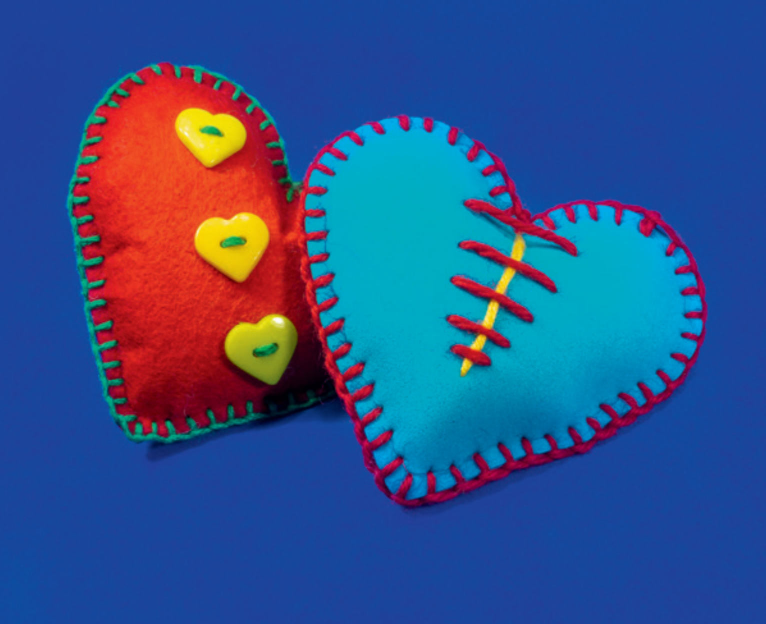

IG Design Group plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

2020

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What's inside

Strategic report

A review of the Group's strategy with a more detailed look at activity during the financial year together with its risk management.

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Alternative performance measures

This review includes alternative performance measures ('APMs') that are presented in addition to the standard IFRS metrics. The Directors believe that these APMs provide important additional information regarding the business including trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and segmental business units by adjusting for exceptional or uncontrollable factors which affect IFRS measures, to aid the understanding of the Group's performance. Consequently, APMs are used by the Directors and management for strategic and performance analysis, planning, reporting and reward setting.

Adjusting items are items that are material and of an unusual or non-recurring nature.

In order to show when such measures have been used, the APMs are highlighted in blue throughout the CEO and CFO reviews, collectively known as the executive review.

The APMs are **Adjusted EBITDA, Adjusted operating profit, Adjusted profit before tax, Adjusted profit after tax, and Adjusted earnings per share.** The definitions of the APMs used are listed below:

- **Adjusted EBITDA** – EBITDA before adjusting items
- **Adjusted operating profit** – Profit before finance charges, tax and adjusting items
- **Adjusted profit before tax** – Profit before tax and adjusting items
- **Adjusted profit after tax** – Profit after tax, before adjusting items and associated tax effect
- **Adjusted earnings per share** – Fully diluted earnings per share before adjusting items and associated tax effect

Further detail can be seen on page 45.

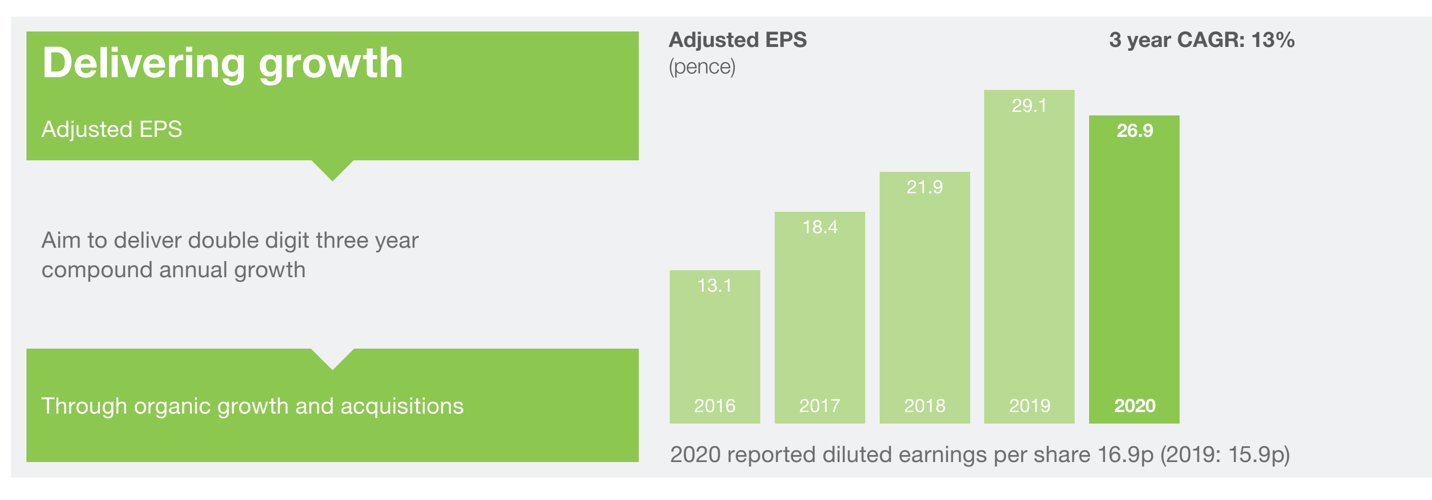
We are Design Group

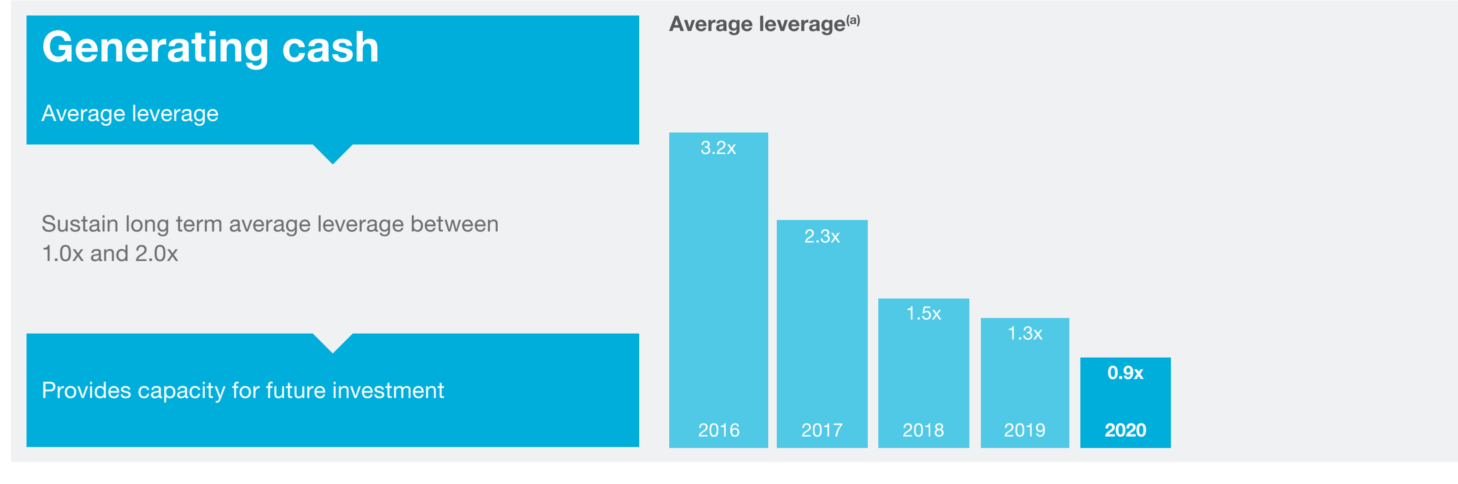
Helping people celebrate life's special occasions and inspiring individuals' creativity.

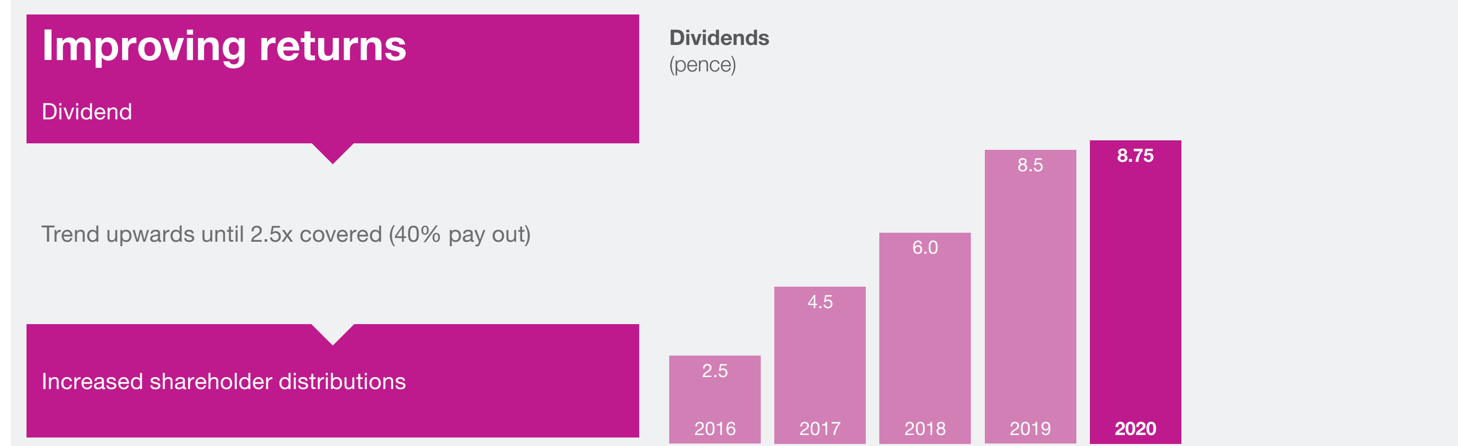
Our goals are

Customers	Team
to be the 'partner of choice' across an increasing range of products and categories where our customers value our fast pace, innovation, market focus and flexibility	to have a creative and winning culture focused on developing a team that looks to accomplish great things
Suppliers	**Investors**
to build relationships with suppliers who provide capacity, enable us to compete profitably and share our passion for design and innovation	to continue to grow our Group and deliver returns well above market performance

DELIVERING OUR COMMITMENT TO SHAREHOLDERS







Alternative performance measures: we use both statutory reported and adjusted measures in our strategic report. Adjusted measures in management's view reflect the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured day-to-day. The definition of adjusted measures, along with a full reconciliation between our reported and adjusted results, is provided in our alternative performance measures section on page 45.

KPIs

Revenue

£494.2m +10%

2019: £448.4m

Adjusted profit before tax[a]

£29.1m

2019: £30.3m

Reported profit before tax

£0.3m

2019: £17.3m

Adjusted EBITDA[a]

£48.1m +24%

2019: £38.7m

Adjusted EBITDA pre IFRS 16

£40.2m +4%

2019: £38.7m

Average bank debt

£34.6m

2019: £48.8m

Cash conversion[a]

84.4%

2019: 130.5%

Return on capital employed[a]

21.6%

2019: 24.3%

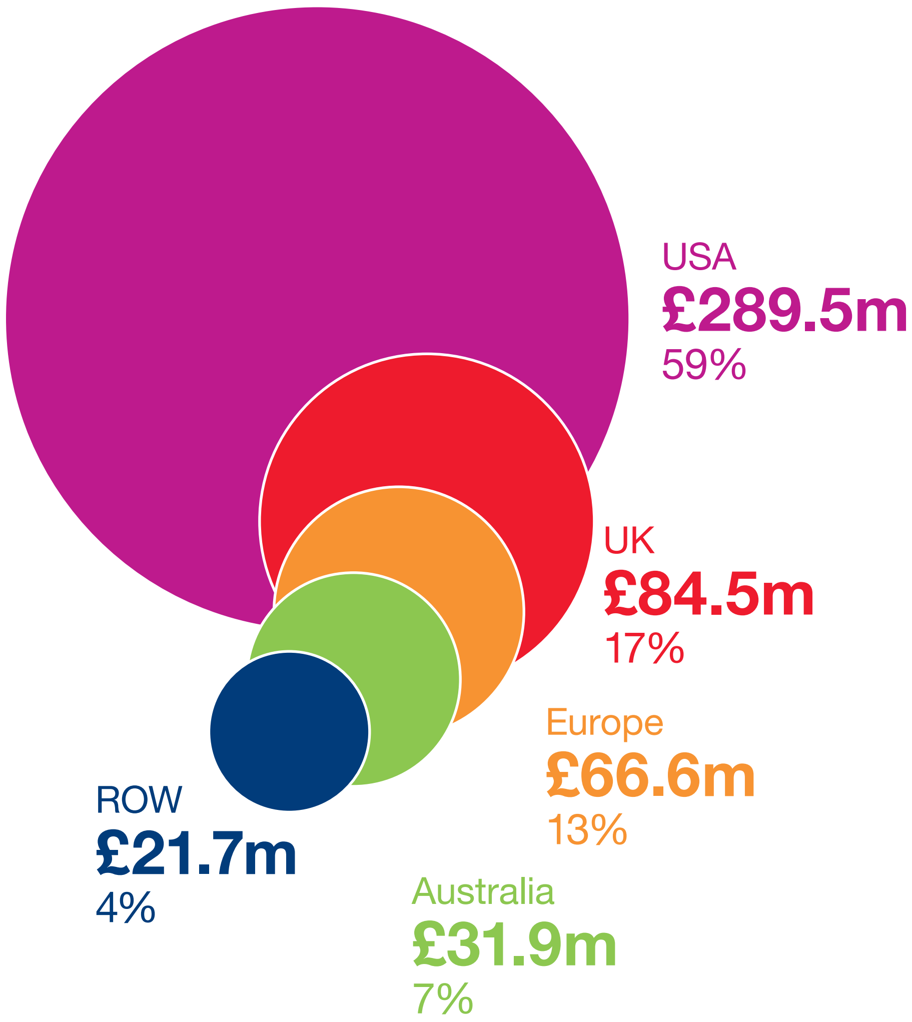
(a) For definitions please refer to detailed financial review on page 45.

AT A GLANCE

We're all around the world

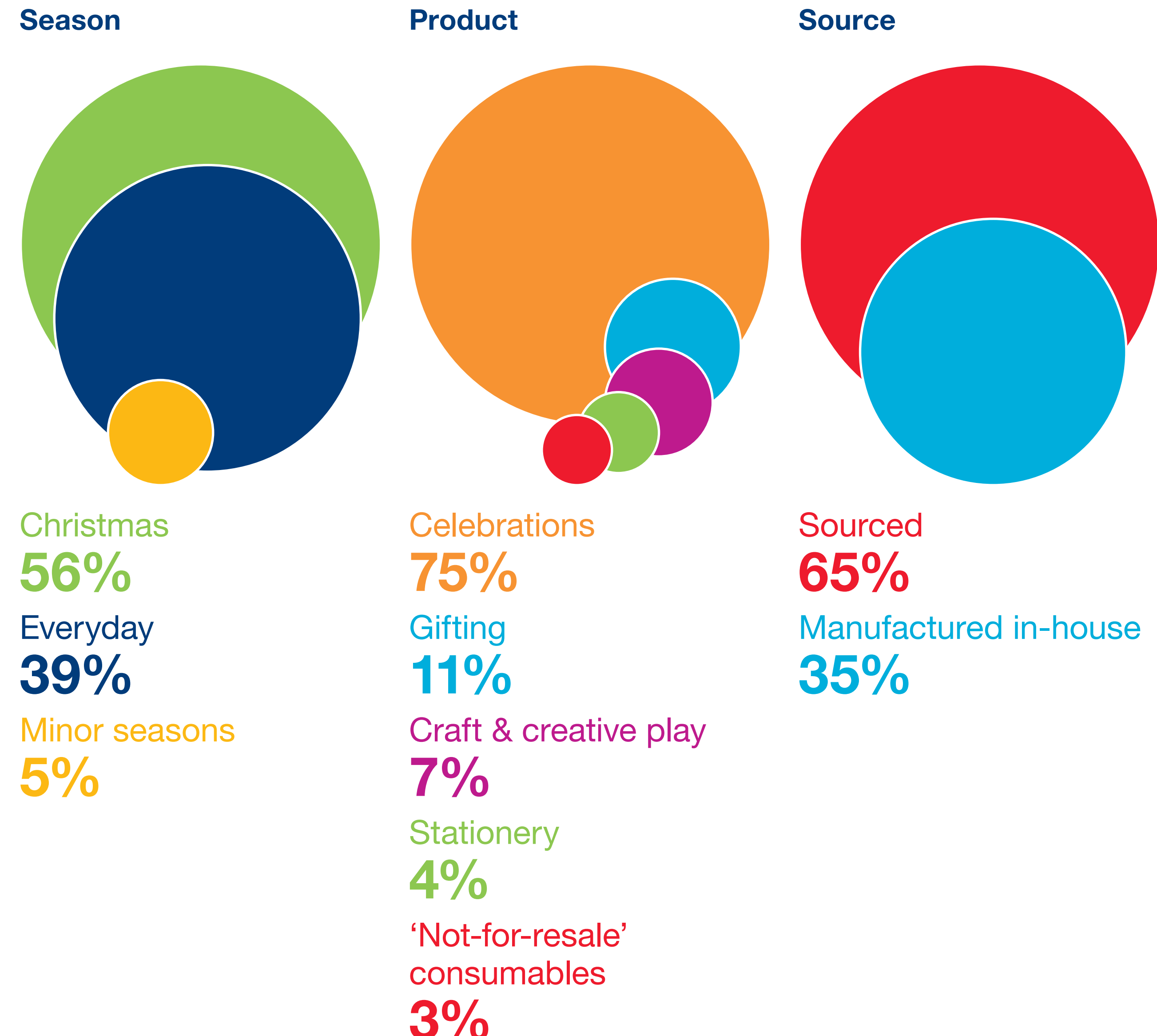
We're truly international, with **11,000** customers selling our products through over **210,000** stores across more than **80** countries, we enjoy considerable market presence around the world.

Revenue by customer destination



Focused on our five major product categories of **Celebrations, Gifting, Craft & creative play, Stationery** and **'Not-for-resale' consumables,** we leverage our Group size and expertise whilst retaining local market knowledge and relationships through our local businesses.

Revenue by...



BUSINESS MODEL

Designed to succeed

Our core strengths

Geographic diversity

Customer relationships

Passionate and innovative team

Award winning service

Broad product portfolio of trusted brands

What we do

Product Design & Development

Over 230 designers across four continents, producing thousands of designs a year

- We pride ourselves on always being at the very cutting edge of design trends and product development
- Our businesses can all access these great designs through our global design hub
- Each business unit has a dedicated design team
- We are continuously innovating fresh designs, including generic, customer bespoke and licensed branded offerings

Manufacturing & Sourcing

Over 75,000 SKUs manufactured and sourced annually

- We manufacture a number of our core products in-house, including gift wrap, crackers, gift bags, cards, sewing patterns, ribbons and bows
- Sites in the UK, China, US, Mexico, India, Netherlands and Poland
- We continuously invest in our manufacturing process, resulting in some of the most efficient production facilities in the industry
- For categories that we source, we work with carefully selected partners to manufacture our products and designs to meet required standards
- Our manufacturing and sourcing network, which is subject to regular ethical, quality and technical audits, supported by our team of manufacturing and sourcing experts, ensures we deliver compliant and ethically sourced products

Distribution & Fulfilment

Over 700 million units sold annually

- We offer everything from ‘free on board’, where the customer handles shipping, to merchandising solutions, where we deliver items to stores depending on customer needs
- In each business unit across the world our logistics teams process each retailer’s orders through our global infrastructure of warehouses and fulfilment centres
- Our ability to deliver on time/in full is a critical part of our service offering
- We work with our customers to improve the process of getting stock to the shelf, helping reduce store costs and improve stock availability

Our values underpin all we do – reflecting Design Group culture

- To strive for excellence in everything we do
- To behave ethically and with integrity
- To focus on our customers and ‘go the extra mile’
- To be open to feedback, ideas and to positive change and promote fulfilment and fun

Products and categories

- **Celebrations**
- **Gifting**
- **Craft & creative play**
- **Stationery**
- **'Not-for-resale' consumables**

Value created for stakeholders

Employees

Direct employment of over 4,250 employees worldwide

Customers

Global scale allows us to offer the best products and prices

Suppliers

Indirect employment engaging over 400 suppliers across our business

Communities

Local initiatives supporting local communities and national charities

Shareholders

We have delivered long term growth in dividends and share price

- To be good citizens within our communities and take responsibility for our impact on our planet
- To be innovative and entrepreneurial
- To treat everyone with dignity and respect
- To be a team that succeeds together and aims to be an 'employer of choice'

STAKEHOLDERS

In good company with our stakeholders

Section 172 statement

As a Board, collectively and as individual Directors, we recognise our obligations under the Companies Act and, in particular, our duties as Directors.

Each Director is fully aware of their duty to promote the success of the Company for the benefit of its members as a whole, and in doing so each Director has regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;

(b) the interests of the Company's employees;

(c) the need to foster the Company's business relationships with suppliers, customers and others;

(d) the impact of the Company's operations on the community and the environment;

(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the Company.

In the table on the right, we identify the key stakeholders set out in Section 172 (b)-(d) and (f) and highlight the key issues they face, how we engage with them and examples of Board decisions that have taken these important stakeholders (and the other Section 172 factors) into account.

When making decisions as a Board, we also evaluate the short term and long term consequences of each decision. This was evident when approving the refinancing of the Group in June 2019.

We were able to secure funding over the next three year period with multiple banks as opposed to maintaining the previous arrangement which required certain elements to be renewed annually. This gives us certainty over funding and aligns with our growth strategy.

Our stakeholders	Issues they face	How we engage	Effect on 2020 Board decisions
Employees Our teams across the Group include those who have been with the business for many years through to new recruits at the start of their careers.	Employees want a happy, safe working environment where they are rewarded fairly and where there are opportunities to gain fresh experiences, personal growth and career progression. It is important that employees feel respected and valued.	We invest in our people; from training and education offered throughout the Group, through to opportunities for career progression. The Group offers an environment in which our employees are encouraged to grow and deliver their very best. It is these same opportunities which allow the Group to attract and retain the brightest talent.	Recognising the growing size of the business, the Board takes a keen interest in ensuring that key positions are recruited and the correct organisation structure put in place. This was a key priority in the Board approving the CSS Industries, Inc. ('CSS') acquisition.
Customers We are proud to serve the best retailers in the world.	The retail market is a dynamic and challenging environment and retailers are having to continuously evolve their propositions to meet consumer demand and changing expectations.	We recognise that each of our customers is unique and so requires a different service to satisfy their needs and expectations. We are skilled in delivering a range of product offerings from small, catalogue orders to large programmes for international retailers.	The Board approved a multi million capital investment in gift wrap machinery for our European business, enabling it to compete more effectively for high volume projects, particularly for customers who have seen strong growth over this period and require a quick turnaround in supply.
Suppliers As well as our own manufacturing facilities, we utilise a global network of suppliers to ensure we can turn our designs into high quality products for our customers.	Margin pressures from the end customer require us to work with suppliers to ensure we can deliver a competitive offer while also dealing with the increased demand for ethical sourcing.	Where possible, our desire is to create long term collaborative relationships with key suppliers.	In order to strengthen its reputation for high standards of business conduct, the Board considered and approved a new Third Party Due Diligence policy and accompanying processes.
Communities Each of our business units around the world has a role to play in supporting and improving the communities in which they operate.	Local people want to see tangible benefits from Design Group's presence in their community.	Our businesses throughout the world undertake a variety of local initiatives to support their local communities and national charities.	In operating a global business, the Board recognises the different environments and communities in which each business unit operates. We are keen to promote schemes of sustainability and are supportive of local community initiatives. By way of example, the Board was pleased to agree the sale of the Shaoxing, China factory to a purchaser who plans to open a new factory in Shaoxing and offer employment to all current production employees.
Shareholders Both institutional and retail investors are vital to our business.	They want to see us delivering growth while maintaining a strong financial position.	Our CEO, CFO and Chairman maintain regular contact with our institutional investors and our AGM gives us the ideal opportunity to meet with individual investors face-to-face.	The Board has worked closely with our nomad and broker, Canaccord, to ensure the view of shareholders is represented in key decisions such as those relating to remuneration, the performance of the businesses and M&A. Examples of this include discussions with the Remuneration Committee in relation to Executive pay and incentives; and in relation to M&A activity which led to the share raise in January being over-subscribed.

Link to QCA Principle 3 on pages 63 and 64

Our strategy

Our strategy is built on leveraging our core strengths and focusing on the market opportunities.

KPIs >

Working with the winners

Read our strategy in action section on pages 12-15

Increasing revenue through growth with the winning retailers of now and the future, in the growing channels and product categories

Level of business with our top 10 customers

Definition: Percentage of Group revenue from our top 10 global customers

Why chosen: We pride ourselves on having long-lasting cross-category relationships with the world's leading retailers, and nurturing and maintaining these relationships allows us to grow as they do

Sales by channel

Definition: Growing our revenues across different sales channels

Why chosen: Our 'winners' are a broad range of customers across various sales channels including national and regional mass and discount retailers, wholesalers, distributors, independents and e-commerce specialists

Design & innovation

Read our strategy in action section on pages 16-19

Developing in new channels and adjacent product categories while increasing our share in the growing number of events celebrated throughout the year

New product category growth

Definition: New product category growth year-on-year

Why chosen: It is important to innovate and introduce new segments and products that complement our existing ranges. This helps the Group grow by diversifying our offering

Diversifying seasonality

Definition: Year-on-year growth in categories other than Christmas products

Why chosen: We have in the past been a heavily Christmas-based business, and whilst this is still very important, we also want to focus on growing the non-Christmas (being minor seasons and everyday) part of our business

Efficiency & scale

Read our strategy in action section on pages 20-23

Driving margins through investment in processes and people

Accretive M&A opportunities to unlock synergies and strengthen our 'one-stop-shop' position with customers

Adjusted operating margin

Definition: Adjusted operating margin as a percentage of revenue

Why chosen: Delivering value to our customers is essential and we must ensure we can continue to compete in our marketplace and win against other suppliers

M&A and investment

Definition: Capital expenditure and corporate acquisitions

Why chosen: Our ability to invest in efficiency improving projects helps support our competitive position, while our ability to execute earnings accretive M&A ensures the Group continues to grow its scale and reach

Working with the winners

Increasing revenue through growth with the winning retailers of now and the future, in the growing channels and product categories.

Why is this important?

Revenue growth is critical to the ongoing success and development of the Group. Our focus on working with the winners allows the Group to drive revenues with our key customers by being their partner of choice. As revenue grows, this further underpins our relationship with our customers.

How do we aim to deliver on this?

We always aim to be our customers' partner of choice and to be part of their success story. The retail market is dynamic and as it evolves we work closely with all of our customers to ensure we are right by their side as a trusted supplier.

To ensure we are at the forefront of our customers' minds, it is imperative that we have a diverse offering of products, in the form of a 'one-stop-shop' and ensure we have the capabilities as a manufacturer as well as leveraging our ever improving sourcing processes.

Our businesses invest significant time in making themselves experts in their local markets and developing strong relationships with each of our winning customers.

Photo Frame
4x6"
(10x15cm)

WORKING WITH THE WINNERS CONTINUED

Progress in 2020

Our strategy of working with the winners continues to help drive our business forward, with record revenues in 2020 delivered from these winning partnerships. Our priorities for the 2020 financial year included growing our business with:

- our top 10 customers; and
- the winning channels.

The acquisition of CSS at the end of 2020 has embedded new customers into our portfolio, including JOANN stores, one of the largest craft retailers in the US. These customers, alongside Walmart, help further extend our footprint in the US and we are delighted to have them as part of the Design Group portfolio.

Sales by channel continue to evolve positively and the acquisition of CSS helped the Group extend its online activity further. We have also benefitted from the growth of mass and discount retailers as they extend their market share in our key categories.

