—	—	—
Forward foreign exchange contracts carried at fair value through the hedging reserve			(779)	(17,710)	(17,710)	—	—	—
			<b>68,902</b>	<b>(89,958)</b>	<b>(60,870)</b>	<b>(6,667)</b>	<b>(18,587)</b>	<b>(3,834)</b>

(a) The interest rate swaps with fair values of £110,000 and £207,000 mature over a period of three years ending January 2017.

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

	31 March 2016				31 March 2015			
	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 previous table)	21,345	(22,973)	—	(22,973)	26,425	(28,832)	—	(28,832)
Asset-backed loans	797	(797)	(15,459)	(16,256)	544	(544)	(16,533)	(17,077)

Bank overdraft	1,508	(1,508)	(2,247)	(3,755)	1,568	(1,568)	(4,972)	(6,540)
	<b>23,650</b>	<b>(25,278)</b>	<b>(17,706)</b>	<b>(42,984)</b>	28,537	(30,944)	(21,505)	(52,449)

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

The major bank facilities vary in the year depending on forecast debt requirements. The maximum limit across all facilities with the major bank was £74 million (2015: £74 million). At 31 March 2016 the facility amounted to £27.1 million (2015: £35.3 million).

Additional facilities were available at other banks of £14.3 million (2015: £14.7 million), including asset- backed loans according to the level of receivables and inventory.

The short-term overdraft, RCF and the asset- backed loan elements of those facilities were renewed on improved terms in May 2014, which has slightly lowered the blended rate in the year.

The asset- backed loan facilities were to be renewed between 2016 and 2018, see the financial review for further details.

#### **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:

	Carrying amount	Contractual cash flows	One year or less
	£000	£000	£000
<b>31 March 2016</b>			
<b>Interest rate swaps:</b>			
Liabilities	—	—	—
<b>Forward exchange contracts:</b>			
Liabilities	571	(2,546)	(2,546)

	Carrying amount	Contractual cash flows	One year or less
	£000	£000	£000
<b>31 March 2015</b>			
<b>Interest rate swaps:</b>			
Liabilities	207	—	—
<b>Forward exchange contracts:</b>			
Liabilities/(assets)	(779)	(17,710)	(17,710)

At 31 March 2016 the Group had an interest rate swap in place with a notional amount of €7 million (£5.6 million), (2015: \$7 million, £5.1 million) whereby it receives a floating rate of interest based on EURIBOR and pays a fixed rate of interest at 2.29% on the notional amount. This swap is to hedge the exposure to changes in the interest rate. The terms of the hedge have been negotiated to match the terms of the commitments. The fair value of the swap at the balance sheet date was a liability of £141,000.

The Group has forward currency hedging contracts outstanding at 31 March 2016 designated as hedges of expected future purchases in US dollars and Chinese renminbi 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 purchases in 2016/17 were assessed to be highly effective and as at 31 March 2016 a net unrealised gain of £223,000 with related deferred tax credit of nil was included in other comprehensive income in respect of these hedging contracts.

#### **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 rarely hedges 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.

However, the Group holds loans that are denominated in the functional currency of certain overseas entities.

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.

<b>31 March 2016</b>	<b>Notes</b>	<b>Sterling £000</b>	<b>Euro £000</b>	<b>US dollar £000</b>	<b>Other £000</b>	<b>Total £000</b>
Cash and cash equivalents	16	2,281	(390)	5,303	1,186	8,380
Trade receivables	15	6,630	3,163	5,506	3,335	18,634
Other receivables		793	16	—	—	809
Financial assets at fair value through income statement	15	218	—	—	—	218
Secured bank loans	17	(11,262)	(4,552)	(5,531)	—	(21,345)
Loan arrangement fees	17	162	—	47	—	209
Finance leases	20	(2,350)	(72)	—	—	(2,422)
Asset-backed loans	17	—	(797)	—	—	(797)
Bank overdrafts	16	—	—	—	(1,508)	(1,508)
Trade payables	21	(9,533)	(3,318)	(10,082)	(3,090)	(26,023)
Other payables	21	(817)	(381)	—	—	(1,198)
<b>Balance sheet exposure</b>		<b>(13,878)</b>	<b>(6,331)</b>	<b>(4,757)</b>	<b>(77)</b>	<b>(25,043)</b>