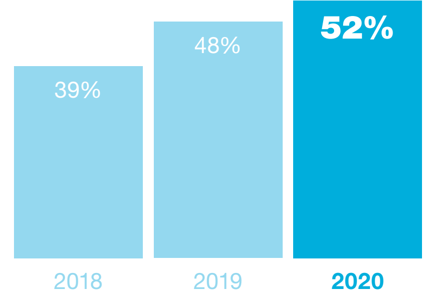
Walmart remains our largest customer for the Group with revenues accounting for 22% in 2020 (2019: 18%).

Priorities for 2021 and beyond

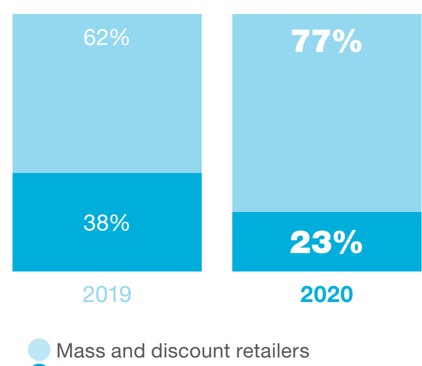
Our key priorities for 2021 continue to focus on the 'working with the winners' KPIs; growing our business with our top 10 retailers and growing our business market taking within winning channels.

As can be seen from the table below, we see extensive opportunities for the Group across our categories and our markets with our existing customers and we will continue to pursue these opportunities across all of the territories in which we operate.

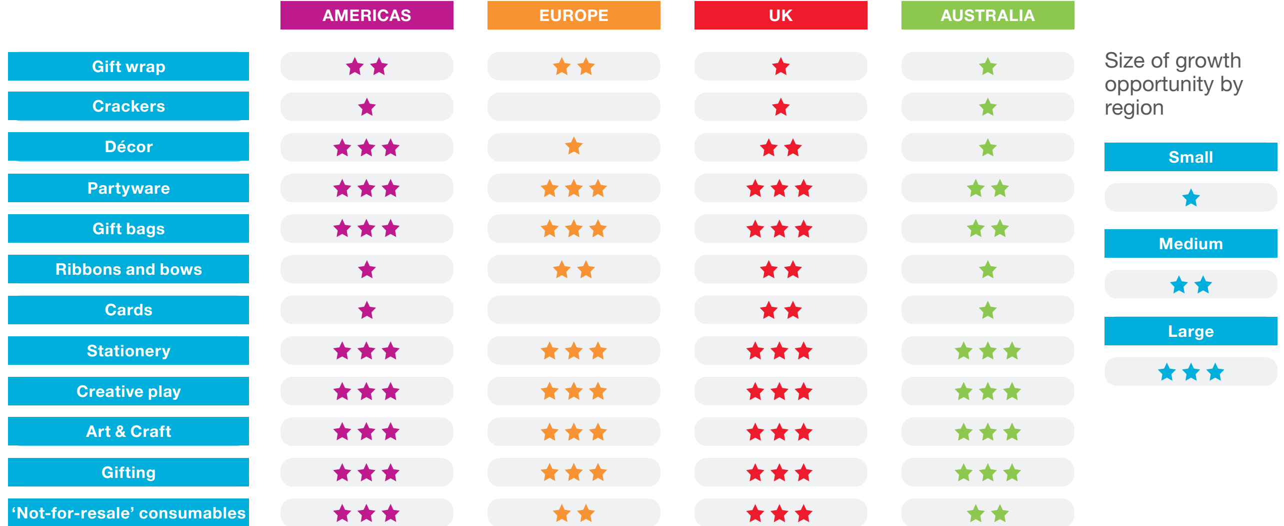
Level of business with our top 10 customers
(% of total revenue)



Sales by channel
(%)



Market opportunities matrix



	AMERICAS	EUROPE	UK	AUSTRALIA
Gift wrap	★★	★★	★	★
Crackers	★		★	★
Décor	★★★	★	★★	★
Partyware	★★★	★★★	★★★	★★
Gift bags	★★★	★★★	★★★	★★
Ribbons and bows	★	★★	★★	★
Cards	★		★★	★
Stationery	★★★	★★★	★★★	★★★
Creative play	★★★	★★★	★★★	★★★
Art & Craft	★★★	★★★	★★★	★★★
Gifting	★★★	★★★	★★★	★★★
'Not-for-resale' consumables	★★★	★★	★★★	★★

Size of growth opportunity by region

Size	
Small	★
Medium	★★
Large	★★★

STRATEGY IN ACTION CASE STUDY

BUY ON IMPULSE

- In the US, we have a number of customers with whom we run 'impulse' programmes
- Multi-cycle sales programme (6-9 per year), with everyday and seasonal products throughout the year
- Attractive, affordable, on trend products on collective display stands that seek to inspire the consumer to purchase on 'impulse'

Design & innovation

Developing in new channels and adjacent product categories while increasing our share in the growing number of events celebrated throughout the year.

Why is this important?

Design and innovation are our life blood and are key to the success of the Group going forward. Consumers are constantly looking for exciting new products while our customers seek new, innovative ways to sell. Our design teams are focused on providing fresh, new ideas to enjoy our products in exciting retail environments.

How do we aim to deliver on this?

Consumers want retailers to merchandise products that are high quality and on trend, whilst still being value for money. As such, our customers look to us to help them access the products that their customers want. These expectations continue to grow and product design and innovation is critical in this regard and we pride ourselves on developing the best designs for innovative and quality products.

We also focus on developing new and adjacent products and our designers are some of the best in the industry, constantly developing ideas to stay ahead of the latest trends.

Innovation also extends to how we as a business can develop and enhance ways in which we reduce our impact on the environment and this is a key area of focus for our teams. More detail about our progress on this can be seen on pages 53 to 55.

GLOW IN THE DARK
GLOOP
CREATIONS
MAKING KITS
SLIME FUN
MAKE A
ERUPTION
GALAXY
POP-EMS
SATISFYINGLY OOZY
MAKE YOUR OWN
SLIME BALLS & POP-EM
KIDS CREATE
NEON
POP-EMS
SATISFYINGLY OOZY
AGES 8+
MAKE YOUR OWN
SLIME BALLS & POP-EM
NEON GLITTER INCLUDED
PAINT YOUR OWN
SQUISHY WISHY
INCLUDES SLIME MIXER MACHINE

DESIGN & INNOVATION CONTINUED

Progress in 2020

Our priorities in 2020 were to achieve growth in new product segments alongside expanding our non-Christmas sales.

Christmas sales are still a major part of our business and will continue to underpin our performance, but we are focused on diversifying our products through the likes of the 'not-for-resale' consumables and creative play products which we have introduced in recent years. Non-Christmas sales increased this year by 10% to £217.7 million (2019: £197.2 million).

Furthermore, the acquisition of CSS will help to grow our non-seasonal sales through the addition of the Craft product category which significantly increases the everyday segment of revenues for the Group. More details on the acquisition can be seen on page 23.

In the UK we invested in our second bag making machine and started production in January 2020. We are excited to ramp up the production of our retail collateral bags and are pleased with the revenue growth delivered in the 2020 year.

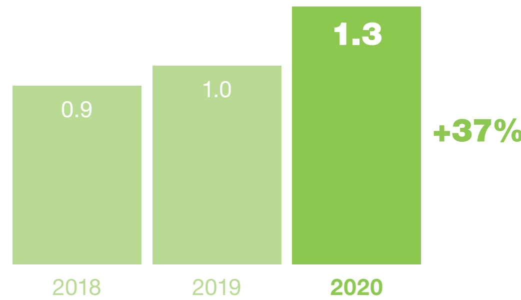
Creative play products continue to be a focus for us, both in the US where our Anker Play Products ('APP') branded business is demonstrating good growth, but in addition this creates the cross-selling opportunities that we are also capitalising on around the Group.

Other new products introduced to our portfolio this year includes our sustainable products range from the UK, for which more detail can be seen in the social responsibility section of this report.

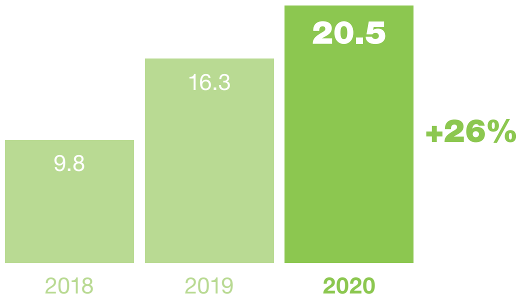
Priorities for 2021 and beyond

The acquisition of CSS brings new product categories and a significant increase in everyday revenue. This will positively 'balance' the business revenues in terms of seasonal diversity. As a result, our priorities for 2021 and beyond will focus on growing new product categories and capitalising on cross-selling opportunities of CSS products across the Group.

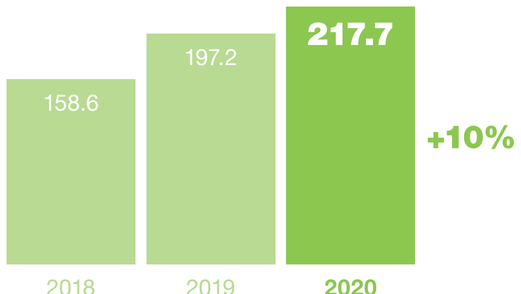
Retail collateral bags
(Revenue £m)



Creative play products
(Revenue £m)



Seasonal diversity
(Non-Christmas revenue £m)



STRATEGY IN ACTION CASE STUDY

SUSTAINABLE GREETINGS

- Consumers and retailers care about the environment and want the option of eco-friendly products
- Design Group is providing solutions with ongoing initiatives to move progressively to more sustainable product ranges
- Our focus is on continuing to create design-led products with an eco difference, including plastic-free crackers, recyclable wrap and packaging

Efficiency & scale

Increasing margins through investments in process and people while pursuing accretive M&A opportunities focused on unlocking synergies and strengthening our ‘one-stop-shop’ position with customers.

Why is this important?

Driving efficiencies through capital and people investment will help strengthen our margins, while carefully selected acquisitions that complement our business help deliver synergies and drive the overall scale of the Group.

How do we aim to deliver on this?

Investment in people and processes as well as unlocking synergies following acquisitions are an important focus as we continue to seek to increase operating margins.

Our ability to remain responsive to our customers’ needs requires us to remain competitive through investment in state-of-the-art manufacturing capabilities. Alongside this, investment in the teams around the globe ensure we have the right people operating our businesses on the ground.

We actively review potential acquisitions on a regular basis. We look to combine our business with those we know will strengthen our business in the form of increasing adjacent product categories, accessing customer relationships, increasing our global scale and bringing the best people into the Design Group family.

design group

EFFICIENCY & SCALE CONTINUED

Progress in 2020

One of the most significant milestones for the Group in 2020 was the acquisition of CSS in March 2020.

The acquisition substantially increases our manufacturing platform in the US, which is more important than ever to our retail partners, as well as enhancing our product offerings and seasonal diversity.

We have restructured our US senior management team following the acquisition as follows:

- Executive Chairman
- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer
- Chief HR Officer

This team is leading the integration and synergy realisation plan as we combine our US business with CSS.

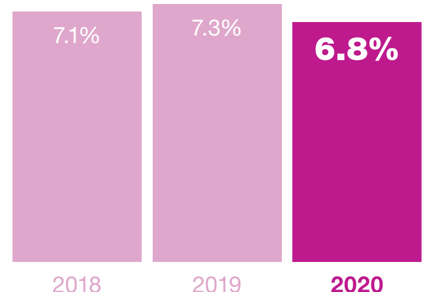
Priorities for 2021 and beyond

An immediate priority for the Group is to work swiftly to integrate CSS into DG Americas. We are aiming to unlock synergies of up to £10 million on an annual basis by 2024 and we are already delivering savings ahead of our anticipated run rate.

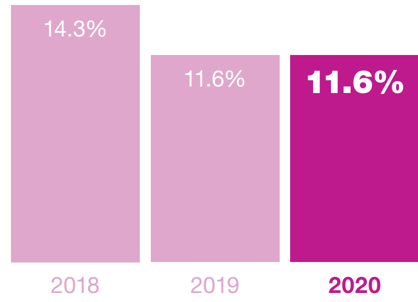
Our global scale and robust processes are also vitally important during the Covid-19 pandemic and we have no doubt that the Group will remain a strong and efficient business whilst the crisis continues.

Whilst we respond to the impact of Covid-19 we will carefully manage our capital investments, but these will again become a focus once we are the other side of the crisis.

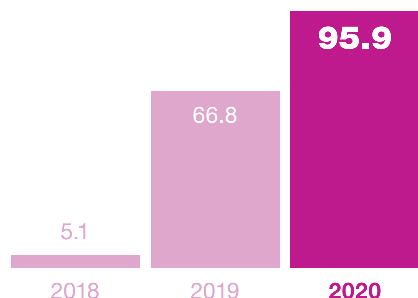
Adjusted operating margin
(% of revenue)



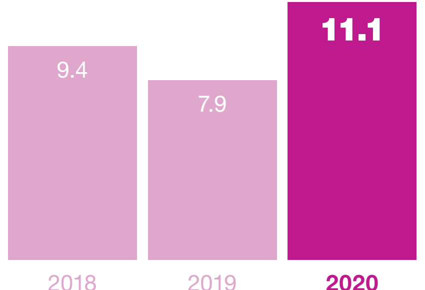
Adjusted overheads
(as % of revenue)



M&A and investment (£m)
Corporate acquisitions



Capital expenditure



STRATEGY IN ACTION CASE STUDY

CSS INDUSTRIES

- The CSS acquisition substantially enhances the Group's offering with increased everyday presence in new product categories in craft and floral packaging
- Increases our retail footprint in the US, creating opportunity for cross selling and expanding the Group's 'one-stop-shop' offering
- Target to deliver a minimum of £10 million annualised synergy savings by 2024

CHIEF EXECUTIVE OFFICER'S REVIEW

CSS acquisition establishes us as a key player in the creative craft market

Paul Fineman
Chief Executive Officer

Overview

This has been an extraordinary year for Design Group with our significant successes in the period impacted by truly unprecedented macro level economic, social and operational challenges. In May 2019, trade discussions between the US and Chinese governments worsened, resulting in the imposition of the largest ever wide-ranging set of trade tariffs across a substantial proportion of our US business' product ranges which significantly impacted on the execution of the planned integration of our US manufacturing facilities into Memphis.

Despite this, the Group continued to focus on its strategy and in January 2020 announced it had agreed to acquire CSS Industries, Inc. ('CSS') in the US, alongside a £120 million share placing. Just after completing this transaction in March 2020, the world experienced the rapid spread of Covid-19, which had an unprecedented impact on our business and our teams.

Summary 2020 financial results

During the year Group **Revenue** increased by 10% to £494.2 million (2019: £448.4 million) including the effect of nearly one month of sales from CSS, with **Adjusted profit before tax** broadly flat year-on-year at £29.1 million (2019: £30.3 million). When comparing our financial results with the prior year it is important to note the impact in 2020 of the adoption of IFRS 16 which reduced **Adjusted profit before tax** by £0.7 million on a like-for-like basis compared to the prior year. **Adjusted diluted earnings per share** was 26.9p (2019: 29.1p) which reduced, despite flat profit levels, because of the higher diluted share number following the share raise in the final quarter of the financial year.

We finished the year with a positive net cash balance of £42.3 million (2019: £17.1 million) supported by the share placings as part of the CSS acquisition.

Average leverage for the year was 0.9 times (2019: 1.3 times) and once again is a reflection of our focus on cash management during the 2020 year. Furthermore, following the CSS acquisition on 3 March 2020 and the associated increase in our banking facilities we have access to over £200 million of debt facilities with significant headroom.

The Group finished the year with a **profit before tax** of £0.3 million (2019: £17.3 million). As can be expected in a year with the degree of challenges that we have faced and during a period of such significant strategic development, the Group has incurred increased disruption, which is reflected in the increased size and numbers of Adjusting items which together total £28.8 million (2019: £13.0 million). The main Adjusting items relate to the coronavirus impact, the acquisition of CSS, the Covid-19 impact of US tariffs with China and the costs associated with the significant restructure of the US business during the year.

Diluted earnings per share is 16.9p (2019: 15.9p) reflecting the benefit of CSS tax credits relating to changes in the US tax rules that were enacted following the acquisition. See the detailed financial review for more information.

In March 2020, Covid-19 resulted in unshipped customer orders following lockdown and lost production activity which reduced our ability to absorb overheads into inventory. The Directors estimate that the Group was unable to book sales in the year of £6.9 million, which together with increased costs resulting from lower overhead inventory absorption hit our **Adjusted profit before tax** by an estimated £3.8 million.

The Board is recommending a final dividend of 5.75p, reflecting the strong financial position of the Group after its 2020 year and its Q1 2021 trading. This delivers a full year dividend of 8.75p and maintains the Group's progressive dividend policy.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Our teams have been amazing in their response to the Covid-19 crisis.

Covid-19

The impact of Covid-19 on the world, our trading partners and the business has been significant and is envisaged to impact the Group in some capacity for some time to come. We have taken swift and decisive actions to ensure the business comes through the pandemic in robust shape and ready to take on the many opportunities we continue to see for the Group going forward.

Most importantly, the Board would like to extend our gratitude to every individual in the Design Group teams around the world. Our businesses have had to react dynamically as events have unfolded and our teams have ensured the business remains in good health while at the same time maintaining the safety of all of our employees.

Specifically, during the crisis our teams have acted responsibly and professionally to deal with the impact the virus is having on the Group.

Our reaction to Covid-19

The impact on the Group of Covid-19 started in January 2020 when it became clear that our factory and many of our suppliers and distributors in China were going to be closed from February 2020 as a result of lockdown in regions of China. We quickly focused on working with customers and suppliers to ensure as best as possible the continuation of supply; however, in March 2020 with the global 'lockdown' in full swing our response intensified with a focus on three main areas:

- Our employees and operations
- Our customers and suppliers
- Our financial strength

Employees and operations – Our main priority remains the health and wellbeing of our teams around the world. We continue to closely follow government working protocols regarding self-isolation, social distancing and personal hygiene in order that everyone remains safe and well. The vast majority of our office-based teams continue to work remotely while our warehouse and manufacturing teams have adapted to ensure that they abide by all the required procedures.

Customers and suppliers – As a business that serves over 210,000 stores for over 11,000 customers in over 80 countries worldwide we have sought to strengthen our relationship with all our trading partners and have successfully dealt with a mix of situations, including customers who remained open throughout the lockdown period to those that closed their doors completely. We have maintained our service to those who remained open, working to adapt to the new requirements while maintaining an efficient supply chain and developing new designs and products for the various 2020 seasonal and everyday programmes.

Financial strength – The Covid-19 crisis hit at a time when the Group had its highest ever net cash balance of over £42 million and having just completed the CSS acquisition, we also had secured extended banking facilities of over £200 million. Furthermore, this crisis hit ahead of the peak working capital period and as such we were able to adjust our plans to ensure our seasonal working capital cycle matches our updated customer orders and therefore our seasonal working capital cycle will be lower than in previous years, despite the addition of CSS.

Our financial priority in March was to produce a set of Covid-19 scenarios which focused on updated sales expectations. In developing these plans each business unit has taken a view on a range of outcomes for 2021 based on the impact of Covid-19 in each region. This includes working with customers to understand their expectations, and importantly includes confirming orders, where possible, for the crucial Christmas 2020 trading period. In addition, we have focused on implementing strong cost management across the Group. These actions across the Group included freezing all annual salary reviews, stopping all new hires, waiving all existing bonus schemes, reducing all discretionary spend and ultimately reducing the size of our teams. We accelerated the process of integrating CSS into our existing US business to ensure we maximised the synergy opportunities as quickly as possible. Finally, we implemented additional cash management actions which aimed to conserve cash through robust working capital plans and a reduction in our capital investment programme.

Our financial scenarios reflect a material reduction in expected revenue but importantly continue to deliver a profitable business that has significant cash headroom and is also positioned to 'bounce-back' when we return to a more normal trading environment.

COVID-19 RESPONSE.

Our number one priority has always been the health and wellbeing of our teams around the world.

Our facilities and offices around the world have now reopened, all operating within government guidelines.

Where it is possible for our employees to work from home we have maintained this set-up for those that want to.

Communities

- The UK business designed a card for Captain Tom Moore on his 100th birthday
- We have produced free downloadable pdf patterns for medical clothing and face masks along with free video tutorials
- We donated over 12,000 pieces of elastic ribbon to a local hospital so they could make masks for their employees
- Design Group’s sewing division made over 1,000 face masks for employees working across all US manufacturing sites
- We donated and shipped over 200,000 yards of face mask making materials for healthcare workers
- We donated hundreds of packets of Perler Beads to a family in California who have been making heart shaped pins to sell to raise funds to support those suffering as a result of the virus

Business response

- Design Group have had both customers who have remained open as well as those who have closed their doors completely during the lockdown period
- We have maintained our service to those who have remained open and worked hard to adapt to the new requirements
- New products and programmes for 2021 still being designed
- We have worked closely with our suppliers through the crisis to maintain supply chain integrity

Balance sheet resilience

- Net cash was £42 million at the time the crisis hit, with extended bank facilities secured earlier in the year as a result of the CSS acquisition
- Detailed review of 2021 budget plans to focus on updated sales expectations in light of Covid-19
- Severe but plausible stress testing of these plans to ensure that the Group still has sufficient headroom at peak times across the year
- Mitigating actions taken in the short term include freezing annual salary reviews, recruitment pause, and waiving of existing bonus schemes
- Focused on accelerating the integration of CSS to unlock identified synergies sooner

Timeline of events:

December

First cases detected in Wuhan, China with a flu-like virus

January

Covid-19 reaches Europe with first cases detected in the UK

February

Factory in Huizhou closed post Chinese New Year after cases in local area for two weeks

On return, many employees prevented from accessing the area due to other localised lockdowns

March

Many sites across the US on mandatory government shutdown

Factory in the Netherlands actively decides to close its doors for two weeks to protect employees

Factory and distribution facilities in the UK close due to government enforced lockdown for three weeks

Manufacturing facility in India closed due to government enforced lockdown

April

Decision taken in Poland to delay standard reopening of factory from April to May

Facility in Juarez, Mexico in government mandated shutdown

May

Sites in the US slowly open up after three or more weeks of enforced closure

India facility reopens after weeks of closure

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

CSS integration is well underway with over $5 million synergies already achieved.

Q1 trading update & full year outlook

The 2021 financial year has started strongly against our Covid-19 forecasts across all regions. Reported revenues are higher than the prior year, benefitting from CSS which was acquired in March 2020. Like-for-like revenues (excluding CSS) were ahead of management's Covid-19 adjusted expectations but were down 27.7% year-on-year reflecting the impact of Covid-19 on the business. CSS revenues are 11.7% down year-on-year but ahead of our updated forecasts, benefitting from strong demand for Craft product during lockdown. Despite the lower like-for-like revenues **Group Adjusted profit before tax** benefitted from sales margin mix, effective cost management in the period, together with the CSS results which overall delivered a Group outcome in line with the prior year and significantly better than our Covid-19 plan. A focus on cash management in the first quarter has delivered a net cash position at 30 June 2020 which is significantly ahead of management's Covid-19 expectations and $63 million better than prior year, supported by the incremental equity raise in January and February 2020 as part of the CSS acquisition. As a result, at the end of the first quarter to 30 June 2020 the Group has significantly improved its headroom in its banking facilities and covenants.

The CSS integration is well underway. We have fully integrated the management teams and already delivered $5 million of synergy savings with more to come in the year.

Looking ahead, with the world set to ease the Covid-19 lockdown and hoping to avoid a major second wave, we still face a number of uncertainties, including how quickly more normal levels of working will return and how healthy the global economy will be going forward. Assessing the potential range of outcomes, the Directors believe that although revenues will remain ahead of 2020 as a result of the full-year effect of the CSS acquisition, there will be a reduction in Group revenue from our pre Covid-19 expectations for 2021. This assumes no significant Covid-19 second wave.

Following our Q1 performance the Directors are increasingly optimistic about the outlook for the full year. We enter our peak trading period from July through to November with an orderbook that substantially covers our Covid-19 adjusted revenue forecasts and is ahead of last year. However, we remain cautious, recognising there remain increased uncertainties this year in relation to the potential for a second Covid-19 wave and the economic outlook post the virus. As such the Board continues to focus on managing the business within its banking facilities with the priority being on maintaining significant covenant headroom across all our potential scenarios.

Furthermore, assuming a return to more normal sales volumes by the end of 2021 and based on the anticipated delivery of synergies following the CSS acquisition and opportunities for further margin improvement and cost management, the Board would expect significant year-on-year growth in both revenues and earnings in 2022.

A PATTERN FOR SUCCESS.

We want to be part of our customers' success stories

We aim to be our customers' partner of choice and make long and loyal partnerships with global retailers.

38%
of sales are with the top 10 global retailers

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Our business continues to be successful in driving long term growth as a result of our focus on our three key strategic drivers.

Our strategy

Despite the challenges of Covid-19, our business continues to be successful in driving long term growth as a result of our focus on our three key strategic drivers, which underpin the Group's goals. These are:

Working with the winners

We are focused on increasing our revenue and profitability through growth in both existing and new channels and markets by ensuring we maintain excellent relationships with our key customers, as well as developing relationships with new customers. We want to be part of our customers' success stories. As the retail market evolves and progresses, we work closely with our key customers with the aim of being their partner of choice going forward. Our top 10 customers now account for 52% of our global revenues (2019: 48%).

In order to do this, we need to have the capability to manufacture and/or source a broad range of products, leveraging from improved sourcing processes as our business grows. Many of our customers work across multiple territories and have global ambitions. As such, our geographic and channel diversity in key markets is essential to help support our customers as they grow. Our businesses are experts in their territories and categories and we ensure that we know what works well for our customers in each of those markets.

To continue our growth trajectory with our customers, we follow key market trends including the increase in consumer demand for mainstream mass and discount retailers, as well as specialist 'experiential' retailers and e-commerce opportunities.

Our focus on working with the winners helps ensure we are benefitting as our customers continue to grow. But it also requires us to decide who we will not work with and this has been especially important during a year that has witnessed challenging retail markets, with a number of high profile retailers facing financial troubles.

The CSS acquisition has resulted in a strengthening of our relationship with Walmart, the largest retailer in the world, and they now account for approximately 22% (2019: 18%) of the Group's revenue.

Design & innovation

Our customers look to us to be at the forefront of product design and innovation. This means we look to develop the best designs for innovative and quality products, while maintaining a focus on value and consumer appeal.

The Group has succeeded in growing revenues through developing new and adjacent category products as well as increasing revenues in existing product areas. The addition of CSS product categories has strengthened the Group's ability to offer a complete 'one-stop-shop' to customers, including products not previously forming part of the Group's portfolio such as craft and specialist packaging for the floral industry.

We also continue to diversify our product range by focusing on occasions other than Christmas and following the acquisition of CSS, we expect our Everyday and Minor Seasons business to account for c.51% of global sales.

Technological development is a key part of this strategy and this extends to adapting to changes in consumer habits and being dynamic in providing new channels to purchase our products.

Coupled with innovation in product design, we have also increased our focus on developing more sustainable products and improved sourcing, manufacturing and distribution to reduce our global carbon footprint. We believe this focus is not only the right strategy to help the environment but can also be a source of competitive advantage. Recent successes include developing a recyclable cracker range for customers in the UK, removing plastic from a selection of product packaging, removing non-recyclable glitter from a number of wrap, bag and card ranges and reducing the size of wrap cores to further rationalise shipping volumes and cost. We are committed to continuously increasing our attention to the environmental impact of the Group and have established an Environmental Taskforce that is working with third party specialist organisations. We wish to ensure that we can be regarded by our customers as leaders in bringing improved sustainable product solutions to all product categories in the Group's portfolio.

Efficiency & scale

As we grow we remain intent on driving up operating margins through investment in processes and people as well as by unlocking synergies following acquisitions, using our global reach and capabilities to leverage Group economies of scale.

The year has seen significant capital investment across the Group totalling £11.1 million (2019: £7.9 million). Key areas included investment in a new printing press in the US, further bag making equipment in the UK to support the growth of our 'not-for-resale' business, and an automated wrap solution for our business in the Netherlands. As ever, we look for projects with compelling payback that help increase our capacity, improve our efficiency and deliver a better service.

In addition, we are building the capabilities of the team around the Group. In the US, following the acquisition of CSS, we integrated and strengthened the senior management team, introducing new roles including a US Executive Chairman and a Chief Operating Officer. These new positions help extend the strength of the capability of our teams, bringing new skills that will ensure we are properly resourced to deliver our strategy.

Furthermore, the acquisition of CSS will have a transformational impact on the scale of the Group. CSS is one of the leading suppliers of Craft products in the US, with long standing relationships with major US retailers. Following the acquisition in March 2020, the Group has proceeded quickly with the integration and we are already seeing the benefits from the synergies and the increased scale of the overall business.

Shareholder commitments

Our key strategic priorities all focus on our three commitments to shareholders, which are:

- double-digit growth in **Adjusted diluted earnings per share** on a 3 year CAGR basis – over the past three years we have averaged growth of 13%, which is lower than hoped due to the impact of Covid-19;
- maintaining **Average leverage** between 1.0 times and 2.0 times – this year saw leverage move below 1.0 times; and
- targeting dividend cover of 2.5 times **Adjusted diluted earnings per share** – in 2020 our dividend cover was 3.1 times and we envisage achieving 2.5 times by 2024.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Overall growth in Revenue and Adjusted operating profit for the Group.

Regional highlights

Overall, the Group has seen growth in both **Revenue** and **Adjusted operating profit** which increased to £33.4 million (2019: £32.6 million).

% Group revenue			Segmental revenue			Adjusted operating profit			Adjusted operating margin	
			2020	2019	% growth	2020	2019	% growth	2020	2019
56%	Americas	$m	**355.9**	289.9	23%	**20.1**	20.0	1%	**5.6%**	6.9%
24%	UK	£m	**117.5**	127.1	(8%)	**6.9**	8.1	(15%)	**5.9%**	6.4%
14%	Europe	€m	**78.3**	73.0	7%	**11.6**	10.0	16%	**14.8%**	13.7%
7%	Australia	AU$m	**60.1**	70.3	(15%)	**5.5**	7.7	(29%)	**9.2%**	11.0%
(1%)	Elims/Central costs	£m	**(6.6)**	(5.5)	20%	**(3.2)**	(4.1)	(22%)		
100%	**Total**	£m	**494.2**	448.4	10%	**33.4**	32.6	2%	**6.8%**	7.3%

Americas

2020 was a transformational year for the Americas business with revenues representing 56% of Group revenues, but following the acquisition of CSS the US will account, on a proforma basis, for over 70% of Group revenues.

The last 24 months have seen a significant change for our US business. Following the acquisition of Impact Innovations, Inc. ('Impact') in August 2018 we doubled the size of our US operations and during the 2020 financial year we continued the significant consolidation and restructure of our printing, production and distribution facilities in Memphis. In January 2020 we announced the acquisition of CSS, a deal which again doubled the size of the US group.

All this while the US and China were engaged in a trade dispute that brought significant disruption in the form of tariffs and knock-on operational challenges. Despite these challenges **Revenue** grew significantly, up 23% year-on-year to $355.9 million (2019: $289.9 million), which included $19.9 million of revenues from CSS for the last month of the financial year following completion of the deal on 3 March 2020.

Adjusted operating profit at $20.1 million was in line with the prior year (2019: $20.0 million) and included $4.3 million contribution from CSS. **Adjusted operating margin** declined to 5.6% from 6.9% in 2019, reflecting in part a full year of costs in 2020 from the Impact acquisition as compared to the prior year and also the impact of Covid-19.

Organic revenue growth was primarily fuelled by a 7% growth in our Celebrations category and 26% growth in our sale of Craft & creative play products. Furthermore, during the year we developed new programmes in our gift and décor product ranges which are to be rolled out in 2021.

CREATING GROWTH.

Simplicity

#1

in home sewing patterns

Establishing us as a key supplier to the creative craft market

The acquisition of CSS brings Design Group firmly to the top of the craft market, with craft sales forming 41% of CSS' net sales in 2019.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

2020 was a transformational year for the Americas.

Regional highlights continued

Americas continued

The integration of the Impact business saw a period of significant change for the Americas group during 2020, specifically the moving of our converting business from Midway, Georgia to bring it under the same roof as the printing operations in Memphis, Tennessee. We moved the machinery in January 2019 and spent the second quarter of the 2020 financial year effecting the integration ahead of the peak manufacturing cycle during May through to October. Unfortunately, while this integration was underway the US government announced the significant extension of tariffs in relation to products sourced from China. The impact of this was that our customers delayed decisions in signing off product designs and final orders resulting in production in Memphis being 'bottle-necked' into a narrower time period than initially planned. As a consequence, the integration did not go as smoothly as expected. The Group has identified Adjusting items of $7.1 million in relation to the integration, including outsourcing and overtime costs and additional customer charges. As we look forward to the current financial year the Memphis facility is operating to plan and has already successfully fully commissioned its new state-of-the-art printing press, ensuring the Americas group delivers on the final phase of the Impact integration and synergies realisation.

As stated overleaf, the evolution of the US tariffs with China (s301 tariffs) to 25% in just a few months and, without advance warning, becoming applicable to more of our product categories, resulted in margin challenges for customer and supplier contracts received prior to the imposition of tariffs. As such, it was not possible to mitigate the incremental cost impact which would normally be the case as part of the normal annual pricing discussions. The Group has therefore identified the tariff costs as an Adjusting item of $4.4 million. Going into 2021 the Group has had time to work with our customers and suppliers to mitigate the impact of tariffs through a mix of reshoring production, product design and finding alternative supply solutions. Importantly, by satisfying customer requirements, we have further consolidated our position as a key supplier thereby providing incremental opportunities for the future.

In March 2020, the Group acquired CSS. This acquisition significantly enhances the product portfolio of the Americas group, bringing a wide range of complementary products as well as a new product category for the Group; Craft (which we have combined with our existing Creative play category).

The acquisition doubles the size of the Americas group and brings with it many benefits, including providing customers with a substantially enhanced 'one-stop-shop' through their leading presence within the US craft market. The acquisition also:

- reinforces the Group's position as the global industry leader in gift packaging;
- rapidly scales the Group's 'Everyday' product category, online revenues and presence within the floral decorative packaging industry; and
- substantially increases the manufacturing and distribution capability of the Group.

Furthermore, it is anticipated that operational and financial synergies of a minimum of £10 million per annum by 2024 are achievable following the acquisition. Since the acquisition completed in March 2020 we strengthened and integrated our US senior management team and they are working alongside our third party project management office to oversee the integration of the business and the delivery of the synergy plans. In the first month following acquisition over $5.0 million of annual savings were achieved through a mix of headcount and public company listing cost reductions. We have included within 2020 Adjusting items $3.0 million relating to the severance costs associated with the headcount reductions. The progress in terms of delivering the synergy plans to date is ahead of schedule.

Ongoing investment in capital projects improving efficiency across the Group.

UK

The UK business accounts for nearly one quarter of the Group's business and as anticipated **Revenues** for the UK business were down on the prior year at £117.5 million (2019: £127.1 million). **Adjusted operating profit** at £6.9 million was lower than in 2019 as a result of the impact of Covid-19.

Further unification of our UK businesses continued in 2020 with a move of our Trade business under one roof into our Newport Pagnell site during the year. This, together with other required reorganisation, has resulted in redundancies. These costs of £0.4 million are Adjusting items in the year.

We have continued to invest in our 'not-for-resale' bag activities with a second production line going live during the year. We are encouraged by increased demand for these sustainable products, albeit demand is anticipated to be reduced going forward as a result of Covid-19. As such, we have impaired the residual value of the two machines by £0.4 million in light of reduced future cash flows in the coming years and taken the cost of this impairment through Adjusting items in the year.

Following the exit of the UK from the European Union on 31 January 2020, the Group has seen minimal impact to date on the business. We remain prepared for Brexit in whatever form it will take and continue to monitor the situation as negotiations in relation to the final exit deal are concluded.

Europe

Europe had another excellent year with **Revenues** of €78.3 million, 7% up on the prior year (2019: €73.0 million) and **Adjusted operating profit** growing by 16% to €11.6 million compared to €10.0 million in 2019. **Adjusted operating margin** grew year-on-year to 14.8% (2019: 13.7%).

The European business continues to benefit from its excellent trading relationships with key leading and growing retailers across Europe – as they grow, our business grows with them.

Given the efficiencies that the business in Europe have derived from their state-of-the-art printing press that came online in 2019, they were able to support the Americas business in the latter part of the year, printing and shipping gift-wrap product. The Group will continue to maximise cross-Group opportunities over the coming years.

In 2020, our European manufacturing facility also upgraded its converting lines to deliver an automated end-to-end production line taking the product from conversion all the way to packing. This facility came online at the end of the financial year and we are anticipating efficiency benefits from this production process fully in 2021.

Australia

Our performance in Australia has been in line with expectations and as previously communicated. **Revenues** declined 15% year-on-year to AU$60.1 million compared to AU$70.3 million in 2019. **Adjusted operating profit** was AU$5.5 million (2019: AU$7.7 million) with **Adjusted operating margin** falling to 9.2% from 11.0% in 2019.

The decline in **Revenues** and **Adjusted operating profit** is a result of lost business with certain national retailers during the year and the active decision by the Australia team to not continue to do business with some customers whose recent performance has been volatile.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Newly formed Craft & creative play product category is a key driver of future growth.

Our products and brands

Amongst the factors creating our Group's success is our well diversified, yet complementary, product portfolio, underpinning our 'Working with the winners' strategy. Our range of products enables us to provide a compelling portfolio of products and services, making us an attractive 'Supplier of choice' for our retail partners.

Revenue by product category		2020		2019
Celebrations	**75%**	**£371.7m**	77%	£345.5m
Craft & creative play	**7%**	**£30.2m**	4%	£16.3m
Stationery	**4%**	**£21.3m**	4%	£20.7m
Gifting	**11%**	**£54.7m**	11%	£46.1m
'Not-for-resale' consumables	**3%**	**£16.3m**	4%	£19.9m
Total		**£494.2m**		£448.4m

Our product offering was further enhanced this year as a result of the acquisition of CSS, enabling us to introduce a new Craft product category throughout the Group. This includes needlecraft and sewing products and a particularly strong position in the sewing patterns market. CSS is a market leader in the US craft market as well as being active in complementary Design Group categories. Design Group can further leverage this whilst strengthening our 'one-stop-shop' offering. Following the establishment of the Craft category, the Group has re-evaluated our product offering as follows:

- **Celebrations** including gift packaging, greeting cards, crackers and partyware
- **Craft & creative play** is the new category this year and includes creative play products, sewing patterns, general and kids craft products, and buttons
- **Gifting** includes our design-led giftware products and photo frames
- **Stationery** includes home, school and office stationery items
- **'Not-for-resale' consumables** include branded store bags, point of purchase products and also floral packaging, which is a new product line acquired with CSS

Our design teams pride themselves on creating innovative designs which are both appealing and affordable to our customers and, in turn, their customers. This core strength is a key focus for the Group as we believe it underpins our success.

Our focus on product diversification and continued development of attractive and innovative products has driven growth in the sales of the Group, across all consumer categories.

By virtue of our focus on design and innovation, this year the UK team have launched an ‘Eco Nature Range’ which includes gift packaging, crackers, stationery and giftware that is proudly 100% designed and manufactured in the UK. This sustainable range supports a circular economy using only recycled materials and resulting in a fully recyclable product range.

Further detail on our environmental developments can be seen on pages 53 to 55.

Our teams in America have also been demonstrating cutting edge innovation in response to the global pandemic by using our skills and materials to produce face masks within our New York facilities, mask components from Design Group materials (such as ribbon) and face shields in our factory that produces point of purchase products. By deploying existing expertise to create new product ranges in short time scales, we are proud to be contributing to communities in the face of the Covid-19 crisis.

The Group’s ‘in-house’ manufacturing facilities in the UK, US and the Netherlands enable us to have locally produced product in each of these regions, supporting local economies and reducing adverse effects on the environment. Overall, 35% of the Group’s revenue was manufactured in-house, up from 30% last year. Outsourced products are provided by a broad base of carefully selected and compliant suppliers with the Group being one of the world’s largest buyers across the categories that we sell.

In the last year, we estimate that more than 700 million items and over 75,000 SKUs have been delivered to our customers.

CHIEF FINANCIAL OFFICER'S REVIEW

The Directors are increasingly optimistic about the outlook for 2021 and beyond

Giles Willits
Chief Financial Officer

Detailed financial review

The Group financial performance in 2020 has been impacted by a number of factors which together have had a material impact on the full year results of the Group. These factors are Adjusting items and IFRS 16 accounting standard adoption.

As part of the presentation of the results each of these factors is highlighted to provide a detailed explanation of its impact on the performance of the business year-on-year. The summary income statement below details the Adjusting items:

	2020			2019		
	Reported £m	Adjusting items £m	Adjusted £m	Reported £m	Adjusting items £m	Adjusted £m
Revenue	494.2	—	494.2	448.4	—	448.4
Gross profit	75.1	15.8	90.9	82.9	1.7	84.6
Overheads	(70.5)	13.0	(57.5)	(63.1)	11.1	(52.0)
Operating profit	4.6	28.8	33.4	19.8	12.8	32.6
Finance charge	(4.3)	—	(4.3)	(2.5)	0.2	(2.3)
Profit before tax	0.3	28.8	29.1	17.3	13.0	30.3
Tax	14.5	(20.4)	(5.9)	(4.0)	(3.1)	(7.1)
Profit after tax	14.8	8.4	23.2	13.3	9.9	23.2

Revenue for the year of £494.2 million grew 10% over the previous year (2019: £448.4 million) of which 7% relates to organic growth, with the balance relating to CSS post acquisition sales. At like-for-like foreign exchange rates revenue grew 9%. **Adjusted operating profit** increased by 2.4% to £33.4 million (2019: £32.6 million) and 3.3% at like-for-like exchange rates. **Adjusted operating margin** remained largely flat at 6.8% (2019: 7.3%). Gross margin fell in the year, largely as a result of customer and product mix, to 18.4% (2019: 18.9%). Adjusted overheads as a percentage of revenue remained constant at 11.6% year-on-year. Overall **Adjusted profit before tax** was broadly flat at £29.1 million (2019: £30.3 million) after taking into account the impact of IFRS 16 which reduced 2020 profit by £0.7 million and despite the impact of Covid-19.

The Group finished the year with a **profit before tax** of £0.3 million (2019: £17.3 million). As can be expected in a year with the degree of challenges that we have faced and during a period of such significant strategic development, the Group has incurred increased disruption, which is reflected in the increased size and numbers of Adjusting items which together total £28.8 million (2019: £13.0 million). Further details of the Adjusting items are detailed below. **Adjusted profit after tax** was £23.2 million (2019: £23.2 million) with **profit after tax** for the year at £14.8 million (2019: £13.3 million).

Impact of Covid-19

In March 2020, Covid-19 resulted in unshipped customer orders as a result of the lockdown of our facilities across the Group and lost production activity which reduced our ability to absorb overheads into inventory.

The Directors estimate that the Group was unable to book sales in the year of £6.9 million which together with increased costs resulting from lower overhead inventory absorption hit our **Adjusted profit before tax** by an estimated £3.8 million.

Finance expenses

Finance costs of £4.3 million are higher compared to the prior year of £2.3 million (excluding adjusting finance charges). This primarily reflects the impact of IFRS 16 which added £1.6 million to the full year charge. In addition, arrangement fees of £0.3 million were incurred in 2020 relating to the additional facility taken on for the purposes of the enlarged Group facilities as part of the CSS acquisition. Adjusting for these factors, the charge would have been £2.4 million, which is in line with prior year. **Adjusted interest cover** after stripping out IFRS 16 was 12.0 times in 2020 compared to 14.1 times in the prior year.

Adjusting items

The Group has incurred Adjusting items in the year to 31 March 2020 totalling £28.8 million (2019: £13.0 million).

Adjusting items	2020	2019
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses	**£3.3m**	£2.4m
Acquisition integration and restructuring costs	**£9.4m**	£6.0m
Impairment of assets	**£9.5m**	—
Covid-19 costs	**£0.5m**	—
US tariffs	**£3.5m**	—
Amortisation of acquired intangibles	**£2.8m**	£1.6m
LTIP (credit)/charges	**(£0.2m)**	£3.0m
Total	**£28.8m**	£13.0m

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Adjusting items continued

Adjusting items are material items of unusual or non-recurring nature which represent gains or losses which are separately presented by virtue of the nature, size and/or incidence. These items are as follows:

Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses – £3.3 million

During the year ended 31 March 2020 the Group incurred a net cost of £3.3 million in relation to the acquisition and disposal of businesses. The main areas of expenditure relate to £3.9 million of due diligence, legal and adviser fees associated with the acquisition of CSS which was completed on 3 March 2020. In addition, £0.9 million of acquisition related employee payments from the Impact transaction in 2019 which lock in and incentivise legacy talent.

These costs were offset by a profit of £1.5 million relating to the disposal of our Shaoxing factory facilities in China which was completed on 24 February 2020. This facility, which was acquired as part of the Impact transaction, completed in August 2018 and the disposal formed part of the planned integration programme.

Acquisition integration and restructuring costs – £9.4 million

For the years ended 31 March 2020 and 31 March 2019 the acquisition integration and restructuring costs relate to the ongoing UK unification initiative (£0.4 million), the integration of manufacturing facilities in the US, following the acquisition of Impact, which lead to the combination of printing and converting processes into one site in Memphis (£5.5 million), transition and retention costs (£1.1 million) and costs relating to the CSS integration (£2.4 million).

The costs associated with the Memphis project were calculated by evaluating the expense associated with the operating challenges in the manufacturing environment created as a result of the integration alongside the delays to productions plans as a result of the rapid development of US tariffs with China and customers delaying sign off on artwork and packaging.

All these costs arise directly as a result of integrating processes for the first time during the peak period. The costs include expenditure for one time outsourcing to meet production demands, additional warehousing to store inventory due to tariff driven delayed production and shipping and the subsequent knock-on customer related penalties.

The CSS integration and restructuring costs were incurred following the acquisition of CSS and primarily relate to severance costs of redundant roles in the legacy CSS business.

Covid-19 related costs, including impairment of assets – £10.0 million

As part of the review of the impact of Covid-19 we have undertaken a detailed review of the potential impact on assets within the business alongside incremental costs we have incurred as a result of the virus. The review of receivables, fixed assets and inventories identified the need for higher than usual provisions/impairments at the year end as a result of the virus.

£9.5 million of provisions/impairments were identified and are split as follows: £5.9 million of additional inventory provisions recognising the lower than expected sales activity in 2021, £3.1 million in relation to receivables as at 31 March 2020 to reflect increased credit risk amongst our customer base resulting from Covid-19 and £0.5 million in relation to inventory asset and fixed asset impairment.

In addition, £0.5 million of incremental costs have been identified relating primarily to direct labour costs that are considered abnormal following the forced closures of manufacturing facilities across the Group. Certain of these costs will also continue into 2021.

US tariffs – £3.5 million

US tariff costs incurred in the year had a significant impact on our business. The rapid evolution of tariffs became applicable to more of our product categories with no advance warning. The timing of the introduction of tariffs meant a majority of our purchase orders had already been agreed with customers and suppliers, effectively creating a situation where the US business was locked into commitments that could not be renegotiated.

This impact is not repeated going forward as the business is able to mitigate the effect of tariffs in future years as part of the negotiation of contracts with customers and suppliers.

LTIP credit – £0.2 million

As part of our senior management remuneration, the Group operates a Long Term Incentive Plan ('LTIP') in the form of options for ordinary shares of the Group. In accordance with accounting principles, despite this plan not being a cash cost to the business, a share-based payments charge is taken to the income statement. We consider that these charges and the associated social security charges do not form part of the underlying operational costs and therefore include these as Adjusting items. In the year ended 31 March 2020 there was an IFRS 2 credit due to the lowered expectations in respect of future schemes vesting.

Amortisation of acquired intangibles – £2.8 million

The Group has trade names and brands acquired as part of the acquisition of The Lang Companies, Inc., Impact Innovations, Inc., CSS Industries, Inc. and Biscay Pty Greetings Ltd which are amortised over their estimated useful lives. Amortisation of £2.8 million has been incurred in the year ended 31 March 2020.

Taxation

The Group aims to manage its tax affairs in an open and transparent manner, including being fully compliant with all applicable rules and regulations in tax jurisdictions in which it operates. We have not entered into any tax avoidance or otherwise aggressive tax planning schemes and the Group continues to operate its tax affairs in this manner.

The tax credit for the year ended 31 March 2020 is £14.5 million compared to a £4.0 million charge in the prior year. The significant year-on-year change is driven by the US Coronavirus Aid, Relief, and Economic Security (CARES) Act which came into effect on 25 March 2020 which, as part of the stimulus package, extended the time period for which Net Operating Losses (NOLs) could be carried back against profits in US businesses. As part of the acquisition of CSS, the Group inherited substantial NOLs in the CSS Group which were then able to be carried back against historical profits. This has resulted in the recognition of a $17 million future cash inflow as a result of the NOL carryback claims currently being filed. We expect these to be paid during 2021.

The effective tax rate on **Adjusted profit before tax** is 20.1% (2019: 23.4%). The reduction is a reflection of the UK tax rate remaining at 19% rather than reducing to 17% as previously enacted which has resulted in deferred tax assets being revalued at the higher rate, the recognition of overseas tax losses in China and Asia along with the release of an uncertain tax position in relation to our European business following the adoption of IFRIC 23.

Overall tax paid in comparison to the prior year increased to £4.7 million (2019: £3.7 million) largely as a result of the growth in the Group.

Earnings per share

Adjusted earnings per share are 26.9p (2019: 29.1p) reducing year-on-year by 8% as a result of the flat profit levels over a higher diluted share number following the share raise in early 2020 and the impact of Covid-19. Diluted earnings per share are 16.9p (2019: 15.9p). The reconciliation between **Reported** and **Adjusted earnings per share** can be seen below:

	2020	2019
Earnings attributable to equity holders of the Company	**£14.1m**	£11.9m
Adjustments		
Adjusting items (net of non-controlling interest effect)	**£28.6m**	£12.9m
Tax charge/(relief) on adjustments (net of non-controlling interest effect)	**(£6.5m)**	(£3.0m)
Adjusting item – tax credit (US loss carryback)	**(£13.8m)**	—
Adjusted earnings	**£22.3m**	£21.8m
Weighted average number of shares		
Basic weighted average number of shares outstanding	**82.6m**	73.6m
Dilutive effect of employee share option plans	**0.5m**	1.3m
Diluted weighted average ordinary shares	**83.1m**	74.9m
Basic earnings per share	**17.0p**	16.2p
Impact of Adjusting items	**10.0p**	13.4p
Basic adjusted earnings per share	**27.0p**	29.6p
Diluted earnings per share	**16.9p**	15.9p
Diluted adjusted earnings per share	**26.9p**	29.1p

Dividend

The Board are recommending a final dividend of 5.75p, reflecting the strong financial position of the Group after its 2020 year and its first quarter trading in 2021. This delivers a full-year dividend of 8.75p and maintains the Group's progressive dividend policy.

Return on capital employed

Improving the **Return on capital employed** continues to be a key target for each of the business units.

Overall, the Group saw the **Return on capital employed** reduce year-on-year to 21.6% in 2020 from 24.3% in 2019, which reflects the higher level of capital employed following the acquisition of CSS.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Cash flow and net cash

The Group finished the year end with a significantly higher cash balance compared to 31 March 2019, of £42.3 million (2019: £17.1 million) showing cash improvement of £25.2 million. This was primarily a result of the incremental fundraise in the last quarter of the financial year which supported the acquisition of CSS. **Cash conversion** was 84.4% (2019: 130.5%) with **Adjusted cash generated from operations** of £40.6 million (2019: £50.5 million) down year-on-year reflecting working capital movements. Adjusting items reduced cash generated from operations by a further £13.1 million to £27.5 million (2019: £44.8 million).

Cash flow	2020	2019
Adjusted EBITDA	**£48.1m**	£38.7m
Movements in working capital	**(£7.5m)**	£11.8m
Adjusted cash generated from operations	**£40.6m**	£50.5m
Adjusting items	**(£13.1m)**	(£5.7m)
Cash generated from operations	**£27.5m**	£44.8m
Capital expenditure (net of disposals of property, plant and equipment)	**(£10.7m)**	(£2.6m)
Business acquired (including cash on acquisition)	**(£87.7m)**	(£65.6m)
Tax paid	**(£4.7m)**	(£3.7m)
Interest paid (including Adjusting items)	**(£4.0m)**	(£2.1m)
Payments of lease liabilities	**(£6.6m)**	—
Dividends paid (including those paid to non-controlling interests)	**(£7.1m)**	(£5.7m)
Proceeds from issue of share capital	**£116.9m**	£48.3m
FX and other	**£1.6m**	(£0.7m)
Movement in net cash	**£25.2m**	£12.7m
Opening net cash	**£17.1m**	£4.4m
Closing net cash	**£42.3m**	£17.1m

Working capital

The net working capital outflow in the year of £7.5 million (2019: inflow of £11.8 million) has been impacted by the timing of the acquisition of CSS in March 2020 in a similar manner to the effect the Impact acquisition had in the prior year. In 2020, post acquisition working capital movements in relation to CSS resulted in a £7.5 million cash inflow, while in 2019 the Impact post acquisition working capital cash inflow was £24.6 million.

Stripping out the effect of the acquisitions on working capital movements there was an underlying outflow of £15 million in 2020 (compared to £12.8 million in 2019) primarily reflecting the need for additional working capital to support the growth of the core businesses.

In the current Covid-19 environment the Group continues to actively track debtors and credit risk profiles of all of our customers to ensure we try to mitigate as far as possible any additional exposure to credit risk. Doubtful debt write off in the year was less than 0.2% of revenue (2019: 0.1%), a continued testament to our proactive approach to dealing with credit risk.

Capital expenditure

During the year we invested £11.1 million (2019: £7.9 million). The key projects included a new, state-of-the-art printing press in the US, the automated converting line project in the Netherlands, the second bag line in the UK and ongoing costs in relation to a new ERP system in the Americas operations.

CSS acquisition and associated share capital issue

In March 2020 the Group acquired 100% of the equity of CSS Industries, Inc. The deal completed for a total consideration of $122.8 million including the repayment of the CSS debt at the date of acquisition.

The consideration represented $9.40 per share for CSS shareholders.

The acquisition was funded through the proceeds of an equity share placing which took place over two tranches in January and February 2020, in total raising £116.9 million of net proceeds. Full details of the assets acquired, including inventory and brands, can be found in note 28 to the consolidated financial statements.

Average leverage and banking facilities

Our business is seasonal in nature, requiring the build of inventory and receivables ahead of the peak Christmas trading period. As a result, despite starting and ending the financial year with net cash we trade for a period of our financial year with a net debt position.

As such, **Average leverage** is the key measure the Group adopts in relation to cash and working capital management. We seek to maintain our average leverage position in the range between 1.0 times and 2.0 times over the long term. **Average leverage** for the year to 31 March 2020 was 0.9 times, down from 1.3 times in the prior year. This reflects an improvement in the **Adjusted EBITDA** compared to the prior year but also a year-on-year reduction in the average bank debt from £48.8 million in 2019 to £34.6 million in 2020.

Our measure of **Average leverage** excludes the impact of IFRS 16 and therefore we exclude lease liabilities from our measurement of debt and also reduce **Adjusted EBITDA** for lease payments. This mirrors the approach taken by the banks in measuring leverage for the purposes of the banking facilities and therefore is considered the most relevant measure for management to adopt.

Banking facilities renewed and extended during the year

On 5 June 2019, the Group entered into a new three year Group facility with a club of five banks chosen to reflect and support the geographical spread of the Group. The banks within the club are HSBC, NatWest, BNP Paribas, Sun Trust and PNC. On 17 January 2020, the facility was increased to support the acquisition and working capital requirements of CSS which completed in March 2020.