31 March 2015	Notes	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	16	1,960	789	89	8	2,846
Trade receivables	15	6,827	2,742	6,179	2,533	18,281
Other receivables		1,140	22	4	—	1,166
Financial assets at fair value through income statement	15	779	—	—	—	779
Secured bank loans	17	(14,154)	(4,483)	(7,788)	—	(26,425)
Loan arrangement fees	17	256	—	78	—	334
Finance leases	20	(2,773)	(1,242)	—	(1)	(4,016)
Asset-backed loans	17	—	(58)	(486)	—	(544)
Bank overdrafts	16	(346)	(386)	282	(1,118)	(1,568)
Trade payables	21	(11,341)	(3,020)	(7,419)	(4,107)	(25,887)
Other payables	21	(678)	(303)	—	—	(981)
Financial liabilities at fair value through hedging reserve	20	(207)	—	—	—	(207)
<b>Balance sheet exposure</b>		<b>(18,537)</b>	<b>(5,939)</b>	<b>(9,061)</b>	<b>(2,685)</b>	<b>(36,222)</b>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
Euro	1.36	1.29	1.26	1.38
US dollar	1.50	1.61	1.44	1.48

#### Sensitivity analysis

A 10% weakening of the following currencies against sterling at 31 March 2016 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 2015.

	Equity		Profit/(loss)	
	2016	2015	2016	2015
	£000	£000	£000	£000
Euro	89	127	18	(25)
US dollar	432	824	(959)	(617)

On the basis of the same assumptions, a 10% strengthening of the above currencies against sterling at 31 March 2016 would have decreased equity and profit or loss by the following amounts:

	Equity		Profit/(loss)	
	2016	2015	2016	2015
	£000	£000	£000	£000
Euro	(109)	(155)	(22)	31
US dollar	(529)	(1,007)	1,172	754

#### Profile

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

2016 2015

	Note	£000	£000
<b>Fixed rate instruments</b>			
Financial liabilities		(19,112)	(20,969)
<b>Variable rate instruments</b>			
Financial assets		8,380	2,846
Financial liabilities		(4,538)	(7,568)
Loan arrangement fees		209	334
Finance leases		(2,422)	(4,016)
<b>Net debt</b>	16	<b>(17,483)</b>	<b>(29,373)</b>

The fixed rate borrowings above are shown after taking account of interest rate swaps and interest rate caps (see note 17 for details).

A change of 50 basis points (0.5%) in interest rates in respect of financial assets and liabilities 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 instruments at fair value through profit or loss. The analysis is performed on the same basis for 31 March 2015.

	Equity		Profit/(loss)	
	2016	2015	2016	2015
	£000	£000	£000	£000
Interest charge change	19	(24)	19	(24)

#### 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.

As stated in note 17, subsequent to the year end, the Group secured a global refinancing on 3 June 2016. See the financial review for further details.

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. The banking facilities with our principal bank have covenants relating to interest cover, cash flow cover and leverage, and our articles currently permit borrowings (including letter of credit facilities) to a maximum of four times equity.

	Note	Equity	
		2016	2015
		£000	£000
Net assets attributable to owners of the Parent Company		68,002	59,664
Net debt	16	17,483	29,373
<b>Trading capital</b>		<b>85,485</b>	<b>89,037</b>

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 Chief Executive Officer and Chief Financial Officer. There were no major changes in the Group's approach to capital management during the year. A particular focus of the Group is leverage measured as the ratio of net debt to pre- exceptional EBITDA which is measured on a monthly basis.

#### 27 Operating leases

Non- cancellable operating lease rentals are payable as follows:

	2016	2015
	£000	£000
Less than one year	4,051	3,389
Between one and five years	11,698	9,871
More than five years	5,853	7,476
	<b>21,602</b>	<b>20,736</b>

Non-cancellable operating leases are receivables as follows:

	2016	2015
	£000	£000

Less than one year	<b>908</b>	908
Between one and five years	<b>2,355</b>	3,268
	<b>3,263</b>	4,176

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 and part of a second. The main sub- leases have periods to run of more than five years. Sub- lease payments of £547,000 (2015: £447,000) were received during the financial year.

During the year £3,889,000 was recognised as an expense in the income statement in respect of operating leases (2015: £3,765,000).

## 28 Capital commitments

At 31 March 2016, the Group had outstanding authorised capital commitments to purchase plant and equipment for £160,000 (2015: £313,000).

## 29 Related parties

	<b>2016</b>	2015
	<b>£000</b>	£000
<b>Sale of goods</b>		
AB Alrick – Hedlund	<b>8</b>	245
Hedlunds Pappers Industri AB	<b>121</b>	97
Festive Productions Ltd	<b>128</b>	55
Hedlund Import AB	<b>7,003</b>	8,078
SA Greetings (Pty) Ltd	<b>8</b>	—
	<b>7,268</b>	8,475
<b>Purchase of goods</b>		
Hedlund Import AB	<b>86</b>	20
Festive Productions Ltd	<b>18</b>	—
	<b>104</b>	20
<b>Receivables</b>		
Hedlund Import AB	<b>320</b>	144
Hedlunds Pappers Industri AB	<b>19</b>	4
<b>Balance at 31 March</b>	<b>339</b>	148
<b>Payables</b>		
Hedlund Import AB	<b>(1)</b>	—
<b>Balance at 31 March</b>	<b>(1)</b>	—

### *Identity of related parties and trading*

Hedlund Import AB and AB Alrick – Hedlund are under the ultimate control of the Hedlund family. Anders 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 Holding AG, a company under the ultimate control of the Hedlund family.

John Charlton is Chairman of SA Greetings (Pty) Ltd and Elaine Bond is a shareholder.

Phil Dutton, a Non- Executive Director during the year, is married to Judith McKenna who is Executive Vice President, Chief Development Officer of Walmart US. Walmart are a significant customer of the Group.

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 49% (2015: 49%) of the voting shares of the Company. The shareholdings of Directors and changes during the year are shown in the Directors' report.

## 30 Subsidiary with significant non- controlling interest

The Company has one subsidiary company which has a material non-controlling interest, Artwrap Pty Ltd (Artwrap). Summary financial information in relation to Artwrap is shown below.

	<b>2016</b>	2015
	<b>£000</b>	£000
<b>Artwrap balance sheet as at 31 March</b>		
Non-current assets	<b>1,418</b>	1,011

Current assets	<b>9,831</b>	8,145
Current liabilities	<b>(4,281)</b>	(3,242)
Non-current liabilities	<b>(227)</b>	(76)

#### **Artwrap comprehensive income for the year ended 31 March**

Turnover	<b>27,873</b>	26,978
Profit after tax	<b>761</b>	704
Total comprehensive income	<b>502</b>	704

#### **Artwrap cash flow for the year ended 31 March**

Net increase/(decrease) in cash and cash-equivalents	<b>1,294</b>	(1,611)
--	--------------	---------

#### **Artwrap non-controlling interest**

1 April	<b>2,920</b>	3,649
Share of profits for the year	<b>381</b>	352
Other comprehensive income	<b>(130)</b>	—
Dividend paid to the non-controlling interest	<b>—</b>	(829)
Currency translation	<b>199</b>	(252)
31 March	<b>3,370</b>	2,920

### **31 Acquisition of business**

On 5 June 2014, the Group acquired the trade and certain assets of Enper Giftwrap BV for a cash consideration of £1,451,000 (€1,854,000).

The fair value of the identifiable assets and liabilities acquired as at the date of acquisition were:

	Note	£000
Intangible fixed assets		<b>80</b>
Plant and equipment		<b>342</b>
Stock		<b>684</b>
Accruals		<b>(54)</b>
Finance lease acquired		<b>(110)</b>
<b>Total identifiable net assets at fair value</b>		<b>942</b>
Goodwill arising on acquisition	12	<b>509</b>
<b>Total purchase consideration transferred</b>		<b>1,451</b>
<b>Cash consideration</b>		<b>1,451</b>

Transaction costs of £99,000 have been expensed and are included in administrative expenses as an exceptional item.

From the date of acquisition to 31 March 2015 the Enper Giftwrap business acquired contributed £2,481,000 of turnover of the Group.

If the combination had taken place at the beginning of the year the consolidated turnover of the Group would have been £229,490,000.

The trade of Enper Giftwrap has been incorporated into that of Hoomark BV. It is not possible to separate out and disclose separately the profit of the Enper Giftwrap business.

### **32 Subsequent event**

On 7 June 2016 the Group announced the successful completion of a Group-wide funding agreement with HSBC bank, full details of which can be found in of the financial review.