The facilities, which run to May 2022, comprise:

- a revolving credit facility ('RCF A') of $95.0 million;
- a further flexible revolving credit facility ('RCF B') with availability varying from month to month of up to £130.0 million. This RCF is flexed to meet our working capital requirements during those months when inventory is being built within our annual business cycle and is £nil when not required, minimising carry costs; and
- an invoice financing arrangement in Hong Kong, maximum limit $18.0 million, but dependent on level of eligible receivables.

In total, the accessible facilities at approximately £212.0 million are more than sufficient to cover our peak requirements. Being partially framed in US dollars the facilities also provide a hedge against currency movements. The facilities, which do not amortise with time, include an additional uncommitted amount to help finance potential acquisitions.

Invoice financing arrangements are secured over the trade receivables that they are drawn on. The RCF facilities are secured with a fixed and floating charge over all other assets of the Group.

There are financial covenants (measured on pre IFRS 16 accounting definitions), tested quarterly, attached to the existing facilities as follows:

1. interest cover, being the ratio of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) as defined by the banking facility to interest on a rolling twelve month basis; and
2. leverage, being the ratio of debt to adjusted EBITDA as defined by the banking facility 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.

We also have access to supplier financing arrangements from certain customers which we utilise at certain times of the year.

Foreign exchange exposure management

Our foreign exchange ('FX') exposure is split into two areas:

Translational FX exposure – this exposure is the result of the requirement for the Group to report its results in one currency.

This necessitates the translation of our regional business units' local currency financial results into the Group's adopted reported currency. The overall impact on revenue and profits from currency movements in 2020 when compared to 2019 is not significant. **Revenue** in 2019 would have been £4.9 million higher if translated at 2020 FX rates, with 2019 **Adjusted profit before tax** £0.3 million higher.

Following the CSS acquisition in March 2020 and the significant increased concentration of the Group revenues and earnings to the US dollar, it was announced as part of the acquisition that the Group would be switching the Group's reporting currency from sterling to US dollars. This will significantly reduce the potential exposure of the Group to translational currency movements going forward.

Transactional FX exposure – this FX exposure is managed carefully by the Group as it can result in additional cash outflows if not managed appropriately. In response to this risk the Group adopts an active hedging policy to ensure further foreign exchange movements remain mitigated as far as possible. In addition, a reasonable proportion of this hedging is achieved through natural hedges whereby our purchases and sales in US dollars are offset. The balance of our hedging is achieved through forward exchange contracts and similar derivatives.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

New accounting standards

IFRS 16 'Leases' is effective for accounting periods beginning on or after 1 January 2019 and as such the Group has adopted the standard in the year to 31 March 2020. The Group has used the modified retrospective approach resulting in a gross right-of-use asset as at 31 March 2020 of £66.7 million and a corresponding lease liability as at the same date of £76.9 million, therefore reducing net current assets by £10.2 million. This includes the right-of-use assets and lease liabilities in relation to CSS which were £31.8 million and £37.0 million respectively on acquisition.

The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases or low-value assets and will continue to expense the lease payments associated with these leases on a straight-line basis over the term of the lease. The effect of IFRS 16 on our key metrics can be seen below:

	2020		
	Pre IFRS 16	IFRS 16 impact	Adjusted
Adjusted EBITDA	£40.2m	£7.9m	£48.1m
Depreciation (including software amortisation)	(£7.7m)	(£7.0m)	(£14.7m)
Adjusted operating profit	£32.5m	£0.9m	£33.4m
Finance expenses	(£2.7m)	(£1.6m)	(£4.3m)
Adjusted profit before tax	£29.8m	(£0.7m)	£29.1m
Adjusted diluted earnings per share	27.6p	(0.7p)	26.9p

Financial position and going concern basis

The Group's net assets increased by £127.5 million to £303.1 million at 31 March 2020 (2019: £175.6 million) primarily reflecting the acquisition of CSS within the 2020 financial year.

In light of the ongoing Covid-19 pandemic, the Directors have paid particularly close attention to their assessment of going concern in preparation of these financial statements. The Group is well capitalised at the year end with a net cash position of £42.3 million (£67.1 million of cash and £24.8 million of bank overdraft excluding loan arrangement fees). The Group is currently ahead of forecasts which were reviewed in detail during the year end process in light of Covid-19 and the likely change in consumer behaviours that could drive our customers to change their spending with us.

These forecasts, which have been produced and reviewed in detail by the Board and take into account the significant seasonal working capital cycle of the business, have been sensitised to reflect severe but plausible adverse downturns in the current assumptions including the potential for a second wave of the pandemic later in the year.

Management has also produced a maximum stress forecast which has been deliberately engineered to challenge the Group's liquidity position and covenant performance (as detailed above in the banking facilities section) during the forecast period.

These forecasts and additional analysis demonstrated that the Group has sufficient excess headroom for the Group to meet its obligations as they fall due for a forecast period of more than twelve months beyond the date of signing these accounts. As such, the Directors do not see any practical regulatory or legal restrictions which would limit their ability to fund the different regions of the business as required to the extent of the Group's available resources.

Accordingly, the Directors have continued to adopt the going concern basis of accounting in preparing the financial statements.

Alternative performance measures

This review includes alternative performance measures ('APMs') that are presented in addition to the standard IFRS metrics. The Directors believe that these APMs provide important additional information regarding the adjusted performance of the business, including trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and segmental business units by adjusting for exceptional or uncontrollable factors which affect IFRS measures, to aid the understanding of the Group's performance. Consequently, APMs are used by the Directors and management for strategic and performance analysis, planning, reporting and reward setting. APMs reflect the results of the business excluding Adjusting items, which are items that are material and of an unusual or non-recurring nature.

The APMs and the definitions used are listed below:

- **Adjusted EBITDA** – EBITDA before Adjusting items
- **Adjusted operating profit** – Profit before finance charges, tax and Adjusting items
- **Adjusted profit before tax** – Profit before tax and Adjusting items
- **Adjusted profit after tax** – Profit after tax before Adjusting items and associated tax effect
- **Adjusted earnings per share** – Fully diluted earnings per share before Adjusting items and associated tax effect

In addition, the Group uses APMs in order to calculate other key performance metrics, including:

- **Average leverage** – Average bank debt (being average debt measured before lease liabilities) divided by Adjusted EBITDA reduced for lease payments
- **Cash conversion** – Adjusted cash generated from operations divided by Adjusted EBITDA
- **Adjusted operating margin** – Adjusted operating profit divided by revenue
- **Return on capital employed** – Adjusted operating profit divided by monthly average net capital employed (excluding cash and intangibles)
- **Adjusted interest cover** – Finance charges divided by Adjusted profit before tax (excluding IFRS 16)

Adjusting items

Further details of the items categorised as Adjusting items are disclosed in more detail in note 3 to the financial statements.

A full reconciliation between our adjusted and reported results is provided below:

	2020	2019
Adjusted EBITDA	**£48.1m**	£38.7m
Adjusting items	**(£25.7m)**	(£11.3m)
EBITDA	**£22.4m**	£27.4m
Adjusted operating profit	**£33.4m**	£32.6m
Adjusting items	**(£28.8m)**	(£12.9m)
Reported operating profit	**£4.6m**	£19.7m
Adjusted profit before tax	**£29.1m**	£30.3m
Adjusting items	**(£28.8m)**	(£13.0m)
Reported profit before tax	**£0.3m**	£17.3m
Adjusted profit after tax	**£23.2m**	£23.2m
Adjusting items	**(£8.4m)**	(£9.9m)
Reported profit after tax	**£14.8m**	£13.3m
Adjusted earnings per share	**26.9p**	29.1p
Adjusting items	**(10.0p)**	(13.2p)
Reported diluted earnings per share	**16.9p**	15.9p

RISK MANAGEMENT

Risk is an inherent part of business, especially as Design Group aim to continue delivering growth around the world. The Group actively monitors the risk related to its business and the environment in which it operates.

Our risk management framework

Governance

Design Group operates a well-established structure for the management of risk, where responsibilities and ownership are clearly defined:

The Board
- Ownership and monitoring of risk management
- Set objectives and risk appetite

Audit Committee
- Responsible for advising the Board on risk exposures
- Review of internal controls that help manage risks

Executive Committee
- Responsible for the overview of management of key risks at business unit level
- Assessment of materiality of key risks

Business units
- Identification, assessment and mitigation associated with key risks
- Day-to-day management of risks within the business units with focus on considering risk as part of decision making and management of external relationships

Group risk function
- Monitoring and collation of risks and actions by business unit management from across the Group
- Review and oversight of the Group's risk management process

Risk strategy and appetite

- The risk management process is aligned to our Group strategy and each principal risk, as identified in the next few pages, is considered in the context of achieving the Group's strategic objectives of delivering growth, generating cash, and improving returns through our strategic focus on: working with the winners, design and innovation, and efficiency and scale.
- Risk appetite is an expression of the types and amount of risk that the Group is willing to take or accept to achieve its objectives. Our risk appetite is set to balance opportunities for growth and increased return, whilst maintaining our reputation and robust risk mitigation strategies. Determining our risk appetite allows us to make consistent and informed decisions across the Group in relation to key risks and helps ensure that they are managed within our tolerated levels of risk.

Risk management approach

- Design Group operates a decentralised model where risk management is embedded within strategic and operational decision making. An overarching role is played by the Group team and the Board to ensure oversight in the risk management process.
- Every year we review our approach to the Group's risk management framework, especially given the significant growth we have experienced over the previous few years.
- Design Group's approach to risk management is bottom up, with each of our business units maintaining standardised risk registers for their territories, identifying key risks, monitoring them and determining mitigation plans for their businesses, whilst measuring against their risk tolerance level.
- The risks are scored using a risk impact matrix which considers both financial and non-financial assessments to determine an overall score for each risk. The localised risks feed into the Group risk summary where the resulting rating governs the positioning of the risk on the Group's risk map. Each principal risk is also evaluated against the Group's risk appetite and considered in the context of the Group's strategic objectives. All of this focuses the Group on where the higher risks sit and prioritises additional mitigation strategies that may be required.
- The principal risks were reassessed this year end to consider the impact of Covid-19 and ensure that each risk score is representative of the current environment, as well as to ensure that effective mitigation plans are in place around the Group.

Emerging risks

- Design Group's continuing success is influenced by how well we understand and manage our risks. Each year we review emerging risk areas in order to determine whether they should be considered as principal risks and be actively monitored as part of the risk management process going forward.
- This year we have identified two emerging risks:
  - sustainability: this has been included as a principal risk this year. It is emerging as a key area of focus for our business, as our customers and the retail consumer become more focused on their own impact on the environment and modify their spending habits accordingly; and
  - cyber security: this has been highlighted by all our business units as an increased risk due to the increasing sophistication and frequency of cyber hacks across a myriad of other businesses around the world. This, coupled with the General Data Protection Regulation (GDPR), has elevated the risk on the Group's register. It is not deemed to be a principal risk due to the Group's appropriate safety mechanisms in place and the Group will continue to monitor this, in particular as we continue to grow our e-commerce offering.

Covid-19

- The Covid-19 pandemic quickly emerged as a risk in the final quarter of our financial year. The Group, like many businesses around the world, has been quick to react to mitigate the impact of the virus on both our employees and the business, as we saw a rapid escalation of government enforcements including social distancing and non-essential business closures.
- Whilst we are still in the midst of this global crisis, it is difficult to determine the full extent of the impact the virus has had on the Group. Our businesses have worked to ensure the safety and wellbeing of our employees and their families. They are also doing their very best to mitigate the long term impact of the virus on our business in the short term, while ensuring the Group is well positioned to emerge from the virus period as a healthy business ready to deliver growth.
- The pervasive nature of Covid-19 has had an impact on many of our identified principal risks, though in varying magnitudes, due to the increased uncertainty of the global market and economy. The duration of this heightened risk due to Covid-19 is unknown and will depend on the length of the pandemic and the recovery of economies around the world. The potential short, medium and long term impact of this uncertainty has been incorporated into forecasting sensitivities to ensure that the Group can be confident of our abilities to meet obligations as they fall due.
- Set out below are how the Group's principal risks are affected by Covid-19 in the short to medium term, along with mitigating actions that have been put in place to manage the consequences on the business. Principal risks with heightened risk due to Covid-19 have also been identified within the principal risks section. Risks, and business outlook, will continue to be actively monitored as the global pandemic situation evolves and develops.

Current impact of Covid-19 on principal risks	Current mitigating actions
Business continuity and supply chain integrity	
Covid-19 affected almost all of our operations around the world, with each business dynamically responding to the evolving crisis	As the severity of the pandemic escalated, rapid responses and business continuity plans allowed for many divisions to work from home and, where government guidelines allowed, socially distanced factory and warehouse operations to function. These procedures will continue to be monitored for the foreseeable future
The risk of a second outbreak which could impact Christmas orders and deliveries	Regular operational, financial and strategic updates are provided to the senior management team, Executive Committee and Board to allow for informed decisions and close monitoring of business performance
The recovery from the crisis underpins business resilience	Careful monitoring of order book levels is ongoing during this time
	Contingency planning around the risk of a second outbreak has been undertaken, and relationships with key suppliers and customers maintained

RISK MANAGEMENT CONTINUED

Covid-19 continued

Current impact of Covid-19 on principal risks	Current mitigating actions
Economic uncertainty The global economy has been significantly affected by Covid-19 and the outlook for the short term future is unknown. Design Group revenues and margins are at risk	Regular monitoring of the global pandemic is ongoing as it continues to evolve in each of our jurisdictions Response plans have been put together to enable quick response to changes in the economic environment
Liquidity and treasury management The closure of non essential businesses and factories affected the Group's trading results. If sustained over a long period of time there is a risk of bank covenants breach	Detailed stress scenario planning has been undertaken to measure the impact on cash flow forecasting and bank covenants to ensure no breach We are working closely with our lending partners to ensure transparency There has been quick enactment of a freeze on any discretionary spend and planned capital expenditure Government schemes, such as furlough payments in the UK, have been utilised where possible
Customer default An already challenging retail environment, coupled with the difficult conditions of Covid-19, will increase the risk of customer default	We are closely monitoring outstanding debts with the revision of payment terms where necessary We are reviewing inventory levels with increased provisioning where required given the seasonality and fashion element to our products alongside dated goods Additional receivables and inventory provisions are being carried at the year end where customers have been identified as 'at risk'
People Increased risk of disengagement and demotivation of employees, as well as labour shortages due to the pandemic	There have been clear and regular communications to employees for transparency We have developed guidelines and implemented protocols to safeguard staff in line with government social distancing guidelines. Examples include the use of personal protective equipment and the altering of shift patterns to ensure no employee interaction at shift crossovers
Cyber security Increased risk of cyber threat or security breach with updated ways of working around the Group	We are following cyber policies and best practice as advised by IT teams based in each of the businesses

Key

Working with the winners
Efficiency & scale
Design & innovation
Covid-19 risk

Principal risks

Risk	Mitigation	Change

Acquisitions

Failure to successfully integrate an acquisition, or the loss of potential acquisition opportunities, could affect the attainment of the Group's growth strategy

Mitigation

Maintain an active M&A pipeline and ongoing review of market opportunities

Operate strict evaluation criteria including using third party due-diligence professionals for technical areas

Appropriate and effective modelling and sensitivity analysis and risk evaluation along with synergy target analysis

Overseen by one or more senior management team members with regular reports to the Board

Engage third party integration specialist, as required, to support critical integration processes post acquisition

Change

Increased

Increased risk following the acquisition of CSS and ongoing integration of Impact

Pre-mitigation impact: **High**

Post-mitigation impact: **Medium**

Link to strategy:

People

Failure to attract, develop, motivate and retain talent and skilled individuals could affect the Group's ability to meet its strategic objectives

Mitigation

A focus on succession planning and building strong teams around key individuals in each business unit

Ensuring we review all aspects of executive and senior management remuneration and appropriate remuneration packages, alongside a standardised grading and benefits structure for all positions

Appropriate policies around hiring key team members focusing on qualifications and appropriate experience for the relevant role

A focus on management development to improve competencies across the business

Implementation of cross-learning programmes to ensure all the senior management team understand other roles

Change

Unchanged

Remains low risk with continued focus and further investment in our management teams

Increased risk of disengagement and demotivation of staff due to Covid-19

Pre-mitigation impact: **Medium**

Post-mitigation impact: **Low**

Link to strategy:

Competitive advantage

Loss of significant customers

Profit erosion due to pricing from competitors

Customers going directly to our suppliers

Failure to maximise e-commerce opportunity

Mitigation

Continued focus on design, innovation, product quality and exceptional service

Maintain a blended and diversified portfolio of products and customers, both by market segment and geography

Close management of costs and margin on a product-by-product basis consistent with strategic pricing plan

Maintain close relationships with all of our key customers, leveraging our strengths, such as showrooms, wherever possible

Continued investment in capital expenditure to drive improved efficiency and infrastructure to maintain a competitive advantage

Development of the e-commerce strategy for the Group

Change

Increased

Increased risk as global retail environment becomes more challenging

Pre-mitigation impact: **High**

Post-mitigation impact: **Medium**

Link to strategy:

RISK MANAGEMENT CONTINUED

Principal risks continued

Risk	Mitigation	Change
Margin erosion Rising inflationary cost pressures, coupled with competitive pricing risk eroding margins further on already low margin products Seasonality and fashion driving inventory obsolescence	Continued investment in operations and improvement of production processes to maximise efficiency Utilisation of market intelligence and ongoing product and supplier benchmarking to maximise awareness of market conditions Regular and careful review and management of product costings with senior management approval for lower margin products Regular monitoring of inventory obsolescence ensuring the business has sufficient provisions Concept selling to boost margins	 **Unchanged** Ongoing integration of operation and investment in efficiency improvements offsetting commercial pricing pressures
Pre-mitigation impact: **High**	Post-mitigation impact: **Medium**	Link to strategy:
Business continuity and supply chain integrity Disruption of manufacturing operations during peak season Failure of suppliers to deliver Problems with product quality or integrity of supply chain	Policies and procedures to efficiently manage and safely maintain continuity of supply Monitor production and key performance indicators against plan closely to give advance warning of any disruption to operations Carefully selected suppliers whose performance is monitored closely with alternative routes of supply as back up Regular supply chain audits along with internal audits of manufacturing facilities Group insurance policy for a range of operational risks Leveraging our sourcing offices in Asia to manage and maintain supply relationships	 **Unchanged** Group wide insurance programme continues to provide effective cover alongside increased focus on managing robust supply chain Covid-19 affected almost all of our operations around the world, with each business dynamically responding to the evolving crisis
Pre-mitigation impact: **Medium**	Post-mitigation impact: **Low**	Link to strategy:

Key

Working with the winners

Efficiency & scale

Design & innovation

Covid-19 risk

Risk	Mitigation	Change
Economic uncertainty Changes to the global economy, such as a pandemic, significantly affecting business trading and operations Changes to international trade terms between core territories of operation having a significant effect in our main cost areas of raw materials, freight and people	Regular monitoring of the economic conditions in which we operate Impact analysis and response plans for significant changes to trade agreements utilising external specialists where necessary Brexit mitigation plans	 **Increased** Brexit and US tariffs on China sourced products increase risk for the Group The global economy has been significantly affected by Covid-19 and the outlook for the short term future is unknown
Pre-mitigation impact: **High**	Post-mitigation impact: **Medium**	Link to strategy:
Customer default Significant customer default	Tight credit control procedures, with regular review of credit limits Insuring credit risk where possible Close monitoring of debts and inventory levels taking provisions where required	 **Increased** Retail environment continues to be challenging Covid-19 increased the fragility of the retail environment, which was an already challenging market place
Pre-mitigation impact: **High**	Post-mitigation impact: **Medium**	Link to strategy:
Sustainability Loss of revenue due to failure to react to market trends and develop environmentally friendly products and supply chain alternatives	Dedicated teams and meetings to develop new initiatives Close working relationship with key customers to be "ahead of the curve" on trends they are implementing Focus on design, product quality and service delivery Leverage Group understanding of trends to share knowledge and ideas	**New risk** New principal risk due to higher customer and consumer awareness of sustainability matters
Pre-mitigation impact: **High**	Post-mitigation impact: **Medium**	Link to strategy:

RISK MANAGEMENT CONTINUED

Principal risks continued

Risk	Mitigation	Change
Currency exposure Purchases, sales and funding in a mixture of currencies Translation of overseas businesses	Natural hedges where possible across businesses as well as spot purchases, forward contracts and other similar instruments Ensuring financing facilities have appropriate headroom to accommodate fluctuations in currencies	 **Unchanged** Ongoing management focus maintains effective hedge to currency risk where possible
Pre-mitigation impact: **High**	Post-mitigation impact: **Low**	Link to strategy:
Governance and compliance Non-compliance with legal and tax regulations in the jurisdictions in which we operate	Augmentation of the Group legal team in the US to aid with managing the Group's compliance globally Utilisation of specialist advisers where appropriate and necessary, as well as an outsourced internal audit function Open dialogue with relevant parties (e.g. tax authorities)	 **Unchanged** Regulatory environment continually changing but stronger teams to ensure we are meeting our compliance requirements
Pre-mitigation impact: **Medium**	Post-mitigation impact: **Low**	Link to strategy:
Liquidity and treasury management Failure to raise funds through debt or share issues Loss of support from principal banking partners Failure to comply with banking covenants	Regular cash budgeting, forecasting and monitoring across the Group and senior management Updated facility with multiple lending partners to enhance borrowing capabilities with a range of maturities sufficient to cover funding requirements Working closely and transparently with our lending partners ensuring the cash flow cycle is understood and monitored by all parties	 **Unchanged** Ongoing focus on cash management supported by refinancing with banks on 5 June 2019 and then subsequently on 17 January 2020 to aid the acquisition of CSS Careful monitoring of Group financials impacted by Covid-19, to ensure covenants complied with
Pre-mitigation impact: **High**	Post-mitigation impact: **Medium**	Link to strategy:

Key

Working with the winners
Efficiency & scale
Design & innovation
Covid-19 risk

THERE IS NO TIME LIKE THE PRESENT.

As a Group with an ever-expanding reach, we understand that our impact and responsibilities extend beyond our immediate surroundings, into the lives of our employees, the environment, and our local and global communities. We take seriously these responsibilities, as reflected in our products, processes and actions.

At every level of our business, we drive for the highest standards of ethical behaviour, to protect and support our employees, our communities and our planet. In upholding these standards, it is our aim to foster the relationships we have with all of our stakeholders to continue building a considerate and sustainable company.

Though our Group companies are varied in many ways, each part of Design Group globally is committed to operating in a responsible and sustainable way, with a driving focus of having a positive impact in every interaction we make.

What's in this section

Environment

pages 54 and 55

People and community

pages 56 and 57

SOCIAL RESPONSIBILITY – ENVIRONMENT

We believe that every one of us has a shared responsibility to protect and preserve our planet and its environment, for this and future generations. That is why, in all areas of our Group, we have made significant steps this year to further improve our environmental credentials and offset the impact of our operations.

WRAP
Waste and Resource Action Programme

In our UK business, we have engaged the support of the Waste and Resources Action Programme (WRAP) UK, who are leading a global change in the way plastic is made, consumed and disposed of. WRAP has given Design Group access to a range of influential parties including government organisations and suppliers, plus offered advice as we continue to redesign products to reduce waste, increase recycling and raise awareness with our customers.

Our work with WRAP aims to reduce the amount of single use plastics throughout the business. As part of this commitment, Design Group has contributed towards WRAP's Plastic Pact targets, which aim to tackle 'problem plastics' and swap them for alternative materials and reusable options.

Examples of our sustainable products and packaging in action can be seen on page 19.

Recycling handy hint

"Scrunch test: wrapping paper can be recycled if, when it is scrunched up into a ball, it stays scrunched"

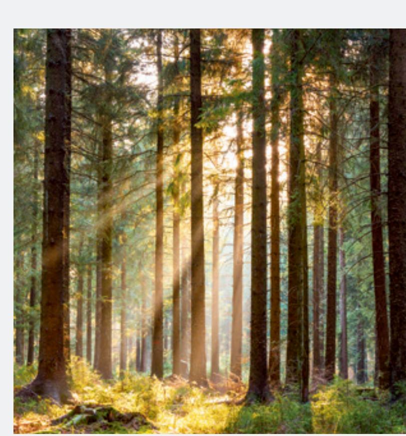
Recycling handy hint

"A common way to recycle gift bags is to reuse them when giving a present to a friend or relative"

Sustainable sourcing

As a mark of success in our efforts to source our products in a sustainable way, our UK business was awarded the WWF 3 Trees biennial award in 2019. This award from the World Wide Fund for Nature recognised our commitment to using paper sourced exclusively from sustainable forestry and from responsible suppliers in our UK operations.

Design Group are committed to shifting to the sole use of certified paper in our products. Design Group ensure that all our timber and timber products are legally harvested and sourced, and wherever possible certified or recycled materials are purchased.



Crackers for conscientious consumers

Understanding the changing focus of consumers in recent years, Design Group was able to offer customers a range of Christmas crackers with a low environmental impact in the Christmas 2019 season. By removing glitter, embellishments and plastic content from a range of our cracker products, we helped thousands of consumers keep alive their Christmas tradition in a more sustainable way.

Tom Smith, one of Design Group's premium brands, is leading the way on sustainable solutions without compromising on design or quality.

In order to minimise our impact on the environment, a **fully recyclable** cracker range been launched in which the plastic window from the cracker packaging has been removed. The cracker contains **keepsake wooden content** and is made from **soya based inks and paper ties**. In addition, all Tom Smith branded products **no longer use glitter as a finish**.

Other areas of improvement underway include:

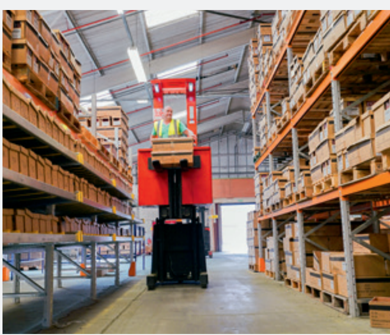
- the development of shrink film-free gift wrap packaging which eliminates the plastic film and replaces it with recyclable sealing labels;
- the removal of the plastic window on Christmas cracker and boxed cards packaging;
- introducing plastic-free packaging of single use greetings cards by using stickers to seal instead; and
- acetate-free board packaging is being phased across stationery ranges.

We aim to continually challenge ourselves to make our operations, our suppliers and our impact more sustainable, helping to preserve and protect the environment for generations to come.

Sustainable by design

Throughout our entire business, we are on a continuous journey to minimise the impact we have on the environment and drive positive change. This extends from product design right through to operations and logistics.

We have successfully removed 100% of solvent-based materials from our paper printing processes, completely eliminating the damaging effects these processes would otherwise have had on the environment.



Additionally, we continue to reduce our logistics carbon footprint, by optimising packaging and processes to fit more products onto every truck, reducing the number of vehicles and journeys used by the Group each year. This has already and will continue to lead to significant reductions in the carbon emissions released into the atmosphere due to our operations.

Furthermore, our focus on investing in new machinery to improve our efficiency and capacity also continues to have a positive effect on the environment by lowering wastage, reducing importing from overseas and focusing on local suppliers for raw materials and services.

Recycling handy hint

"Most greetings cards and envelopes can be recycled, any extras such as glitter or bows just need to be removed first"

Recycling handy hint

"Before recycling gift wrap, remove sticky tape and decorations such as ribbons and bows"

SOCIAL RESPONSIBILITY – PEOPLE AND COMMUNITY

WE ALL PLAY A PART.

The many talented individuals and teams inside of Design Group make us the successful business we are. We understand the value and importance of creating an open, comfortable and progressive environment to invest back into the people who give us so much.

The communities where our Group businesses are based, and where many of our team members call home, are important to us. We aim to give more than we take in all of the communities where Design Group is active, continuously taking actions and promoting initiatives to leave a positive impact.

Throughout the Group, this year was another one packed full of local, national and international schemes and initiatives to help our people bond, grow and support themselves and their wider communities.

Design Group head office staff supporting Willen Hospice

In the Americas, teams have been proactively helping to support their communities during the emergency response to the Covid-19 pandemic, by launching the ‘commUNITY’ campaign. The campaign invites everybody to display a turquoise blue ribbon as a show of support during this crisis, with participants encouraged to post their support online with the hashtag #wereinthistogether.

As part of the pandemic response, the US sewing pattern team created free-to-download guides on how to produce medical gowns, scrub caps, unisex scrub tops and face coverings, whilst the seasonal teams mass-produced face shields for use by frontline healthcare workers.

Elsewhere, the US has engaged in a number of other positive community contributions, including providing coats for the homeless and food for local food banks in Midway, Georgia, and provided supplies to children in a local elementary school in Memphis.

In the UK, teams have been engaged in a number of charitable activities, including raising over £1,000 for the Movember cause, and donating £2,000 to Velindre Cancer Care Hospital through the Royal Warrant Holders Association Charity Fund, and taking part in Macmillan Cancer Support’s ‘World’s Largest Coffee Morning’.

Additionally, Design Group UK’s trading company Polaris presented a cheque for over £30,000 to the Trussell Trust, generated through the sale of co-branded ‘Catering Crackers’ in support of the charity.

Elsewhere, a team from Design Group’s head office supported Willen Hospice by volunteering time and manpower at the charity’s donated clothing warehouse. During the volunteering, 127 bags of recycled clothing were processed, generating the charity £571.50 in funding.

In Australia, Design Group has donated in excess of AU$120,000 to causes close to the hearts of team members. These include AU$80,251 and AU$32,140 paid to the Kmart Wishing Tree Appeal and Salvation Army respectively, generated from the sale of selected items.

Design Group Australia’s studio team hosted a bake sale to raise funds for the Gippsland Emergency Relief Fund, generating AU$587.50. The business matched this amount, resulting in AU$1,175 being donated to the fund to help those affected by natural disaster events.

In Europe, teams spent their annual ‘We Make You Smile!’ day at Wildlands Adventure Zoo, meeting the animals and taking part in challenges. The business also hosted its very first ‘Family Day’, in which team members’ families were invited to tour the facilities and learn more about Design Group. More than 400 people visited.

For those who do not speak Dutch as their first language, Design Group Europe has been hosting ‘Dutch on the Work Floor’ sessions in co-operation with the Municipality of Hoogeveen. The sessions allow team members to spend time learning the Dutch language during work hours, to broaden their skills and help them bond with their colleagues.

BOARD OF DIRECTORS

The Board is responsible for overseeing the management of the business and for ensuring high standards of corporate governance are maintained throughout the Group.

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- * Chair

John Charlton

Non-Executive Chairman

Date of appointment: John joined the Board in April 2010 and was appointed Chairman of the Board on 7 September 2011.

Experience: In his executive career, John was previously Senior Vice President International of American Greetings Corporation and Chief Executive of UK Greetings Ltd. He was also Chairman of Amscan International Ltd. Prior to that John was the CEO of a number of public and private multinational companies.

External appointments: John is Chairman of SA Greeting (Pty) Ltd, a South African company.

Skills: In-depth knowledge of the international greetings card, gift packaging, stationery and social expression gift market.

Committees:

Paul Fineman

Chief Executive Officer

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

Experience: Paul has over 40 years' experience in the card, gift wrap and stationery industry having developed knowledge within his family's business, Anker International, prior to its acquisition in 2005. He has led the transformation and growth of Design Group as CEO since 2009. Paul was awarded Chief Executive Officer of the Year by the Quoted Company Awards 2017.

Skills: Business and team development. Innovation and entrepreneurship.

Giles Willits

Chief Financial Officer

Date of appointment: Giles joined the Board in January 2018.

Experience: Giles has more than 20 years' experience in senior leadership and financial roles in multiple household name businesses. He was most recently the CFO of Entertainment One Ltd (LSE: ETO), having joined prior to its IPO on AIM in 2007. Giles was also formerly Director of Group Finance at J Sainsbury plc and Woolworths Group plc and qualified as a chartered accountant at PricewaterhouseCoopers.

External appointments: Giles sits on the Board of Shearwater Group plc as a Non-Executive Director.

Skills: Particular skills and experience in M&A, as well as being a Chartered Accountant.

Lance Burn

Executive Director

Date of appointment: Lance joined the Board in October 2012.

Experience: Lance has been Managing Director of IG Design Group UK Limited since 2009 and the Group's subsidiary operation in China since 2011. Lance's previous roles included directing businesses for Rank Hovis McDougall plc, Saint Gobain Solaglas UK and also international overseas-based roles for PepsiCo International in Africa and India.

Skills: Managing businesses both in the UK and abroad across a number of industry sectors.

Business integration and overseas operations.

Anders Hedlund

Founder and Non-Executive Deputy Chairman

Date of appointment: Anders was appointed as Nominee Non-Executive Director in 2007.

Experience: Anders founded the Group in 1979 and was joint Chief Executive Officer of the Group until December 2007.

Skills: Significant industry knowledge.

Mark Tentori

Non-Executive Director

Date of appointment: Mark joined the Board as a Non-Executive Director on 1 January 2016.

Experience: Mark has held a number of CFO and COO roles in public and private companies operating in a wide range of sectors and geographic locations. These include a Portfolio Partner within Charterhouse Capital Partners LLP, CFO of Deb Group Ltd and LINPAC Group Ltd and CFO and COO of United Coffee. Mark also spent ten years with PricewaterhouseCoopers where he qualified as a Chartered Accountant.

External appointments: Mark sits on the Advisory Board to the Duchy of Lancaster as well as several committees.

Skills: Wide experience in finance and a Chartered Accountant.

Committees:

Elaine Bond

Non-Executive Director

Date of appointment: Elaine joined the Board as a Non-Executive Director on 1 February 2012.

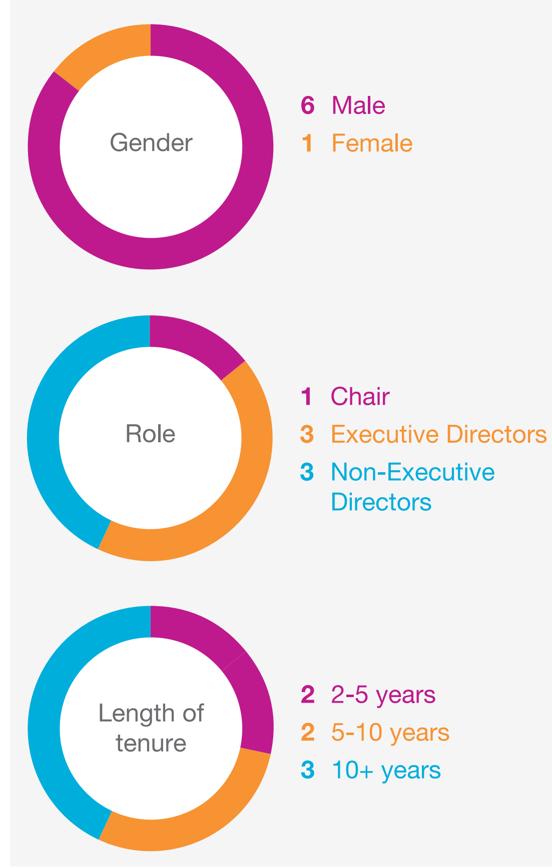
Experience: Elaine was previously Group Operations Director of UK Greetings Ltd, the UK subsidiary of American Greetings.

External appointments: Non-Executive Director at Sandgate Systems Limited.

Skills: Operational skills and experience gained over many years in the card, gift wrap and stationery industry.

Committees:

CHAIRMAN'S CORPORATE GOVERNANCE REVIEW



Dear Shareholder

We are pleased to be able to report a further year of progress for our Group during the year ended 31 March 2020. In the very challenging retail environment, as the world responds to the impact of Covid-19, we remain focused on ensuring the Group is positioned to emerge stronger and ready to take on the many opportunities that we see in the future.

Our acquisition of CSS in March 2020 is an excellent example of how this year we were able to make a step change in the scale of our Group.

We shall continue to put considerable effort into strengthening 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.

The Board remains focused on developing the Group for the long term benefit of all shareholders, with well-informed and effective decision making. As part of this, the Board takes corporate governance seriously, continuing its commitment to the QCA Corporate Governance Code ('Code') and meeting the new reporting requirements under the Companies (Miscellaneous Reporting) Regulations 2018 (see page 8).

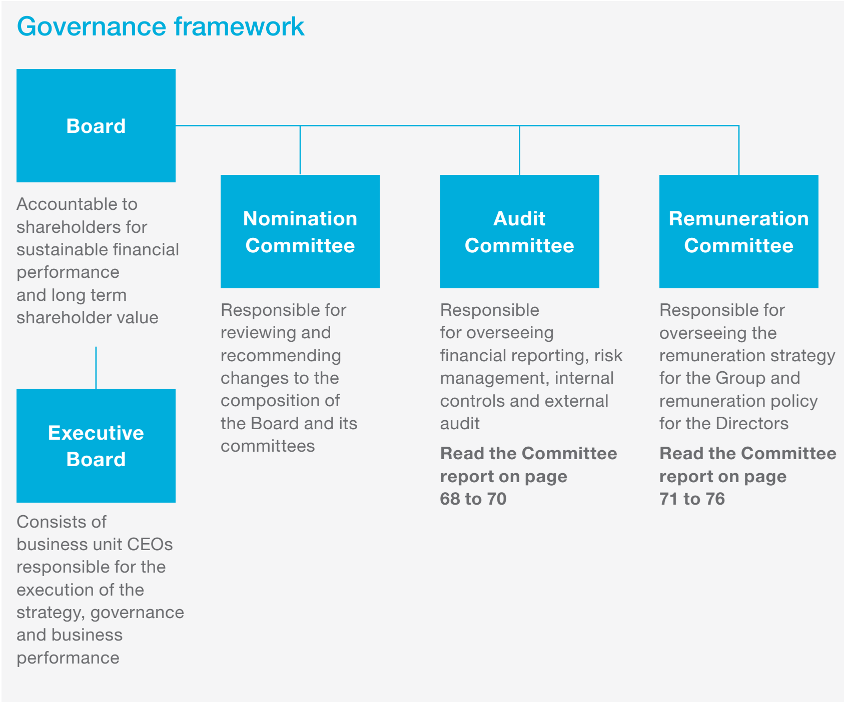
I am pleased to share with you our governance structure and the improvements that have taken place over the past year. For ease, we have structured this report to align with the principles of the Code.

Finally, let me take this opportunity to thank our teams around the globe, our shareholders, customers, suppliers, bankers and advisers for their support and contributions. As always, we are very appreciative of the strong working relationship and partnership that we continue to enjoy with you all.

John Charlton

Chairman

27 July 2020



Principle 1:

Establish a strategy and business model which promote long term value for shareholders

The Group continues to operate under a governance structure, which is designed to be flexible and efficient in creating sustainable long term growth in shareholder value.

Our key focus is to continue to drive the Group forward and keep us reaching for the high standards and targets we set ourselves. We do this by leveraging our strengths and the many opportunities to grow in the market. Our strategy focuses on:

- **Working with the winners –** increasing revenue through growth with the winning retailers of the future, in the growing channels and product categories.
- **Design & innovation –** developing in new channels and adjacent product categories while increasing our share in the growing number of events celebrated throughout the year.
- **Efficiency & scale –** driving margins through investment in processes and people. Accretive M&A opportunities to unlock synergies and strengthening our 'one-stop-shop' position with customers.

In May 2019 we were pleased to be a winner of the Transatlantic Growth Awards 2019 in the category of 'UK Launch or Expansion in the US' following the acquisition of Impact. The aim of the Transatlantic Growth Awards is to highlight and celebrate the commitment of businesses to trade, investment and jobs between the UK and US, showcasing the best examples of foreign direct investment going both ways across the Atlantic.

Further detail on the Group's strategy and business model, as well as the key challenges faced by the Company in achieving its goals, can be found on pages 6 to 23.

CHAIRMAN'S CORPORATE GOVERNANCE REVIEW
CONTINUED

Principle 2:
Seek to understand and meet shareholder needs and expectations

This year has been particularly noteworthy with the Group, as part of the acquisition of CSS, raising £120 million from investors to support the financing of the deal. This was significantly oversubscribed and a good indication of the strong relationship between the Company and its shareholders.

We continue to maintain a strong relationship with our Nomad and Broker, Canaccord Genuity ('Canaccord'), who were a key player in running and executing the fundraising activities for the CSS acquisition. Canaccord has a wide international reach and is well placed to support the Group's ambitions for growth in the future.

Our CEO and CFO have maintained regular contact with our institutional investors as can be seen in the timeline below:

Shareholder engagement calendar 2019/2020

Date	Event
02 April 2019	John Charlton met with certain investors
15 April 2019	Trading Update
11-25 June 2019	Full Year results announcement followed by investor roadshows in London, Edinburgh and the US
22 August 2019	Investor Day
28 August 2019	Trading Update
04 September 2019	Investor Day
11 September 2019	Annual General Meeting
03 October 2019	Investor Day
08 October 2019	Investor Day
17 October 2019	Trading Update
26-29 November 2019	Interim results announcement followed by investor roadshows
03 December 2019	Investor Day
16 December 2019	Investor Day
08-15 January 2020	Investor Roadshow (Placing)
11 February 2020	General Meeting
04 March 2020	Trading Update

Following investor meetings, the full Board receives feedback on the views and concerns of investors and regularly receives copies of investment reports from analysts.

Individual investors

In addition to our focus on institutional investors, we aim to engage with individual and retail investors on a regular basis.

Our AGM gives us the ideal opportunity to meet with individual investors face to face. It is important that all investors have a platform to raise questions or make comments whilst also enabling us to give visibility of, and interaction with, the Board.

All our investors are regularly kept up to date with announcements, circulars, videos and reports, all of which are available on the Company's website.

Nikky Geairns is primarily responsible for shareholder liaison and can be contacted at ngeairns@thedesigngroup.com. Contact details for the Company's PR Advisers, Brokers and Registrars are also set out in the 'Contact' section of the Company's website.

Principle 3:

Take into account wider stakeholder and social responsibilities and their implications for long term success

In addition to our shareholders, all of our stakeholders – our employees, customers, suppliers and communities – are vital to the success of the Group. On page 8 we set out our Section 172 statement as required by the Companies (Miscellaneous Reporting) Regulations 2018 showing how the needs of these important stakeholders are assessed and considered by the Board when making key decisions.

Employees

We invest in our people; from training and education offered throughout the Group, through to opportunities for career progression. The Group offers an environment in which our employees are encouraged to grow and deliver their very best. It is these same opportunities which allow the Group to attract and retain the brightest talent.

Training

All our business units provide relevant and up-to-date training for employees.

The Design Group Academy operating in our Celebrations business in Europe continues to be a powerful tool to train employees in the skills needed for their roles, as well as rolling out key compliance initiatives. The purpose built classroom provides a relaxed and comfortable environment in which employees can focus on their learning away from their usual work stations. In addition, this year has seen the launch of the self-titled Design Group University which invites employees to attend evening sessions, with presentations from external speakers on a variety of inspirational topics. Two events have taken place so far with 40 attendees at each and the feedback has been very positive.

In Australia, HR employees have been reallocated to fully concentrate on training and workers' compensation. In addition to using information already gathered as part of the annual review process regarding training, they are adding in annual training reviews with each business leader as well as compliance obligations. This is a continually developing area with the next step to develop a skills matrix to assist in the training programme.

Talent

Our 'Stars of the Future' programme initially identified 20 'stars' across the Group. The intention is for each person to have a personalised development programme, sponsored by the leader of each business.

In the UK we run a twelve month development programme in conjunction with an external provider for individuals who demonstrate the desire and capability for future promotion. This is a tailored training programme which also includes a dedicated mentor from the senior leadership team and one-to-one coaching.

Engagement

Our business units use a variety of methods to enable effective two-way communication with employees. These range from semi-annual all-employee meetings (with video conference facilities for remote team members) to smaller scale weekly catch ups. Comment boxes and staff surveys are also used and various alternatives in between.

Each location recognises birthdays and service anniversaries. The US holds employee picnics and monthly employee events often linked to key celebrations in that month e.g. Super Bowl and Valentine's day in February. Similar events are held in Australia where teams within the business are tasked with running the special events to ensure that everyone is involved.

In the UK, this year, the business started running a calendar of wellbeing events, including Healthy Eating, Know Your Numbers and Safety During the Festive Season. They supported the Mental Health World campaign and will continue to communicate important wellbeing initiatives across the business to promote a positive work environment.

Furthermore, during the challenges presented by Covid-19, the Group has always prioritised the health and safety of employees. In all locations procedures and communication have been put in place to ensure that our teams observed the necessary social distancing protocols required.

Customers

Through recognising that each of our customers is unique and so requires a different service to satisfy their needs and expectations, we work hard to build deep and lasting relationships with our customers.

An example of this during the year was in America where we engaged with Kroger in creating an 'impulse' programme consisting of pallet displays in prominent store locations with new products which are updated regularly throughout the year. This has been a successful collaboration involving Kroger's buying and product planning team in conjunction with DG America's Sales Lead, Creative Director and Product Development manager. The programme is in 1,448 stores across the US, with a view to potentially growing this to more stores in 2021.

CHAIRMAN'S CORPORATE GOVERNANCE REVIEW
CONTINUED

Principle 3 continued:
Take into account wider stakeholder and social responsibilities and their implications for long term success

Suppliers
We are committed to engaging with our suppliers fairly and lawfully and that we source responsibly. We expect our supply base to do the same.

Our businesses meet with our key suppliers periodically to maintain a regular open dialogue and to share priorities both from the Group's perspective but also those of our suppliers. Our Purchasing Managers have daily interaction with our supplier base covering a variety of topics such as quality, service levels, sourcing of raw materials etc.

This year saw the creation of a new Third Party Due Diligence Policy and accompanying processes to ensure that we are engaging with legally and financially compliant third parties.

Communities
Our businesses throughout the world undertake a variety of local initiatives to support their local communities and national charities. See our social responsibility section on pages 56 and 57 for some examples.

Further detail on how our business model identifies the key resources and relationships on which the business relies can be found on pages 6 and 7.

Principle 4:
Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board 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.

With the recent corporate acquisitions the Group has made, we are cognisant of the challenges that a larger Group faces and we will be reviewing our governance structures over the next year to ensure they remain fit for purpose.

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.

Following the successful roll out of the Code of Business Conduct, Anti-bribery & Corruption policy and Whistleblowing policies to all employees in 2019, attention has turned to the on-boarding of third party suppliers. A new Third Party Due Diligence Policy has been adopted by the Board and is gradually being introduced across the business. It is accompanied by an online on-boarding tool which defines the engagement, reasons for termination, time lines, life cycle, contacts and owners of third parties. Importantly the tool also allows us to screen and continuously monitor third parties for adverse media, sanctions lists, politically exposed persons, beneficial ownership and government watch lists.

Further detail on the principal risks faced by the Group and the mitigating actions taken in respect of those risks can be found on pages 46 to 52.

Principle 5:

Maintain the Board as a well-functioning, balanced team led by the Chair

The Board consists of three Executive Directors and four Non-Executive Directors (including the Chairman). For the biographies of the Board see page 59.

There were no changes to the composition of the Board during the year.

The Board met formally ten times during the 2020 financial year. Lance Burn was absent for two meetings and Elaine Bond was absent for one meeting but otherwise all Directors were present.

The Audit Committee met four times and the Remuneration Committee met three times, all were fully attended.

Independence

Anders Hedlund, who founded our Group, is a Nominee Non-Executive Director. Mr Hedlund is considered not to be 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.

Following a review by the Board, all of the other Non-Executive Directors are considered to be independent.

Principle 6:

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board is kept informed on a regular basis by the Company Secretary about their duties and any update in relation to legal and governance requirements for the Group.

In addition, the Board has access to the Deloitte Academy which gives each Director (Executive and Non-Executive) access to a wide-ranging programme of technical briefings, education, bespoke training and peer-to-peer networking opportunities. This is a useful resource to ensure that they keep abreast of market trends in board governance, legislative reform and keep their skills up to date.

The Board has access to external, specialist advice when necessary. An example of this is when the Remuneration Committee recently appointed Deloitte LLP and MM&K Limited to provide advice on LTIP schemes.

Principle 7:

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

In November 2019 the Remuneration Committee conducted a self-assessment based on an external template which was adapted to incorporate the guidance contained in the QCA Remuneration Committee Guide. Members were asked to rate the performance of the Remuneration Committee based on their own perceptions of the Committee as a whole.

Topics covered were:

- roles and responsibilities;
- terms of reference and planning;
- meetings – content and running of;
- skill set of members; and
- shareholder interaction.

Responses were collated, reviewed and compared with last year's results – no significant concerns were raised.

In February 2020 the Board conducted a self-assessment. The questionnaire was split into ten sections with each section based on the principles set out in the QCA Corporate Governance Code. There was an additional section allowing the Directors to give their thoughts on areas such as the main achievements of the Board over the previous twelve months, and the main strengths and weaknesses of the Board. The results of this review will be discussed later in the year.

CHAIRMAN'S CORPORATE GOVERNANCE REVIEW
CONTINUED

Principle 8:
Promote a corporate culture that is based on ethical values and behaviours

The Board desires to promote a culture of respect, integrity, openness, honesty and fulfilment within each of the businesses in our Group. We believe strongly in these objectives and we endeavour to practise these in the way that we communicate with our customers, suppliers, shareholders, advisers and of course all our teams employed in the Group.

Feedback from all stakeholders in the business, as set out in Principle 3, allows the Board to assess the state of its corporate culture, as well as performance against the Group's internal targets.

The Group Values Statement is as follows:

Our Values

- To strive for excellence in all we do
- To behave ethically and with integrity
- To focus on our customers and to 'go the extra mile'
- To be open to feedback, ideas and to positive change and promote fulfilment and fun
- To be good 'citizens' within our communities and take responsibility for our impact on our planet
- To be innovative and entrepreneurial
- To treat everyone with dignity and respect
- To be a team that succeeds together and aims to be an 'employer of choice'

In recognising the decentralised structure of our international Group, we do not seek to impose strict guidelines around the adoption of a specific corporate culture but instead allow each business to adapt the principles as is most appropriate to them. For example:

In Australia the newly established corporate culture initiative is called #Be EPIC – Ethical, Passionate, Inspiring and Creative. This will be used for the entire employment life cycle from recruitment, performance management to reward and recognition. They are including it in the on-boarding process and have developed videos to promote the key aspects of the programme. The plan further expands this by ensuring staff 'make their mark' on the organisation. Asking staff to assess how they 'made their mark' on the business allows for praise and constructive self reflection and management feedback.

In the UK, the team have developed their '4 Ps' framework: Purpose, Pace, Passion and People. These core principles guide the way they do business and help define what the UK business stands for as the company grows and develops. The '4 Ps' have been incorporated into the behavioural competencies to be factored into the new online team appraisal system.

Our performance management systems and processes are designed to direct and influence behaviours.

We encourage our employees to get involved in local community initiatives – see page 57 for some great examples.

Principle 9:

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

There is a distinct and defined division of responsibilities between the Chairman and the CEO.

The Chairman is primarily responsible for the effective working of the Board in conjunction with management, and the CEO is responsible for the operational management of the business and for the implementation of the strategy agreed by the Board.

The Board is responsible for setting the vision and strategy for the Group, working closely with the executive management team to deliver a successful business model for our shareholders and other stakeholders.

The Group Delegation of Authority policy sets out the matters that are reserved to the Board for approval. These include:

- matters relating to the Company's legal purpose and position and its status as a public listed company;
- changes in governance, strategy and significant changes in internal controls; and
- significant financial or contractual commitments and decisions.

The Board has three committees – Remuneration, Audit and Nomination. Each of these committees comprises the Non-Executive Chairman and our two independent Non-Executive Directors; Elaine Bond and Mark Tentori. Elaine chairs the Remuneration Committee, Mark the Audit Committee, and John Charlton the Nomination Committee.

The Nomination Committee is responsible for filling Board vacancies, reviewing the Board composition and the roles of Board members.

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. Further details about the activities undertaken by the Audit Committee this year can be found on pages 68 to 70.

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. Further details about the activities undertaken by the Remuneration Committee this year can be found on pages 71 to 76.

The Terms of Reference for each committee are reviewed annually and can be found on the Group's website.

The Board keeps all aspects of corporate governance under review, with the governance framework developing further as the Group continues to grow.

Principle 10:

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

During 2020, the Board (itself or via the Board committees) worked hard to strike that essential balance between achieving the Group's short term objectives and longer term growth and development. Key activities included:

- monitoring and review of the financial performance of the Group on an ongoing basis including capital expenditure proposals and significant projects;
- review of the interim and annual results including supplementary papers;
- review of the effectiveness of the Group's internal financial controls, general internal controls and risk management systems;
- monitoring and review of the effectiveness of the Business Assurance function;
- overseeing the relationship with the external auditor;
- approval of the strategy, three year plans and budget;
- review of the Group risk register;
- approval of changes to remuneration for the Chairman, CEO and CEO direct reports;
- approval of 2019-2022 LTIP scheme;
- approval of annual bonus payments and targets for the following financial year;
- assessing and approving the acquisition of CSS; and
- approval of the bank refinancing arrangement.

AUDIT COMMITTEE REPORT

2020 has been an eventful year in light of significant M&A activity, a change in auditor, new accounting standards adopted and operational and financial challenges faced as a result of Covid-19.

Mark Tentori
Chair of the Audit Committee

Dear Shareholder,

On behalf of the Board I am pleased to present the Audit Committee report for the year ending 31 March 2020.

It has been an eventful year as the Group changed auditor, adopted IFRS 16, undertook a transformational acquisition alongside the operational, financial and audit logistical challenges faced as a result of Covid-19.

As with most businesses, Design Group has been affected by the Covid-19 pandemic. While this has not had the severe adverse impact on the Group suffered by many, it has nevertheless brought challenges both operationally and administratively. The Audit Committee has been particularly focused on the impact on year end results preparation and the external audit process, especially as it is the first year in which PricewaterhouseCoopers LLP ('PwC') have undertaken the audit; and I am pleased to say that whilst there have been some challenges in relation to remote working, the year end process has run as well as we could have hoped.

Covid-19 obviously features heavily in our principal risks and uncertainties section on pages 46 to 52, and the Audit Committee has also paid particular attention to risk sensitivities on the Group risk register.

The role of the Audit Committee is to assist the Board in fulfilling its corporate governance responsibilities in relation to the Group's financial reporting, internal control and risk management systems as well as internal and external audit functions. The Committee also provides advice to the Board as to whether the annual report and financial statements taken as a whole are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

The Committee is made up of Non-Executive Directors: me, as the Chair, with Elaine Bond and John Charlton. We regularly invite the CEO and CFO to attend our meetings as well as the external auditor, PwC. Over the year we all met on four occasions.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a chartered accountant, qualifying at PwC and recently retired as Portfolio Partner at Charterhouse Capital Partners LLP.

The main duties of the Committee include:

- providing oversight and challenge to the financial reporting;
- ensuring the Group operates with an appropriate internal controls framework and adopts appropriate risk management systems;
- ensuring the Group has suitable arrangements and policies in place to prevent fraud, bribery and other compliance concerns (and to enable employees to report such matters);
- monitoring and reviewing the effectiveness of the Group's Internal Audit (Business Assurance) function in the context of the Group's overall risk management framework; and
- overseeing the relationship with the external auditor including their appointment, remuneration, terms of engagement, and annual audit plan.

The Terms of Reference set out the duties in more detail and can be found on our website and incorporate the relevant elements of the QCA Corporate Governance Code. This report highlights the key discussions, decisions and actions that have taken place this year.

Mark Tentori
Chair of the Audit Committee

27 July 2020

Key activities and actions over the year:

Financial statements

The Audit Committee reviewed and approved the unaudited interim financial statements for the period ending 30 September 2019 and the full year audited statements for the period ending 31 March 2020. In reviewing the financial statements the Committee considered reports from the Group finance function as well as the external auditor.

As discussed overleaf, an important aspect of the work completed in relation to the year ended 31 March 2020 financial statements has been to consider the various impacts that Covid-19 has had on the Group, including considering asset valuation, increased incremental costs directly associated with the virus and the going concern basis for preparation of the accounts. As such, additional disclosure has been incorporated as required throughout the annual report.

Significant accounting matters

The significant reporting matters and judgements the Committee considered during the year included:

1) The acquisition accounting for CSS under IFRS 3 Business Combinations, which has created intangible assets in relation to the customer relationships, brand name and goodwill.
2) In addition to the CSS acquisition, as part of our year-end processes, the carrying value of all CSS acquisition related intangibles, as well as already existing intangibles and goodwill resulting from previous acquisitions, have been assessed to determine whether there is any impairment. The Committee has concluded, based on appropriate assumptions on future cash flows, discount rates used and long term growth rates, that there is sufficient headroom available resulting in no impairment requirement.
3) The use of alternative performance measures ('APMs') to present adjusted profit alongside its statutory counterpart. This involved the exclusion of costs referred to throughout as 'adjusting items' that are considered by the business to prevent the reader of the financial accounts from obtaining an accurate appreciation of the underlying performance of the business. These included costs that are considered by the Directors to be material and exceptional in nature, share-based payment costs (also known as LTIP costs) and the amortisation of acquisition intangibles.
   The Committee is satisfied that this approach, together with the narrative, gives a clear and balanced view of the Group's underlying performance. In addition, the rationale and explanations behind the use of APMs is clearly disclosed.
4) The adoption of the new accounting standard IFRS 16 Leases. As per the detail on pages 96 to 98 of the accounting policies note, and as has been seen amongst many adopters, this has had a significant impact for the Group. The Committee has reviewed and understood the approach taken in respect of the assessment of the impact of the standard and agree with the decision of the business in respect of the methodology of adoption being 'modified retrospective'.
   As part of the adoption of IFRS 16, the Group's lease accounting policy was reviewed and updated.
5) The restatement and representation of prior year comparatives as detailed in the basis of preparation accounting policy note on pages 94 to 95. The Committee is comfortable that a robust review of the accounts (and methodology where necessary) has been undertaken by the Group finance function, alongside the new auditor, PwC, to ensure that the financial statements are materially accurate.
6) The decision as a Group to change reporting currency from 1 April 2020 from pounds sterling to US dollars. This decision was taken by the Board at the time of the CSS acquisition announcement, in the knowledge that a significant majority of the Group's earnings going forward will be denominated in US dollars. The Committee believes that the presentation currency change will give investors and other stakeholders a clearer understanding of the Group's financial performance over time by reducing the volatility of the Group's earnings to the risk of foreign currency movements and the impact these will have on the translation of earnings in non-US currency.

AUDIT COMMITTEE REPORT
CONTINUED

Key activities and actions over the year continued:

Internal controls

The Committee continually reviews the effectiveness of the Group's internal controls. As a decentralised business, each business unit has its own finance function, which is responsible for managing the processes and procedures, including financial controls and accounting policies within its jurisdiction. Importantly, the Group dictates a set of minimum financial controls that each business unit is expected to adhere to, along with Group accounting policies to which each business unit is aligned to. This forms part of the Group's financial control framework.

Each business unit confirms, with every monthly accounts submission, that they are adhering to this minimum set of controls. Bi-annually a more comprehensive Self-Assessment checklist is required to be completed by each business unit. This provides the Group finance function, and therefore the Committee, with comfort that appropriate financial controls are in place around the Group.

To gain further comfort, the Group operates an internal audit function, which is outsourced to Mazars LLP ('Mazars'). They have undertaken baseline control reviews around each of the business units (with the exception of CSS given its recent addition to the Group), identifying areas of weakness, that subsequently have been addressed with oversight from the Group function.

An additional layer of review is provided by the Group finance function, including detailed balance sheet and working capital reviews for each of the business units annually. The reviews have continued this financial year facilitated through onsite visits by the Group team, including understanding the business units' approach to balance sheet reconciliations as well as a detailed review of the working capital process.

Internal Audit/Business Assurance

This year has seen Mazars revisit our US business to assess progress on baseline controls along with a baseline control review at Impact following the anniversary of the acquisition; Mazars have also undertaken a Business Continuity Planning review around all key manufacturing sites in the Group.

We also commissioned an external firm to undertake a Group-wide cyber security review which has commenced this financial year, starting with the largest part of our business, being the US.

Risk function

The Committee oversees the Group's risk management framework, monitoring and reviewing the risk assessment process and advising the Board on risk exposures. This year the Committee worked with Mazars to identify improvements in the risk processes to ensure they remain robust and adhere to the latest FRC guidance. As a result we have reassessed our processes and the monitoring of risk around the Group. Risk registers have been updated to capture more information on both financial and non-financial impacts of identified risks and the risk framework in which the Group operates has been refined. This is especially important given the significant growth the Group has seen over recent years.

External audit

The Audit Committee announced last year the intention to re-tender the external audit work to ensure the Group is getting the best service and value for money. This process was undertaken ahead of the AGM in September and the formal appointment of PwC as the Group's auditor for this financial year onwards was announced at our AGM. Since then, the Committee and Group finance function have worked closely with PwC. They started their engagement by performing a review of our interim financial statements in November 2019 and provided us with a review opinion in respect of these – the first time the Group has obtained an external opinion at the interim stage. This was an active decision by the Group, especially in light of our seasonal business, to provide us with further comfort in relation to our interim results.

The Committee monitors the Company's relationship with the external auditor to ensure that external independence and objectivity are maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. From the end of this calendar year, the Group will move all non-audit services away from PwC, in line with the Revised Ethical Standards as published by the FRC in 2019 which deems AIM listed companies to be 'Other Entities of Public Interest' and subject to non-audit services restrictions.

The Committee has recommended to the Board that PwC are re-appointed as external auditor for the forthcoming financial year. This will be put to shareholders at the AGM in September.

Update to Group policies

In recognising the growing size and complexity of the Group, the Audit Committee oversaw the update and roll out of a new Group-wide Third Party Due Diligence policy.

The impact of Covid-19 has been significant. Our focus is to ensure we continue to incentivise our management teams appropriately during these challenging times.

Elaine Bond
Chair of Remuneration Committee

Dear Shareholder,

On behalf of the Board I am pleased to present to you the Remuneration Committee's report for the year ended 31 March 2020.

The Committee is chaired by me and the other members are Mark Tentori and John Charlton. We met three times formally during the year, with full attendance by the members.

Part 1: Chair statement

Covid-19

As detailed in the strategic report, the Group has delivered robust results in what was a challenging year. The key financial objectives were profit growth and the associated increase in earnings per share alongside cash generation. The impact of Covid-19 on the Group has resulted in a number of these objectives being missed and as such the Remuneration Committee has worked with the executive team to determine the most appropriate actions to take in relation to executive remuneration. The following decisions have been taken:

Executive Director salary reviews

For 2020, executives have waived their annual salary review. As such, salaries will remain as follows:

- Paul Fineman £400k per annum;
- Giles Willits £325k per annum; and
- Lance Burn £240k per annum.

Annual bonus

The impact of Covid-19 on the business is significant and we can advise that the Executive Directors will not receive their bonus entitlement for the year ended 31 March 2020.

LTIP awards

This year's results result in the 2017-2020 LTIP awards vesting at 76% of the total award.

The Remuneration Committee recognise that it is essential through the challenging times ahead of the Group following Covid-19, particularly in the 2021 financial year, that the executives and wider management teams are suitably incentivised to ensure the Group emerges from this unprecedented situation healthy and ready to continue its growth story.

DIRECTORS' REMUNERATION REPORT CONTINUED

Part 1: Chair statement continued

Covid-19 continued

LTIP awards continued

As such, the Remuneration Committee and management have focused on balancing the remuneration of key individuals toward long term share-based incentives, while reducing cash-based performance rewards.

For LTIP awards due to vest in future years, the Committee is reviewing, with our external advisers, the existing metrics with a view to considering changes to the performance targets. At the time of writing, no decision has been made.

Other key activities of the Committee during the year

- Reviewed the Committee's Terms of Reference
- Undertook a self-evaluation of the Committee. See page 65 for further detail
- Reviewed the Business Expense Policy
- Reviewed training requirements of Committee members
- Approved remuneration section of Company annual report and financial statements

Assistance to the Committee

During the period the Committee received input from the CEO, the CFO and the Company Secretary. In addition, it engaged Deloitte LLP and MM&K Limited to provide remuneration advice.

Payments made to former Directors and payments for loss of office

No payments were made to former Directors during the year and no payments for loss of office were made.

The Committee believes the Group's remuneration strategy, and the structures implementing that strategy, have contributed positively to maintaining the stable and motivated management team of the Group, who have continued to deliver consistently strong performances for shareholders.

Elaine Bond

Chair of Remuneration Committee

27 July 2020

Part 2: Remuneration policy

Executive Directors

The Group's remuneration policy is to ensure that the remuneration of Executive Directors is sufficiently competitive to enable the Group to retain and motivate existing Directors and attract high-quality performers in the future. The Group aims to incentivise and reward its Executive Directors in a way that is consistent with the Group's commercial objectives and to align the interests of the Directors with those of the shareholders. To achieve this, the Executive Directors' total remuneration comprises both fixed remuneration and variable reward, the latter reflecting Group performance. As discussed in part 1 of the remuneration report, our remuneration policy is being revisited in response to the impact of Covid-19 on business performance.

The five main components of the Executive Directors' remuneration packages can be seen in the table below, with a clear link to the Group's business model and strategy:

Reward	Link to business model and strategy	Operation and performance	Maximum opportunity
Base salary	'Working with the winners' extends to our employees – recruiting Executive Directors with the level of skills, talent and experience needed to execute our strategy.	Salaries are based on a number of factors, including: • the skills and experience of the individual; • the size, responsibilities and complexity of the role; • external market data; and • inter-Group comparisons.	Not applicable.
Annual bonus	The annual bonus encourages individuals to actively support and engage with the delivery of the Group strategy, with pay out directly based on Group performance.	The Remuneration Committee sets the performance measures and targets each year. Bonuses are paid in cash once the annual results have been audited and are subject to the approval of the Committee.	The maximum achievable is 120% of base salary.
LTIP	The primary purpose of the LTIP is to reward the individual for delivering the Group strategy and, in turn, increasing shareholder value.	LTIP awards are in the form of shares and are subject to performance conditions.	For the CEO up to 175% of base salary and for the other Executive Directors up to 150% of base salary. Both then have an out performance element of up to 50% of the initial grant.
Pension	To assist in the recruitment strategy by enabling Directors to make long term provisions for their future retirement.	Pensions are provided in line with market practice and relevant statutory requirements.	Up to 15% of base salary for the CEO. Up to 10% of base salary for other Executive Directors.
Other benefits	The provision of additional benefits assists in the Group's recruitment strategy and gives the employee comfort and assistance in carrying out their roles effectively.	Benefits can include: life assurance, private medical insurance and car allowance.	Not applicable.

DIRECTORS' REMUNERATION REPORT CONTINUED

Part 2: Remuneration policy continued

Dilution of share capital by employee share plans

The Company monitors and has complied with dilution limits in its various share scheme rules. The Board retains the flexibility of using Employee Benefit Trusts to buy ordinary shares to mitigate future dilution.

Non-Executive Directors

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

The remuneration of the Non-Executive Directors and of the Chairman is recommended by the Executive Directors and approved by the Remuneration Committee (with no Director being involved in any decision relating to their own remuneration).

Service contracts

The Executive Directors have service contracts which can be terminated by the Company with no greater than one year's notice.

Non-Executive Directors do not have service contracts and their appointments may be terminated without compensation at any time.

All Non-Executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to approval by shareholders.

2021

No additional significant changes to the remuneration policy are envisaged for 2021; however, the Remuneration Committee will continue to regularly review the policy to ensure it remains appropriate to the business, especially in light of Covid-19.

Part 3: Annual report on remuneration

Directors' remuneration[a]

The summary of Directors' remuneration is as follows:

	Aggregate for all Directors		Highest paid Director	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Salary and bonus	**1,223**	1,666	**325**	668
Benefits	**75**	74	**15**	30
Pension contribution	**117**	107	**33**	56
LTIP	**1,514**	1,941	**722**	1,302
Total remuneration	**2,929**	3,788	**1,095**	2,056

The remuneration in respect of the year ended 31 March 2020 to the Directors, by individual, was as follows:

Year ended 31 March 2020	Salary/fees £	Bonus £	Benefits[b] £	Pension £	LTIP[c] £	Total £
Executive Directors						
Lance Burn	240,000	—	15,344	24,000	256,934	536,278
Paul Fineman	400,000	—	28,639	60,000	546,240	1,034,879
Giles Willits	325,000	—	15,015	32,500	711,261	1,083,776
Total Executive	**965,000**	**—**	**58,998**	**116,500**	**1,514,435**	**2,654,933**
Non-Executive Directors						
Elaine Bond	40,996	—	2,388	—	—	43,384
John Charlton	77,766	—	9,206	—	—	86,972
Anders Hedlund	95,665	—	4,416	—	—	100,081
Mark Tentori	43,285	—	—	—	—	43,285
Total Non-Executive	**257,712**	**—**	**16,010**	**—**	**—**	**273,722**
Total Directors	**1,222,712**	**—**	**75,008**	**116,500**	**1,514,435**	**2,928,655**

(a) Audited.
(b) The benefits relate primarily to private health and car benefits.
(c) The value of the LTIP above is calculated by multiplying the number of shares in respect of which the award vested (being 102,101, 132,946 and 48,025 for Paul Fineman, Giles Willits and Lance Burn respectively) by £5.35 (being the three month volume weighted average share price up to 23 July 2020).

The highest paid Director is Giles Willits (2019: Paul Fineman).

The Group operated a Group personal pension plan to which the Group contributed for one Director (2019: one) and provides death in service life assurance to the value of between four and six times pensionable salary.

A credit of £17,000 has been recognised in the income statement in the year relating to Directors in respect of the Long Term Incentive Plan (2019: £1.9 million expense).

The remuneration in respect of the year ended 31 March 2019 to the Directors, by individual, was as follows:

Year ended 31 March 2019	Salary/fees £	Bonus £	Benefits[b] £	Pension £	LTIP[c] £	Total £
Executive Directors						
Lance Burn	231,416	25,000	15,049	23,142	642,112	936,719
Paul Fineman	375,000	292,500	29,549	56,250	1,301,597	2,054,896
Giles Willits	275,000	214,500	14,761	27,500	—	531,761
Total Executive	**881,416**	**532,000**	**59,359**	**106,892**	**1,943,709**	**3,523,376**
Non-Executive Directors						
Elaine Bond	40,192	—	2,311	—	—	42,503
John Charlton	76,242	—	8,345	—	—	84,587
Anders Hedlund	93,790	—	3,974	—	—	97,764
Mark Tentori	42,303	—	—	—	—	42,303
Total Non-Executive	**252,527**	**—**	**14,630**	**—**	**—**	**267,157**
Total Directors	**1,133,943**	**532,000**	**73,989**	**106,892**	**1,943,709**	**3,790,533**

(a) Audited.
(b) The benefits relate primarily to private health and car benefits.
(c) The value of the LTIP above is calculated by multiplying the number of shares in respect of which the award vested (being 226,791 and 111,882 for Paul Fineman and Lance Burn respectively) by £5.73 (being the three month volume weighted average share price up to 5 June 2019).

Long Term Incentive Plan[a]

Share options held by Executive Directors who served during the year are as follows:

	LTIP vested 2015-2018	LTIP vested 2016-2019	LTIP vested[b] 2017-2020	LTIP not yet vested[c] 2018-2021	LTIP not yet vested[c] 2019-2022
Lance Burn	76,641	111,882	48,025	109,819	90,991
Paul Fineman	312,916	226,791	102,101	207,611	176,923
Giles Willits	—	—	132,946	130,501	123,215

(a) Audited.
(b) 76% of the initial award plus dividend shares will formally vest on 23 July 2020 following the Remuneration and Audit Committees' approval of the results for the year ended 31 March 2020.
(c) The unvested scheme amounts include current accrued dividend shares.

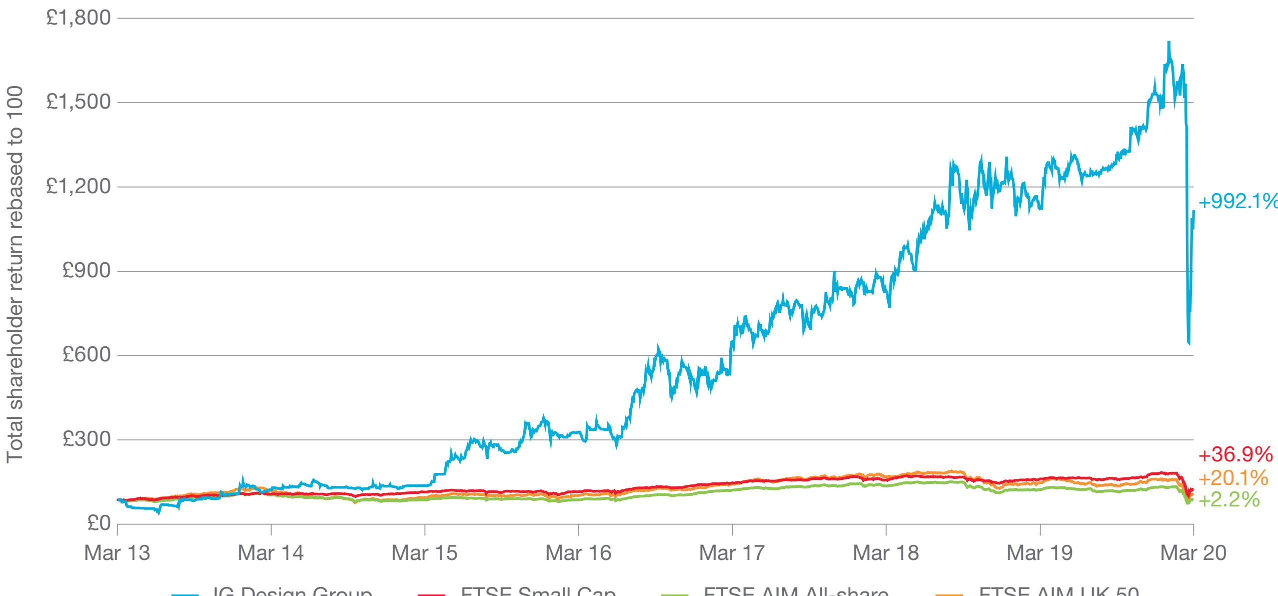
Lance Burn exercised 250,000 share options during the year, no other Directors exercised any options during the year. For further details including performance conditions see note 23.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Part 3: Annual report on remuneration continued

Cumulative total shareholder return (dividend reinvested) vs. selected indices

The graph below shows the percentage change in total shareholder return for the last seven years compared to the FTSE Small Cap, FTSE AIM All-share and the FTSE AIM UK 50.



DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report for the year ended 31 March 2020.

Directors

The Directors of the Company during the period under review, and subsequently to the date of this report, were:

- Elaine Bond
- Lance Burn
- John Charlton
- Paul Fineman
- Anders Hedlund
- Mark Tentori
- Giles Willits

Results and dividends

Results for the year ended 31 March 2020 are set out in the consolidated income statement on page 88. The Directors are recommending a final dividend of 5.75p per share which, if approved at the AGM, will result in a full year dividend of 8.75p per share for 2020.

Articles of association

A copy of the full articles of association are available on request from the Company Secretary and are also available on the Group's website **www.thedesigngroup.com**. Any amendments to the articles of association can only be made by a special resolution of the shareholders.

Share capital and substantial shareholders

Details of the issued share capital, together with details of the movements during the year, are shown in note 20 to the consolidated financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each ordinary 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 of share-based payments are set out in note 23 to the financial statements and the Directors' remuneration report. No person has any special rights or control over the Company's share capital and all issued shares are fully paid.

At 31 March 2020, the Company has been notified of the following substantial shareholders of the issued ordinary share capital of the Company:

	% of issued share capital
Hedlund Family[(a)]	23.94%
Liontrust Investments	9.86%
Octopus Investments	8.95%
Blackrock Investments	4.71%
Polar Capital	3.85%
Close Brothers AM	2.86%
Paul E Fineman[(b)]	2.46%
Schroder Investment Mgt	2.19%

(a) In addition to the Hedlund family's beneficial interest set out above the Hedlund Family is also interested in a further 900,790 ordinary shares, representing a further 0.93% 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. In total the Hedlund family is interested in 22,818,994 ordinary shares, representing 23.68% of the current issued share capital of Company.

(b) This includes a non-beneficial interest in 174,608 ordinary shares at 5p each.

Acquisition of the Company's own shares

At the AGM held on 11 September 2019, the Company was authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of up to 7,887,347 ordinary shares (being approximately 10% of the share capital) on such terms and in such manner as the Directors of the Company may from time to time determine.

This authority was not used during the year or up to the date of this report. Shareholders will be asked to renew these authorities at the AGM as detailed in the next AGM notice.

Directors' indemnities and Directors' and officers' liability insurance

The Company has purchased Directors' and officers' liability insurance during the year as allowed by the Company's articles.

Financial risk management

Details of the Directors' assessment of the principal risks and uncertainties which could impact the business are outlined in the principal risks and uncertainties section on pages 46 to 52. The Board manages internal risk through the ongoing review of the Group's risk register and the Board manages external risk through monitoring of the economic and regulatory environment and market conditions.

DIRECTORS' REPORT
CONTINUED

Brexit
The Group continues to keep the potential implications of Brexit for the Group under review. The risk associated with Brexit is relatively limited for the Group as it is mainly applicable to our UK business which represents less than 20% of the Group.

Going concern
The Directors continue to adopt the going concern basis in preparing the annual report and financial statements. Further details are set out in note 1 to the consolidated financial statements and page 44 of the executive review.

Post balance sheet events
See note 29 for details.

Political donations
No political donations were made during the period under review.

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.

Stakeholder engagement
Please refer to the Section 172 (1) statement on pages 8 and 9.

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

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

Interest in ordinary shares at the end of the year	2020	2019
Elaine Bond	**19,301**	19,301
Lance Burn	**—**	—
John Charlton[(a)]	**299,616**	619,616
Paul Fineman[(b)]	**2,369,334**	2,369,334
Anders Hedlund[(c)]	**488**	488
Mark Tentori	**11,111**	11,111
Giles Willits	**93,573**	93,573

In addition to the above holdings:
(a) 37,500 (2019: 37,500) shares are held by the wife of John Charlton.
(b) Paul Fineman owns a non-beneficial interest in 174,608 (2019: 174,608) ordinary shares of 5p each.
(c) 16,642,640 (2019: 16,642,640) and 5,275,116 (2019: 5,275,116) ordinary shares of 5p each are respectively registered in the name of AV 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 900,790 ordinary shares. These ordinary shares are held by West Coast Trust, a trust for the benefit of Anders Hedlund's adult children. In total the Hedlund family has interests in 22,818,994 ordinary shares, representing 23.68% of the current issued share capital of Company.

Disclosure of information to the auditor
In the case of each Director in office at the date the Directors' report is approved, the following applies:

- the Director knows of no information, which would be relevant to the auditor for the purpose of their audit report, of which the auditor is not aware; and
- the Director has taken all steps that he/she ought to have taken as a Director to make him/herself aware of any such information and to establish that the auditor is aware of it.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditor of the Group will be put to the Annual General Meeting.

Approval of the strategic report and Directors' report
The strategic report and Directors' report were approved by the Board on 27 July 2020.

Environmental reporting

During 2020 we reviewed the UK businesses' total energy use and associated greenhouse gas emissions in accordance with the government's guidance on streamlined energy and carbon reporting. The result of this review, focusing on the combustion of gas, the consumption of fuel for transport, and electricity use were:

Fiscal year (April 2019-March 2020)

CO_2 emissions by source

Source	Consumption	Tonnes CO_2e
Electricity	7,418,165 kWh	1,909.76
Gas	8,031,757 kWh	1,476.64
Heating oil	5,600 litres	1.44
LPG	8,019 kg	25.91
Company vehicles		167.52
Total		**3,581.27**

Energy intensity ratio:

$$\frac{\text{Total tonnes } CO_2e}{\text{(1) million (£) annual turnover}} = 29.844$$

Methodology: The CO_2(e) emissions were calculated using available energy and mileage data collected for our Climate Change Agreement ('CCA') and Energy Savings Opportunities Scheme ('ESOS') reporting purposes and converted using current factors published by the Department for Business, Energy and Industrial Strategy.

In addition we looked at ways in which we can become more energy efficient and have taken the following actions:

- added electric charging points to Design Group UK locations;
- procured more energy efficient machinery;
- changed light fittings to low energy use LED;
- ESOS activities e.g. buying more energy efficient machinery and ensuring external roller doors such as loading bays are working efficiently to save heat/energy loss;
- moved to using electric/hybrid vehicles where possible;
- reduced waste to landfill activities e.g. waste segregation and analysis; awareness feedback to all relevant persons; recycling and use of recycled materials where possible; and
- general internal waste reduction activities.

Joy Laws

Company Secretary

27 July 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IG DESIGN GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- IG Design Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall Group materiality: £1.8 million, based on auditor judgement with reference to key financial metrics.
- Overall Company materiality: £2.4 million, based on 1% of net assets.

Audit scope

- Full scope audit of the financial information of eight components, and specified procedures over certain balances within four components.
- Specified procedures audit over the acquisition balance sheet of CSS Industries, Inc.
- Audit coverage over 95% of revenue and 97% of net assets.

Key audit matters

- Classification and presentation of adjusting items (Group)
- Acquisition accounting for CSS (Group)
- Impact of Covid-19 (Group and Company)

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF IG DESIGN GROUP PLC

Report on the audit of the financial statements continued

Our audit approach continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Classification and presentation of adjusting items (Group) Refer to the Accounting policies in note 1, and disclosure in note 3 of the Consolidated financial statements. During the year, £28.8 million (2019: £12.9 million) of adjusting items have been recorded in arriving at management's alternative performance measure "APM" for operating profit. The Group no longer includes these items on the face of the Consolidated Income Statement, but presents them in note 3 to the financial statements reconciling the APM to statutory profit. The Group's accounting policy is to present separately, as adjusting items, income and expenses where such disclosure is considered by management to be useful to the users of the financial statements in helping them understand the underlying business performance. Adjusting items are not defined by IFRS and therefore judgement is required in determining the application of such classification, and certain items have also required management estimation. Such judgement and estimation may be susceptible to management bias.	We challenged the overall quantum of adjusting items and the inclusion of certain costs and assessed the appropriateness of their presentation by reference to the Group's accounting policies and FRC guidance in this area. We challenged the transparency of the associated disclosures to ensure that the nature of the adjustments were clearly described, particularly those adjusting items where estimates have been involved for example in calculating operational inefficiencies. The audit procedures performed were as follows: **Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses** • We traced a sample of acquisition transaction costs to supporting invoices. • We agreed the sale price for the Shaoxing, China subsidiary to the legal sale agreement, agreed sale proceeds to bank statements and recomputed the loss on sale. **Acquisition integration and restructuring costs** • We traced a sample of severance costs to the agreement reached with the employees. • We traced a sample of incremental temporary warehousing costs and outsourcing costs to invoice. • We traced a sample of customer penalties for late delivery to correspondence with the customer and invoice or settlement where this was received. • Management's calculation of operational inefficiencies arising was performed with reference to the last period of manufacturing that they consider was unaffected by the merger of the US operations and therefore "normalised"; this was the year to 31 March 2018. We recomputed the incremental costs with reference to the 31 March 2018 actual cost per unit of manufacture, volume reports, and current year audited labour costs. **Covid-19 related impairment of assets and adjusting costs** In relation to impairment of assets: • We understood management's assessment of specific inventory provisions, accounts receivable expected credit losses and fixed asset impairment and challenged the rationale that attributed these costs to the impact of Covid-19. • We have audited the additional impairment provisions using a combination of reviewing post year end sales and cash collections, obtaining evidence of customer communications, reviewing customer credit rating reports and external financial information, and validating the basis and assessing the accuracy of management's estimates. • We assessed management's analysis of provisions that were triggered due to Covid-19 and those that were recorded as part of underlying operations.

Key audit matter	How our audit addressed the key audit matter
Classification and presentation of adjusting items (Group) continued	**US tariffs** • We challenged management's inclusion of US tariffs costs as tariffs themselves are not a non-recurring cost and also the absence of other reporters adjusting for this item. We ensured the management's rationale for their inclusion as adjusting items was properly disclosed. • We traced a sample of tariff costs to invoice and payments made. **Acquisition amortisation** • We recomputed the amortisation expense with reference to the gross value and the useful economic life. **LTIP charges** • We tested the value of share options awarded in the year. • We assessed assumptions taken by management regarding the likelihood of open share option schemes vesting. **Overall** We have tested the underlying calculations and sample tested the individual amounts to supporting documentation; we have also ensured that the adjusted profit APMs are not given undue prominence in the discussion of financial results in the Executive Review and that the disclosures provided clearly allow users of the accounts to understand the nature of the adjustments and the basis of the estimates and judgements applied.
Acquisition accounting for CSS (Group) Refer to the Accounting policies in note 1, and disclosure in note 28 of the Consolidated financial statements. On 3 March 2020 the Group acquired the entire share capital of CSS Industries, Inc. ("CSS") for consideration of £95.9 million. In determining the fair value of assets and liabilities acquired, the Group recognised significant adjustments to CSS's previously audited balance sheet and subsequent book values at the date of acquisition. Given the magnitude of the acquisition in the context of the Group, the significant adjustments made to determine the fair value of the assets acquired, and the inherent judgement involved in calculating the provisional fair value of assets and liabilities acquired, this was considered to be a significant audit risk.	We performed the following audit procedures in order to gain comfort over the existence, completeness, and valuation of the assets and liabilities acquired: • We read the legal agreement ('Agreement and Plan of Merger') in order to understand the nature of the transaction and ensure that relevant clauses that impact the acquisition accounting had been addressed by the Directors; • Agreed book values to the CSS general ledger at acquisition date; • Performed a reconciliation between the most recent publicly filed financial information for CSS (31 December 2019) and the acquisition date and understood movements, and audited the material adjustment that were included in the closing balance sheet at the acquisition date; • Engaged our valuation specialists to audit the purchase price allocation ('PPA') work performed by management's expert to gain comfort over the completeness and valuation of intangible assets by assessing the methodology in the valuation model, auditing the discount rate and contributory asset charges, and evaluating the reasonableness of the underlying cash flows in the discounted cash flow model; • Engaged our property valuation specialists to review the methodologies adopted and key assumptions utilised by management's expert in the valuation of freehold land and buildings; and confirmed completeness and existence of inventory through attendance at physical inventory counts and assessed management's judgements used in the inventory fair value calculation by recalculating provision models and sample testing of data underpinning the model. We also assessed the inventory step up adjustment and determined it was materially reasonable when considering the stage of completion of work in progress and the assessment of net realisable value of that specific inventory; • Audited the other provisional fair value adjustments made, which included tracing amounts to supporting evidence such as contractual agreements, invoices and other supporting documentation; assessment of management's judgements; and recalculation of provisioning models; • We also reviewed the accounting policies of CSS compared to the Group to assess if any accounting policy alignment adjustments were required. We consider that the provisional fair value of assets and liabilities acquired, and the resulting valuation of goodwill, are materially appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF IG DESIGN GROUP PLC

Report on the audit of the financial statements continued
Our audit approach continued
Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Impact of Covid-19 (Group and Company) Refer to the Accounting policies in note 1 to the Consolidated financial statements and disclosure in the Executive Review of the annual report. At the balance sheet date, and subsequently, the impact of Covid-19 on the UK and Global economy has been significant. As a global manufacturer of consumer products for sale into retail outlets, the Group is inherently impacted by this. The Group's forecasts used for going concern and impairment purposes therefore need to be considered in light of the uncertainty which is created by the impact of Covid-19. In particular possible downside scenarios and mitigating actions must be modelled in order to identify the potential going concern risk based on forecast cash flows and covenant compliance. Management has concluded that the Group remains a going concern and that there is no material uncertainty in respect of this conclusion. In addition, the Group has identified specific asset impairment provisions in respect of accounts receivable, inventory and fixed assets. See adjusting items key audit matter above for further details on those items.	We have performed the following procedures in order to assess the Group's response to the uncertainty created by Covid-19: • evaluated management's future cash flow forecasts based on comparison to prior year results, actual results in FY21 to date, current order book for FY21 external market information, and historical forecasting accuracy; • assessed the appropriateness of management's downside sensitivities and performed additional independent sensitivity analysis focused on FY21 forecast sales which have not been confirmed through customer orders, and assessing the timing of cash flows impacting net debt at quarterly covenant test dates; • assessed management's stress testing of the forecast (their non plausible scenario) and considered if this was plausible; • reviewed the possible mitigating actions identified by management and assessed whether they are reasonable; • verified the mathematical accuracy of the going concern forecasts and impairment models; • considered liquidity headroom and covenant compliance on the banking facilities on base and sensitised scenarios. We considered the adjusting items in the adjusted leverage covenant definition, and circularised the bank to confirm the ongoing availability of facilities; • audited other assumptions used in the goodwill impairment model including underlying cash flows, long term growth rates and discount rates; • considered the carrying value of other assets including the provisions made in relation to inventory and debtors; • evaluated management's assessment of other accounting estimates which have not been adjusted due to Covid-19; and • considered the appropriateness of management's disclosure of the impact of the pandemic on the trading environment and future plans. We concluded that the disclosures provided in relation to Covid-19 are appropriate. Our conclusions regarding going concern are set out later in this report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured into a number of reporting entities, including one for each trading subsidiary, holding companies and consolidation entities. We defined a component to be an individual reporting entity for which management prepares financial information.

We identified two financially significant components, being DG USA and Impact USA based on their contribution to the Group's revenue for the year. A full scope audit was performed over each of these, as well as over the Parent Company and other larger trading components, giving a total of eight entities subject to full scope audit of their financial information. Based on judgement and discussions with the Audit Committee, we also performed specified procedures over certain balances at a further four components. A further 16 consolidation reporting packs were subject to audit at the Group level, and the remaining unaudited entities were subject to a desktop review. We also performed specified audit procedures on the acquisition balance sheet of CSS Industries Inc.

Certain balances were subject to testing at the Group level, including goodwill, external borrowings, and Directors' emoluments.

The approach outlined above provides audit coverage over 95% revenue, 97% net assets and 72% of profit before tax, calculated on an absolute basis. Including specified audit procedures over other transactions within the Statement of comprehensive income, this provided a further contribution of 25% coverage of the Group's absolute profit before tax.

All audit work was performed by PwC group and network firm component team auditors. The overseas component audit teams worked under instruction of the group engagement team and were in regular contact with the group engagement team throughout the audit cycle from planning to completion. In particular, the component auditors for the financially significant components held calls at least weekly throughout the year end audit period and were subject to a working paper review. Site visits had been planned to the USA for the group engagement partner to meet the audit teams and management, however due to Covid-19 this was unable to take place and was replaced by increased remote involvement in their work including video conferencing.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£1.8 million.	£2.4 million.
How we determined it	Auditor judgement using a number of financial metrics.	1% of net assets.
Rationale for benchmark applied	Due to the acquisition of CSS in the final month of the year, the impact of Covid-19, and the resulting small statutory profit before tax for the year, we considered a range of benchmarks in assessing materiality. Using our professional judgement and with reference to a number of different data points, we concluded that an overall materiality level of £1.8 million was appropriate. This represents 0.4% revenue and 0.6% net assets.	We believe that net assets is the primary measure used by the shareholders in assessing the performance of the entity given it is a holding company for the Group. Where balances were in scope for the Group audit, an allocated materiality of £400,000 was applied.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £15,000 and £1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £90,000 (Group and Company audits) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF IG DESIGN GROUP PLC

Report on the audit of the financial statements continued

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, in respect of the annual report and financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Owen Mackney
(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors London

27 July 2020

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 MARCH 2020

	Note	2020 £000	2019 £000
Revenue	2	**494,234**	448,362
Cost of sales		**(419,131)**	(365,533)
Gross profit		**75,103**	82,829
Selling expenses		**(26,523)**	(23,095)
Administration expenses		**(46,409)**	(40,590)
Other operating income	5	**735**	620
Profit/(loss) on disposal of property, plant and equipment		**188**	(6)
Profit on disposal of subsidiary	28	**1,486**	—
Operating profit	3	**4,580**	19,758
Finance expenses	6	**(4,317)**	(2,476)
Profit before tax		**263**	17,282
Income tax credit/(charge)	7	**14,547**	(4,031)
Profit for the year		**14,810**	13,251
Attributable to:			
Owners of the Parent Company		**14,060**	11,925
Non-controlling interests		**750**	1,326

Earnings per ordinary share

	Note	2020	2019
Basic	21	**17.0p**	16.2p
Diluted	21	**16.9p**	15.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2020

	2020 £000	2019 £000
Profit for the year	**14,810**	13,251
Other comprehensive income:		
Exchange difference on translation of foreign operations (net of tax)	**5,450**	240
Recycling translation reserves on disposal of subsidiary	**34**	—
Transfer to profit and loss on maturing cash flow hedges (net of tax)	**(377)**	(232)
Net unrealised gain on cash flow hedges (net of tax)	**517**	377
Other comprehensive income for the year, net of tax items which may be reclassified to profit and loss in subsequent periods	**5,624**	385
Total comprehensive income for the year, net of tax	**20,434**	13,636
Attributable to:		
Owners of the Parent Company	**19,976**	12,372
Non-controlling interests	**458**	1,264
	20,434	13,636

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2020

	Attributable to the owners of the Parent Company								
	Share capital £000	Share premium and capital redemption reserve £000	Merger reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Shareholders' equity £000	Non-controlling interests £000	Total £000
At 1 April 2018	3,194	9,815	17,164	(27)	1,305	65,404	96,855	3,661	100,516
Profit for the year	—	—	—	—	—	11,925	11,925	1,326	13,251
Other comprehensive income	—	—	—	145	302	—	447	(62)	385
Total comprehensive income for the year	—	—	—	145	302	11,925	12,372	1,264	13,636
Transactions with owners in their capacity as owners									
Equity-settled share-based payments (note 23)	—	—	—	—	—	2,333	2,333	—	2,333
Tax on equity-settled share-based payments (note 11)	—	—	—	—	—	764	764	—	764
Recognition of non-controlling interests (note 27)	—	—	—	—	—	—	—	311	311
Disposal of non-controlling interests (note 28)	—	—	—	—	—	—	—	(110)	(110)
Shares issued (restated) (note 20)	641	47,830	15,235	—	—	—	63,706	—	63,706
Options exercised (note 20)	83	18	—	—	—	(72)	29	—	29
Equity dividends paid (note 22)	—	—	—	—	—	(4,553)	(4,553)	(1,075)	(5,628)
At 31 March 2019 (restated)	3,918	57,663	32,399	118	1,607	75,801	171,506	4,051	175,557
Impact of adopting IFRS 16 (note 10)	—	—	—	—	—	(1,867)	(1,867)	(440)	(2,307)
Restated equity at 1 April 2019	3,918	57,663	32,399	118	1,607	73,934	169,639	3,611	173,250

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED
YEAR ENDED 31 MARCH 2020

	Attributable to the owners of the Parent Company								
	Share capital £000	Share premium and capital redemption reserve £000	Merger reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Shareholders' equity £000	Non-controlling interests £000	Total £000
At 31 March 2019 (restated)	3,918	57,663	32,399	118	1,607	75,801	171,506	4,051	175,557
Impact of adopting IFRS 16 (note 10)	—	—	—	—	—	(1,867)	(1,867)	(440)	(2,307)
Restated equity at 1 April 2019	3,918	57,663	32,399	118	1,607	73,934	169,639	3,611	173,250
Profit for the year	—	—	—	—	—	14,060	14,060	750	14,810
Other comprehensive income	—	—	—	140	5,776	—	5,916	(292)	5,624
Total comprehensive income for the year	—	—	—	140	5,776	14,060	19,976	458	20,434
Transactions with owners in their capacity as owners									
Equity-settled share-based payments (note 23)	—	—	—	—	—	(231)	(231)	—	(231)
Tax on equity-settled share-based payments (note 11)	—	—	—	—	—	171	171	—	171
Derecognition of non-controlling interests (note 27)	—	—	—	—	—	—	—	(325)	(325)
Shares issued (note 20)	864	116,060	—	—	—	—	116,924	—	116,924
Options exercised (note 20)	36	—	—	—	—	(36)	—	—	—
Equity dividends paid (note 22)	—	—	—	—	—	(7,104)	(7,104)	—	(7,104)
At 31 March 2020	4,818	173,723	32,399	258	7,383	80,794	299,375	3,744	303,119

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 during the year.

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 2020

	Note	2020 £000	Restated[a] 2019 £000	Restated[a] 2018 £000
Non-current assets				
Property, plant and equipment	8	**74,695**	39,835	35,499
Intangible assets	9	**113,309**	85,002	36,547
Right-of-use assets	10	**66,728**	—	—
Long term assets	13	**5,019**	—	—
Deferred tax assets	11	**14,624**	3,610	2,663
Total non-current assets		**274,375**	128,447	74,709
Current assets				
Inventory	12	**114,445**	69,571	49,311
Trade and other receivables	13	**88,748**	49,724	42,386
Income tax receivable		**14,820**	—	—
Derivative financial assets	24	**332**	129	113
Cash and cash equivalents	14	**67,098**	85,315	42,196
Total current assets		**285,443**	204,739	134,006
Total assets	2	**559,818**	333,186	208,715
Equity				
Share capital	20	**4,818**	3,918	3,194
Share premium		**172,383**	56,323	8,475
Capital redemption reserve		**1,340**	1,340	1,340
Merger reserve		**32,399**	32,399	17,164
Hedging reserve		**258**	118	(27)
Translation reserve		**7,383**	1,607	1,305
Retained earnings		**80,794**	75,801	65,404
Equity attributable to owners of the Parent Company		**299,375**	171,506	96,855
Non-controlling interests		**3,744**	4,051	3,661
Total equity		**303,119**	175,557	100,516

CONSOLIDATED BALANCE SHEET CONTINUED
AS AT 31 MARCH 2020

	Note	2020 £000	Restated[a] 2019 £000	Restated[a] 2018 £000
Non-current liabilities				
Loans and borrowings	15	**(177)**	1,421	3,781
Lease liabilities	10	**63,241**	—	—
Deferred income	16	**452**	751	998
Provisions	17	**4,163**	2,671	894
Other financial liabilities	18	**5,471**	1,817	1,440
Deferred tax liabilities	11	**1,059**	692	373
Total non-current liabilities		**74,209**	7,352	7,486
Current liabilities				
Bank overdraft	14	**25,004**	65,857	33,165
Loans and borrowings	15	**(2)**	953	894
Lease liabilities	10	**13,705**	—	—
Deferred income	16	**131**	99	99
Provisions	17	**2,191**	1,090	429
Income tax payable		**4,399**	4,771	3,364
Trade and other payables	19	**98,357**	58,563	38,757
Other financial liabilities	18	**38,705**	18,944	24,005
Total current liabilities		**182,490**	150,277	100,713
Total liabilities	2	**256,699**	157,629	108,199
Total equity and liabilities		**559,818**	333,186	208,715

(a) The balance sheets for the years ended 31 March 2018 and 2019 have been restated to present cash balances and overdraft financial liabilities gross, along with customer programme provisions within trade and other payables (previously netted within trade and other receivables). See note 1 for more information.

The consolidated financial statements on pages 88 to 141 were approved by the Board of Directors on 27 July 2020 and were signed on its behalf by:

Paul Fineman
Director

Giles Willits
Director

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2020

	Note	2020 £000	Restated[a] 2019 £000
Cash flows from operating activities			
Profit for the year		**14,810**	13,251
Adjustments for:			
Depreciation and impairment	8	**6,994**	5,328
Depreciation of right-of-use assets	10	**7,014**	—
Amortisation of intangible assets	9	**3,796**	2,309
Finance expenses	6	**4,317**	2,476
Income tax (credit)/charge	7	**(14,547)**	4,031
Profit on disposal of subsidiary	28	**(1,486)**	—
Profit on disposal of property, plant and equipment		**(188)**	(6)
Loss on disposal of intangible fixed assets		**1**	331
Equity-settled share-based payments	23	**(202)**	3,005
Operating profit after adjustments for non-cash items		**20,509**	30,725
Change in trade and other receivables		**629**	25,616
Change in inventory		**705**	6,508
Change in trade and other payables, provisions and deferred income		**5,913**	(18,086)
Cash generated from operations		**27,756**	44,763
Tax paid		**(4,749)**	(3,694)
Interest and similar charges paid		**(3,996)**	(2,053)
Net cash inflow from operating activities		**19,011**	39,016
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		**595**	5,312
Acquisition of businesses (net of cash acquired)	28	**(87,696)**	(65,601)
Acquisition of intangible assets	9	**(2,997)**	(2,190)
Acquisition of property, plant and equipment	8	**(8,133)**	(5,699)
Net cash outflow from investing activities		**(98,231)**	(68,178)
Cash flows from financing activities			
Proceeds from issue of share capital	20	**116,924**	48,348
Repayment of secured borrowings	14	**(1,505)**	(2,350)
Net movement in previous credit facilities		**37,976**	—
Repayment of previous credit facilities		**(37,976)**	—
Payment of lease liabilities		**(6,622)**	—
Loan arrangement fees	14	**(1,234)**	(30)
Equity dividends paid	22	**(7,104)**	(4,553)
Dividends paid to non-controlling interests		**—**	(1,075)
Net cash inflow from financing activities		**100,459**	40,340
Net increase in cash and cash equivalents		**21,239**	11,178
Cash and cash equivalents at beginning of the year	14	**19,458**	9,031
Effect of exchange rate fluctuations on cash held		**1,397**	(751)
Cash and cash equivalents at end of the year	14	**42,094**	19,458

(a) The cash flow for the year ended 31 March 2019 has been restated in line with the restatements made within the balance sheet as described above. See note 1 for more information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

1 Accounting policies

a. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and interpretations issued by the IFRS Interpretations Committee and with the Companies Act 2006, as applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union. The Company has elected to prepare its individual Company financial statements in accordance with Financial Reporting Standard 102 ('FRS 102'); these are presented on pages 142 to 156.

The financial statements are prepared under the historical cost convention except for derivatives which are stated at fair value and retirement benefit obligations which are valued in accordance with IAS 19 Employee Benefits.

The preparation of financial statements that conform with adopted IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

For the purposes of these financial statements, 'Design Group' or 'the Group' means IG Design Group plc ('the Company') and its subsidiaries. The Company's ordinary shares are listed on the Alternative Investment Market ('AIM').

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 and future periods if relevant.

The accounting policies used in the preparation of these financial statements are detailed below. These policies have been consistently applied to all periods presented.

In the preparation of these financial statements, comparative amounts have been restated to reflect the following:

- the shares issued in the year ended 31 March 2019 as consideration for the acquisition of Impact qualified for merger relief in accordance with the Companies Act 2006 (Section 612). Accordingly, for the year ended 31 March 2019, the Group has restated £15.2 million from the share premium reserve to the merger reserve. This has no overall impact on the total equity and reserves for the Group;
- the provisional Impact Innovations Inc. ('Impact') acquisition accounting (note 28) has been reviewed and hindsight adjustments made to goodwill (£2.0 million increase), intangibles (£0.7 million decrease) and provisions (£1.3 million increase). These have been adjusted in the comparative balance sheet;
- trade and other receivable balances have historically included amounts provided against customer programmes including sell-through programmes presenting trade receivables on a net basis in the Group's consolidated balance sheet. These have been updated to restate the prior year balance sheet to present these balances on a gross basis within trade and other payables. Trade and other receivables have been restated from £45.5 million to £49.7 million as at 31 March 2019. The corresponding adjustment has also been made in trade and other payables;
- cash balances and overdraft financial liabilities have been historically incorrectly offset within the Group's financial statements and presented on a net basis within the Group's consolidated balance sheet. This has been updated to restate the prior year balance sheet to present the respective balances on a gross basis. Cash and cash equivalents have been restated from £19.5 million to £85.3 million as at 31 March 2019. Additional detail within the balance sheet shows the bank overdraft amounts as at 31 March 2019 (£65.9 million); and
- previously, segmental assets and liabilities were incorrectly presented within the segmental information note (note 2). In order to correct this, the respective segmental assets and liabilities have been updated to reflect reallocations from the UK segment to the central and eliminations segment, and similarly, from the Australia segment to the US segment to reflect the correct allocation of assets and liabilities between the Group segments. In addition, segments have been restated to appropriately reflect investments held by each segment as well as the gross up of cash balances detailed above.

The restated segment assets as at 31 March 2019 are as follows:

Segment	Original balance £000	Restated balance £000
UK	188,766	100,079
Europe	19,240	36,738
USA	36,306	117,144
Australia	13,776	17,198
Central & eliminations	3,610	62,027
Total	261,698	333,186

The restated segment liabilities as at 31 March 2019 are as follows:

Segment	Original balance £000	Restated balance £000
UK	(28,295)	(34,366)
Europe	(10,457)	(20,136)
USA	(35,931)	(88,382)
Australia	(7,396)	(8,284)
Central & eliminations	(4,062)	(6,461)
Total	(86,141)	(157,629)

In addition, a number of disclosure notes have been re-presented to reflect corrected presentation and categorisation. These include:

- operating lease minimum payments as disclosed in note 3 were disclosed in the prior year incorrectly. The prior year disclosure has been updated for the purposes of these financial statements;
- in the previous financial statements, assets which had been acquired following the acquisition of The Lang Companies Inc. had been disposed of using the historic cost and accumulated depreciation rather than the revised cost and accumulated depreciation post-acquisition. As such, the brought forward cost and accumulated depreciation have been restated to reflect the corrected position. The net book value of these assets remains unchanged;
- in the year, software previously categorised as fixtures and fittings has been reclassified to intangibles;
- the categorisation of deferred tax balances has been re-presented for the purposes of brought forward balances in these financial statements. The overall net deferred tax balances presented in the balance sheet are not impacted by this re-presentation; and
- from this financial year, the Group has adjusted the assumptions as to the shares that are to be included in the calculation of the weighted average number of shares for diluted and basic earnings per share purposes. As such, the numbers detailed in respect of 2019 have been re-presented using the same methodology in order to provide appropriate comparatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies continued

a. Basis of preparation continued

Going concern

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Chief Financial Officer's review on pages 42 and 44. Note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are detailed in notes 14 and 15.

On 5 June 2019, to meet the funding requirements of the Group, the business refinanced with a banking group comprising HSBC, NatWest, BNP Paribas, Sun Trust and PNC Bank as part of a three year deal. This facility was then subsequently amended and extended on 17 January 2020 with the same banking group to accommodate the acquisition of CSS Industries Inc. The facilities run to May 2022 and comprise of a revolving credit facility ('RCF') of $95.0 million, a further flexible RCF of up to £130.0 million to meet the Group's working capital requirements during peak manufacturing, and a maximum limit of $18.0 million invoice financing arrangement in Hong Kong. We also have access to supplier financing arrangements from certain customers which we utilise at certain times of the year. These arrangements are subject to the continuing support of the customers' banking partners and therefore could be withdrawn at short notice.

The Directors have prepared detailed plans and forecasts for a period of at least twelve months from the date of signing these financial statements. The plans reflect the seasonal operating cycle of the business and assume continuity of supply chain. They also benefit from the diverse geographic spread of the Group and the high proportion of revenues generated from retailers who have remained open during the Covid-19 crisis. The base case forecast broadly assumes a first quarter of general lockdown in all territories with a recovery over the remainder of the year but to a generally recessionary environment. As noted in the trading update for quarter one, business has exceeded the base forecast in the first quarter. The forecasts show the Group has more than sufficient liquidity. In light of the ongoing Covid-19 pandemic, these forecasts have been sensitised to reflect severe but plausible adverse downturns in the current assumptions including the potential for a second wave of the pandemic later in the year. Management has also produced a maximum stress forecast which has been deliberately engineered to challenge the Group's liquidity and leverage covenant positions during the forecast period. Further analysis has been prepared in relation to the mitigating actions open to the Group in the event of a scenario which is worse than the sensitivities already modelled. These mitigating actions include short term sales action, cutting discretionary spend further, headcount reductions and reduction in investment such as capex.

These forecasts and additional analysis, including mitigating actions, demonstrated that the Group has sufficient excess headroom for the Group to meet its obligations as they fall due for a forecast period of more than twelve months beyond the date of signing these accounts.

Based on these models, and taking into consideration the risks detailed in note 24, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Changes in accounting policies

In the current financial year, the Group adopted the following pronouncements:

IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1 April 2019. The Group has decided to adopt the modified retrospective approach on transition. Under this approach, comparative information is not restated and the impact of adopting IFRS 16 is presented as an opening retained earnings adjustment as at 1 April 2019. The net impact on retained earnings on 1 April 2019 was a decrease of £2.3 million.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019.

Under the modified retrospective approach, right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the lessee's incremental borrowing rate as at 1 April 2019. The Group has applied this methodology to 51 of its leases where sufficient historical information has been available to facilitate this; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to a small number of property leases where it was not possible to ascertain sufficient historical data to enable a retrospective calculation. This method has also been applied to the majority of the Group's non-property leases, comprising of motor vehicles, equipment, plant and machinery.

i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous – there were no onerous contracts as at 1 April 2019;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made when applying IAS 17 and IFRIC 4 Determining Whether an Arrangement Contains a Lease.

ii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods of one to 20 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average incremental borrowing rate applied by the Group upon transition was 3.9%. Incremental borrowing rates applied to individual leases ranged between 1.3% and 5.3%.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short term leases are leases with a lease term of twelve months or less. The Group has certain assets which may include variable lease payments based on usage, although this is a small proportion of the Group's assets. The variable lease payments are not material for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies continued

a. Basis of preparation continued

IFRS 16 Leases continued

iii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group.

These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Impact on the financial statements

The impact of the change in accounting policy on the balance sheet (increase/(decrease)) as at 1 April 2019 is as follows:

	£m
Right-of-use assets	35.5
Deferred tax assets	0.8
Lease liabilities	(40.1)
Other liabilities	1.5
Net impact on equity	**(2.3)**

b. Basis of consolidation

Other standards and interpretations

The Group also adopted the following new pronouncements during 2019, which did not have any material impact on the Group's financial statements:

- amendments to IAS 19 Plan Amendment, Curtailment or Settlement, specify that in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event;
- IFRIC 23 Uncertainty over Income Tax Treatments addresses how to reflect uncertainty in accounting for income taxes, providing guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances; and
- amendments to IFRS 3 revising the definition of a business.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(iii) Business combinations

Business combinations are accounted for using the acquisition method as at the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a 'bargain purchase' gain is recognised immediately in the income statement.

Provisional fair values allocated at a reporting date are finalised within twelve months of the acquisition date.

c. Foreign currency

Items included in the financial statements of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('functional currency'). The consolidated financial statements are prepared in pounds sterling (functional currency of the Parent Company).

(i) Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate prevailing at that date and recognised in the income statement unless hedge accounting criteria apply (see policy for financial instruments).

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rate prevailing 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 prevailing at the dates of the transactions.

The Company intends to change the presentation currency of the Group from pounds sterling to US dollars effective 1 April 2020. Following the acquisition of CSS Industries Inc., a significant majority of the Group earnings is now denominated in US dollars. Management believes that the presentation currency change will give investors and other stakeholders a clearer understanding of Design Group's financial performance over time. In addition, the change will reduce the volatility of the Group's earnings due to foreign exchange movements, in relation to the translation of foreign currency balances.

(iii) Net investment in foreign operations

Exchange differences on retranslation at the closing rate of the opening balances of overseas entities are taken to other comprehensive income, as are exchange differences arising on related foreign currency borrowings and derivatives designated as qualifying hedges, to the extent that they are effective. They are released into the income statement upon disposal or loss of control and on maturity or disposal of the hedge respectively. 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. Other exchange differences are taken to the income statement.

d. Financial instruments

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship.

Derivatives are measured initially at fair value. Subsequent measurement in the financial statements depends on the classification of the derivative as follows:

(i) Fair value hedges

Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, any gain or loss on the derivative is recognised in the income statement.

(ii) Cash flow hedges

Where a derivative is designated as a hedging instrument in a cash flow hedge, the change in fair value is recognised in other comprehensive income to the extent that it is effective and any ineffective portion is recognised in the income statement. Where the underlying transaction results in a financial asset, accumulated gains and losses are recognised in the income statement in the same period as the hedged item affects profit or loss. Where the hedged item results in a non-financial asset the accumulated gains and losses previously recognised in other comprehensive income are included in the initial carrying value of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies continued

d. Financial instruments continued

(iii) Unhedged derivatives

Unhedged derivatives are charged/credited to the income statement.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as part of cash and cash equivalents in the statement of cash flows.

f. Loans and borrowings

Loans and borrowings are initially measured at cost (which is equal to fair value at inception) and are subsequently measured at amortised cost using the effective interest method.

g. Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is generally equivalent to recognition at nominal value less impairment loss calculated using the expected loss model.

The Group applies a simplified model to recognise lifetime expected credit losses for its trade receivables and other receivables, including those due in greater than twelve months, by making an accounting policy election. For any receivables not expected to be paid, an expected credit loss of 100% is recognised at the point this expectation arises. For all other receivables, the expected loss is calculated based on reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

h. Trade and other payables

Trade payables are non-interest bearing and are recognised initially at fair value and subsequently at amortised cost.

i. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment or other assets have different useful lives, they are accounted for as separate items. The carrying values of property, plant and equipment and other assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Property, plant and equipment are depreciated over their estimated remaining useful lives on a straight line basis using the following estimated useful lives:

Land and buildings – Freehold land	Not depreciated
Land and buildings – Buildings	25-30 years or life of lease
Plant and equipment	4-25 years
Fixtures and fittings	3-5 years
Motor vehicles	4 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. Included within plant and equipment are assets with a range of depreciation rates. These rates are tailored to the nature of the assets to reflect their estimated useful lives.

j. Lease liabilities and lease right-of-use assets

Rentals associated with leases that are of low-value or less than twelve months in length are expensed to the income statement on a straight line basis. The associated lease incentives are amortised in the income statement over the life of the lease.

Leases greater than twelve months in length, and those not of low-value, are recognised as a lease right-of-use asset with the associated future lease payment terms recognised as a lease liability. The right-of-use assets and the associated lease liabilities are recognised by unwinding the future lease payments at the rate implicit to the lease or, if the rate implicit to the lease cannot be readily determined, at the relevant incremental borrowing rate.

The lease right-of-use assets are amortised over their useful economic lives or the lease term, whichever is shorter. The lease liabilities are derecognised by applying the future lease payments.

On acquisition, right-of-use assets and lease liabilities are recognised in accordance with IFRS 16. The acquired lease liability is measured as if the lease contract was a new lease at the acquisition date. The right-of-use asset is measured at an amount equal to the recognised lease liability. The right-of-use asset is adjusted to reflect any favourable or unfavourable terms of the lease relative to market terms.

k. Intangible assets

(i) Goodwill

Goodwill is stated at cost less any impairment losses.

Acquisitions are accounted for using the purchase method. For acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. For acquisitions made before 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP.

The Group has expensed costs attributable to acquisitions in the income statement. Given their one-off nature, these costs are generally presented within adjusting items.

(ii) Acquired intangible assets

An intangible asset acquired in a business combination is recognised at fair value to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships, which are valued using discounted cash flows based on historical customer attrition rates, and trade names/brand, which are valued using an income approach. The cost of intangible assets is amortised through the income statement on a straight line basis over their estimated useful economic life and as these are assets directly attributed to the acquisition of a business, the amortisation costs are also presented within adjusting items.

(iii) Other intangible assets

Other intangible assets which are not acquired through a business combination ('non-acquired intangible assets') are recognised at cost to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably, and amortised on a straight line basis over their estimated useful economic life.

Intangibles are amortised over their estimated remaining useful lives on a straight line basis as follows:

Goodwill	Not amortised
Customer relationships	3-15 years
Trade names/brands	3-5 years
Other intangibles – software	3-5 years

Customer relationships are wide ranging in useful economic lives predominantly due to the long relationships with Walmart acquired as part of the acquisition of Impact Innovations, Inc.

l. Impairment

All assets are reviewed regularly to determine whether there is any indication of impairment. Goodwill is tested for impairment annually.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or the cash-generating unit to which it belongs exceeds its recoverable amount, being the greater of value in use and fair value less costs to sell, and is recognised in the income statement. Value in use is estimated based on future cash flows discounted using a pre-tax discount rate based upon the Group's weighted average cost of capital.

Financial assets were assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

m. Inventories

Inventories are valued at the lower of cost (on a weighted average basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads based on normal operating capacity.

n. Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the applicable tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in prior years. Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: initial recognition of goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet dates.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies continued

o. Revenue

Revenue from the sale of goods is recognised in the income statement net of expected discounts, rebates, refunds, credits, price concessions or other similar items, when the associated performance obligation has been satisfied, and control of the goods has been transferred to the customer.

The Group recognises revenue on sales of Celebration, Craft & creative play, Stationery, Gifting and 'Not-for-resale' consumable products across four geographical segments. Typically the products that we supply form the only performance obligations within a customer agreement, and although the Group can provide ancillary services such as merchandising, these are not separately identifiable obligations on the basis of materiality. Each customer arrangement/contract is assessed to identify the performance obligations being provided to the customer. Where distinct performance obligations are deemed to exist, an element of revenue is apportioned to that obligation.

Revenue from these sales is recognised based on the price specified in the contract, net of any estimated volume discounts, rebates and sell-through provisions. Accumulated experience is used to estimate and provide for these discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for these items payable to customers in relation to sales made until the end of the reporting period. No significant element of financing is deemed present as the sales are made with credit terms of 30-60 days, which is consistent with market practice.

A significant part of the Group's businesses sell goods on an 'free-on-board' ('FOB') basis, where the Group as the seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination. Revenue is recognised on collection by the customer.

Where the Group operates non FOB terms with customers, revenue is recognised when the control of the goods has been transferred to the customer. These terms include consignment stock agreements, where revenue is recognised upon the customer removing goods from consignment stock.

p. Finance income and expense

Finance income and expense is recognised in the income statement as it accrues. Finance expenses comprise interest payable, finance charges on finance leases, amortisation of capitalised fees, and unwinding of discounts 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.

q. Supplier financing

The Group is party to supplier financing arrangements with one of its key customers. This arrangement is considered non-recourse factoring and on receipt of payment from the banks the associated trade receivable is derecognised in accordance with IFRS 9.

r. Segment reporting

A segment is identified on the basis of internal reports that are regularly reviewed by the Board in order to allocate resources to the segment and assess its performance.

s. Pensions

(i) Defined contribution schemes

Obligations for contributions to defined contribution pension schemes are expensed to the income statement as incurred.

(ii) Defined benefit schemes

Two pension schemes, one of which is in the Netherlands and the other in the UK, are defined benefit schemes.

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.

Following the acquisition of CSS Industries Inc., on 3 March 2020, the Group also administers a defined benefit scheme in the UK.

The net obligation for this scheme is calculated by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of the scheme assets is deducted. The calculation is performed by a qualified independent actuary.

t. Share-based payments

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.

Employer's social security charges are 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.

u. Investment in own shares

The shares held in the Group's Employee Benefit Trust for the purpose of fulfilling obligations in respect of share option plans are treated as belonging to the Company and are deducted from its retained earnings. The cost of shares held directly (treasury shares) are also deducted from retained earnings.

v. Provisions

A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of resources that 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.

w. Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are included within the carrying amount of the related property, plant and equipment, and are released to the income statement on a straight line basis over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to the income statement so as to match them with the expenditure to which they relate.

x. Dividends

Dividends are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

y. 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. Other borrowing costs which can include costs associated with the extension of existing facilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies continued

z. Use of non-GAAP measures

These financial statements include alternative performance measures ('APMs') that are presented in addition to the standard GAAP metrics.
The Directors believe that these APMs provide important additional information regarding the underlying performance of the business including trends, performance and position of the Group. APMs are used to enhance the comparability of information between reporting periods and segmental business units by adjusting for factors which affect IFRS measures, to aid the understanding of the Group's performance. Consequently, APMs are used by the Directors and management for strategic and performance analysis, planning, reporting and reward setting. The APMs are Adjusted EBITDA, Adjusted operating profit, Adjusted profit before tax, Adjusted profit after tax and Adjusted earnings per share.

The adjusting items are items that are material and, in the judgement of the Directors, of an unusual or non-recurring nature. These items are adjusted to present the performance of the business in a consistent manner and in line with how the business is managed and measured on a day-to-day basis. They are gains or costs associated with events that are not considered to form part of the core operations, or are considered to be a 'non-recurring' event (although they may span several accounting periods).

Further detail of adjusting items can be seen in note 3 to the financial statements.

aa. Like-for-like comparators

Figures quoted at like-for-like exchange rates are calculated by retranslating the previous year's figures at the current year's exchange rates.

Critical accounting judgements and estimates

The following provides information on those policies that management considers critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Group's performance and financial position.

Accounting estimates

(i) Business combinations and intangible assets

IFRS 3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require the use of estimates and judgements such as customer attrition, cash flow generation from the existing relationships with customers and returns on other assets. Future results are impacted by the amortisation periods adopted and changes to the estimated useful lives would result in different effects on the income statement and balance sheet.

Goodwill is not amortised but is tested annually for impairment, along with the finite-lived intangible assets and other assets of the Group's cash-generating units. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective. An estimate is also required in identifying the events which indicate potential impairment, and in assessing fair value of individual assets when allocating an impairment loss in a cash-generating unit or groups of cash-generating units.
The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 9.

The useful lives of the Group's finite-lived intangible assets are reviewed following the tests for impairment annually.

Judgement and estimates may also be required in determining the fair value of other assets acquired and liabilities (including contingent liabilities) assumed.

(ii) Taxation

There are many transactions and calculations for which the ultimate tax determination is uncertain. Estimates are 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 11 for more details.

(iii) Leases and lease right-of-use assets

A key judgement on adoption of IFRS 16 is determining the incremental borrowing rates to be applied as at 1 April 2019. Management considers all factors that incorporate the three key elements: risk-free rate, credit spread and an adjustment to asset class.
Another key judgement in determining the right-of-use asset and lease liability is establishing whether it is reasonably certain that an option to extend the lease will be exercised. Distinguishing whether a lease will be extended or otherwise will have a material impact on the value of the right-of-use assets and lease liabilities recognised on the balance sheet, but may not have a material impact on the income statement.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(iv) 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.

In addition, in light of Covid-19, further assessment of the recoverability of inventory has been undertaken as at 31 March 2020.

(v) Provision for receivables

The Group has guidelines for providing for receivables and at the end of a financial reporting period receivables are assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses to reflect changes in credit risk since initial recognition. Determining the level of expected credit loss requires an estimation based on a number of factors including historical payment patterns with the Group, alongside external credit risk ratings and general macro-economic factors.

In addition, in light of Covid-19, further assessment of the recoverability of receivables has been undertaken as at 31 March 2020.

(vi) Pension benefits

The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.
The Group determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 23.

Accounting judgements

(i) Adjusting items

Judgement is required to determine whether items should be included within adjusting items by virtue of their size or incidence.

Specific judgements have been made in the estimates associated with adjusting items and further details of the items categorised as adjusting items and how estimates have been made are disclosed in note 3.

2 Segmental information

The Group has one material business activity, being the design, manufacture and distribution of Celebration, Craft & creative play, Stationery, Gifting and 'Not-for-resale' consumable products.

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

The results in this note are allocated based on the region in which the businesses are located; this reflects the Group's management and internal reporting structure. The Group has a China factory and Asian procurement operations which are overseen by our UK operational management team and we therefore continue to include UK owned and managed Asian operations within the internal reporting of the UK operations, comprising one operating segment.

Since the acquisition of Impact Innovations, Inc. the Group had a second China factory (wholly owned and disposed of in the year) and Asian procurement which form part of the USA's operations and therefore is included in the overall USA segment.

The acquisition of CSS Industries Inc. has seen additional entities in various locations around the world including Asia, Australia, UK, India and Mexico. Management review the results for CSS as one consolidated unit and this forms part of the USA segment for the purpose of segmental reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

2 Segmental information continued

Inter-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 adjusted operating profit before management recharges. Interest 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. Inter-segment receivables and payables are not included within segmental assets and liabilities as they eliminate on consolidation.

	UK[a] £000	Europe £000	USA[b] £000	Australia £000	Central and eliminations £000	Group £000
Year ended 31 March 2020						
Revenue – external	113,748	65,797	282,352	32,337	—	494,234
– inter segment	3,775	2,825	—	—	(6,600)	—
Total segment revenue	117,523	68,622	282,352	32,337	(6,600)	494,234
Segment result before adjusting items and management recharge	6,886	10,147	16,604	2,964	(3,177)	33,424
Adjusting items (note 3)						(28,844)
Operating profit						4,580
Finance expenses						(4,317)
Income tax						14,547
Profit for the year ended 31 March 2020						14,810
Balances at 31 March 2020						
Segment assets	107,463	44,715	341,653	17,479	48,508	559,818
Segment liabilities	(43,246)	(23,397)	(160,959)	(10,300)	(18,797)	(256,699)
Capital expenditure additions						
– property, plant and equipment	2,430	2,953	2,607	140	3	8,133
– property, plant and equipment on acquisition of business	—	—	31,695	—	—	31,695
– intangible assets	116	54	2,741	19	67	2,997
– intangible assets on acquisition of business	—	—	4,656	—	—	4,656
Depreciation	2,739	976	2,391	538	2	6,646
Impairment	348	—	—	—	—	348
Depreciation – right-of-use assets	2,059	770	3,332	798	55	7,014
Amortisation	36	29	3,421	310	—	3,796

(a) Including Asian manufacturing and sourcing.
(b) Including overseas entities for the USA operating segment.

	UK[a] £000	Europe £000	USA[a] £000	Australia £000	Central and eliminations £000	Group £000
Year ended 31 March 2019						
Revenue – external	123,006	63,188	223,101	39,067	—	448,362
– inter segment	4,112	1,377	—	—	(5,489)	—
Total segment revenue	127,118	64,565	223,101	39,067	(5,489)	448,362
Segment result before adjusting items and management recharges	8,073	8,871	15,522	4,278	(4,098)	32,646
Adjusting items (note 3)						(12,888)
Operating profit						19,758
Finance expenses						(2,318)
Finance expense treated as an adjusting item (note 3)						(158)
Income tax						(4,031)
Profit for year ended 31 March 2019						13,251
Balances at 31 March 2019						
Segment assets (restated)[b]	100,079	36,738	117,144	17,198	62,027	333,186
Segment liabilities (restated)[b]	(34,366)	(20,136)	(88,382)	(8,284)	(6,461)	(157,629)
Capital expenditure additions						
– property, plant and equipment	2,635	901	1,780	383	—	5,699
– property, plant and equipment on acquisition of business	—	—	9,313	—	—	9,313
– intangible assets	285	12	1,893	—	—	2,190
– intangible assets on acquisition of business (restated)[b]	—	—	18,308	—	—	18,308
Depreciation	2,333	920	1,452	623	—	5,328
Amortisation	167	35	1,781	326	—	2,309

(a) Including Asian manufacturing and sourcing.
(b) For more detail please refer to note 1.

- The Group has one customer that accounts for 22% of the total Group revenues. In the year ended 31 March 2020 total sales to that customer were £106.6 million (2019: £79.1 million). This customer falls solely within the USA operating segment above. No other single customer accounts for over 10% of total sales.
- The assets and liabilities that have not been allocated to segments consist of deferred tax assets £14.6 million (2019: £3.6 million), income tax receivable £14.8 million (2019: £nil), income tax payable of £4.4 million (2019: £4.8 million) and deferred tax liability £1.1 million (2019: £692,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

2 Segmental information continued

Geographical information

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

	Non-current assets	
	2020 £000	Restated 2019 £000
UK and Asia	**57,923**	40,539
USA	**166,834**	62,871
Europe	**21,752**	16,350
Australia	**8,223**	5,077
	254,732	124,837

Revenue by customer destination

	2020 £000	2019 £000	2020 %	2019 %
UK	**84,466**	97,260	**17**	22
USA	**289,518**	235,092	**59**	53
Europe	**66,651**	68,314	**13**	15
Australia	**31,941**	37,707	**7**	8
Rest of the world	**21,658**	9,989	**4**	2
	494,234	448,362	**100**	100

All revenue arose from the sale of goods.

3 Operating expenses and adjusting items

Included in profit are the following charges/(credits):

	Note	2020 £000	2019 £000
Depreciation of tangible fixed assets	8	**6,646**	5,328
Depreciation of right-of-use assets	10	**7,014**	—
(Profit)/loss on sales of property, plant and equipment and intangible assets		**(188)**	325
Release of deferred grant income	5	**(299)**	(247)
Amortisation of intangible assets – software	9	**990**	700
Operating lease payment – minimum lease payment (restated)[a]		**—**	6,291
Sub-lease rental income	5	**(281)**	(583)
Write down of inventories to net realisable value (underlying)	12	**5,247**	4,173
Reversal of previous write downs on inventory	12	**(3,885)**	(478)
Loss on foreign exchange		**835**	814
Adjusting items		**28,844**	12,888

(a) For more detail please refer to note 1.

	2020 £000	2019 £000
Operating profit analysed as:		
Adjusted operating profit	**33,424**	32,646
Adjusting items	**(28,844)**	(12,888)
Operating profit	**4,580**	19,758

Adjusting items

Year ended 31 March 2020	Cost of sales £000	Selling expenses £000	Admin expenses £000	Profit on sale of business £000	Other finance expenses £000	Total £000
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	25	—	4,712	(1,486)	—	3,251
Acquisition integration and restructuring costs[2]	5,462	—	3,931	—	—	9,393
Impairment of assets[3]	6,468	3,056	—	—	—	9,524
Covid-19 costs[4]	265	—	235	—	—	500
US tariffs[5]	3,572	—	—	—	—	3,572
Amortisation of acquired intangibles[6]	—	—	2,806	—	—	2,806
LTIP credits[7]	—	—	(202)	—	—	(202)
Adjusting items	15,792	3,056	11,482	(1,486)	—	28,844

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3 Operating expenses and adjusting items continued

Adjusting items continued

Year ended 31 March 2019	Cost of sales £000	Selling expenses £000	Admin expenses £000	Profit on sale of business £000	Other finance expenses £000	Total £000
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	—	—	2,254	—	158	2,412
Acquisition integration and restructuring costs[2]	1,748	222	4,050	—	—	6,020
Amortisation of acquired intangibles[6]	—	—	1,609	—	—	1,609
LTIP charges[7]	—	—	3,005	—	—	3,005
Adjusting items	1,748	222	10,918	—	158	13,046

Adjusting items are separately presented by virtue of their nature, size and/or incidence (per each operating segment). These items are material items of an unusual or non-recurring nature which represent gains or losses and are presented to allow for the review of the performance of the business in a consistent manner and in line with how the business is managed and measured on a day-to-day basis and allow the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations. They are typically gains or costs associated with events that are not considered to form part of the core operations, or are considered to be a 'non-recurring' event (although they may span several accounting periods).

These losses/(gains) relating to the year ended 31 March 2020 are broken down as follows:

(1) **Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses**
Costs directly associated with acquisitions, including legal and advisory fees on deals, form part of our reported results on an IFRS basis. These costs however, in the Board's view, form part of the capital transaction, and as they are not attributed to investment value under IFRS 3, they are included as an adjusting item. Similarly, where acquisitions have employee related payments (exclusive of LTIPs) which lock in and incentivise legacy talent, we also include these costs as adjusting items. Furthermore, gains or losses on the disposal of businesses, including any transaction costs associated with the disposal, are treated as adjusting items.

During the year ended 31 March 2020 the Group incurred a net cost of £3.3 million in relation to the acquisition and disposal of businesses. The main areas of expenditure relate to £3.9 million of due diligence, legal and adviser fees associated with the acquisition of CSS which was completed on 3 March 2020 as well as two small exploratory projects. In addition, £0.9 million of acquisition related employee payments from the Impact transaction in 2019 which lock in and incentivise legacy talent. These costs were offset by a profit of £1.5 million relating to the disposal which was completed on 24 February 2020 of our Shaoxing factory facilities in China. This facility was acquired as part of the Impact Innovations transaction completed in August 2018 and the disposal formed part of the planned integration programme.

During the year ended 31 March 2019 the Group incurred £2.4 million in relation to transaction costs. This spend related to due diligence, legal and adviser fees associated with the acquisition of Impact which completed on 31 August 2018 along with acquisition related employee payments from the transaction which lock in and incentivise legacy talent.

(2) **Acquisition integration and restructuring costs**
In order to realise synergies from acquisition integration, projects are undertaken that aim to deliver future savings and efficiencies for the Group. These are projects outside of the normal operations of the business and typically incur one-time costs to ensure successful implementation. This is particularly relevant during a large scale restructuring of manufacturing facilities that can result in substantial disruption to the normal operational processes. As such the Board considers it appropriate that costs associated with projects of this nature be included as adjusting items. In calculating certain elements of the costs of disruption it is necessary to make judgements and estimates in relation to the impact on efficiency.

For the years ended 31 March 2020 and 31 March 2019 the acquisition integration and restructuring costs relate to the ongoing UK unification initiative (£0.4 million), the integration of manufacturing facilities in the USA, following the acquisition of Impact, which lead to the combination of printing and converting processes into one site in Memphis (£5.5 million), transition and retention costs (£1.1 million) and costs relating to the CSS integration (£2.4 million).

The costs associated with the Memphis project were calculated by evaluating the true one-time expense associated with the operating challenges in the manufacturing environment created as a result of the integration alongside the delays to production plans as a result of the rapid development of US tariffs with China (s301 tariffs) and customers delaying sign off on artwork and packaging. All these costs arise directly as a result of integrating processes for the first time during the peak period. The costs include expenditure for one time outsourcing to meet production demands, additional warehousing to store inventory due to tariff driven delayed production and shipping and the subsequent knock-on customer related penalties. As part of the costs there are two significant areas of judgement relating to incremental overtime costs and incremental production inefficiencies associated with the integration. In both cases, prior years have been used to set a baseline for which incremental costs are measured against.

In addition to the above, £2.4 million of integration and restructuring costs were incurred following the acquisition of CSS during the year. These costs primarily related to severance costs of redundant roles in the legacy CSS business.

(3) **Impairment of assets**
In light of the impact of Covid-19 on the business, a review of inventory, trade receivables and fixed assets at year end has been undertaken. Inventories have been assessed at the year end for the net realisable value and an impairment of £5.9 million has been taken in relation to aged and obsolete inventory as a result of lower sales. Trade receivables have been assessed for their expected credit loss in line with IFRS 9 and an impairment of £3.1 million has been taken. As our customers are mainly retailers, and for those who aren't selling "essential items", many have had to close stores as a result of the various quarantines around the world – this could have a significant impact on some of our customers.

Using forward looking information, including macro-economic information, each business unit has assessed any significant increase in credit risk and measuring any losses with regard to our year end debtors. Following an assessment of inventory related assets and certain fixed assets around the Group and the associated cash flows and useful remaining lives, an impairment of £538,000 has been taken.

(4) **Covid-19 related costs**
The Covid-19 outbreak has developed rapidly in 2020, with measures taken around the world to contain the virus affecting economic activity. The Group has been affected in every territory in which we operate and the impact on the general economic environment and the reduced demand of goods from our customers as well as the closures of our businesses has had a significant impact. Certain costs relating to direct labour costs that are considered incremental following abnormal or forced closures of manufacturing facilities across the Group have been identified that have impacted the financial results of the business during the year, equal to £0.5 million. These costs will continue into 2021.

(5) **US tariffs**
The US tariff with China (s301 tariff) has resulted in costs incurred in the year which had a significant impact on our business in this financial year. The rapid evolution of tariffs became applicable to more of our product categories with no advance warning. The timing of the introduction of tariffs meant that the majority of our purchase orders had been agreed with customers and suppliers, effectively creating a situation where the US business was locked into purchase commitments and sales prices that could not be renegotiated. This one time impact will not be repeated as the business will be able to mitigate the effect of tariffs in future years as part of the negotiation of contracts with customers and suppliers. As such the impact of tariffs in the financial year is treated as an adjusting item

(6) **IFRS 2 (LTIP) (credits)/costs**
As part of our senior management remuneration, the Group operates a Long Term Incentive Plan ('LTIP') in the form of options for ordinary shares of the Group. In accordance with accounting principles, despite this plan not being a cash cost to the business, a share-based payments charge is taken to the income statement. We consider that these charges and the associated social security charges do not form part of the underlying operational costs and therefore include these as adjusting items.

In the year ended 31 March 2020 there was an IFRS 2 credit due to the lowered expectations in respect of future schemes vesting. Please see note 23 for more detail.

(7) **Amortisation of acquired intangibles**
Under IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer relationships and brands which form part of the intangible value of the acquired business but are not part of the acquired balance sheet. These intangible assets are then amortised to the income statement over an appropriately judged period. These are not operational costs relating to the running of the acquired business and are directly related to the accounting for the acquisition. These include trade names and brands acquired as part of the acquisition of The Lang Companies Inc., Impact Innovations Inc. and CSS Industries Inc. in the USA and Biscay Pty Greetings Ltd in Australia. As such we include these as adjusting items.

In addition, in accordance with IFRS 3, on acquisition, businesses need to be fair valued, which can result in an uplift to stock on hand relating to sales orders already attached to the acquired stock. This uplift will distort the margins associated with the stock, and typically unwinds quickly as stock is sold soon after acquisition. The unwind of the stock uplift is included as an adjusting item.

The cash flow effect on adjusting items

There was £12.8 million net outflow on the current year's cash flow (2019: £287,000) which included £708,000 (2019: £473,000) of outflow deferred from last year.

Auditor's remuneration:

	2020 £000	2019 £000
Amounts receivable by auditor and its associates in respect of:		
Audit of these financial statements	715	80
Audit of financial statements of subsidiaries pursuant to legislation		
– Overseas subsidiaries	100	326
– UK subsidiaries	70	66
Other audit related services	45	10
Taxation compliance services	220	26
All other taxation advisory services	34	14
Services relating to corporate finance transactions	547	—
Other services	—	10

Note that prior year remuneration related to the Group's previous auditor, KPMG LLP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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4 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	
	2020	2019
Selling and administration	**700**	641
Production and distribution	**1,858**	1,723
	2,558	2,364

The aggregate payroll costs of these persons were as follows:

	Note	**2020 £000**	2019 £000
Wages and salaries		**74,092**	62,083
Share-based payments – Long Term Incentive Plan	23	**(202)**	3,005
Social security costs		**6,046**	4,795
Other pension costs		**3,217**	3,532
		83,153	73,415

For information on Directors' remuneration please refer to the section titled 'Directors' remuneration' within the Directors' remuneration report (pages 71 to 76) and Long Term Incentive Plan (page 127), which form part of these audited financial statements.

5 Other operating income

	2020 £000	2019 £000
Grant income received	**299**	247
Sub-lease rentals credited to the income statement	**281**	583
Other	**155**	(210)
	735	620

6 Finance expenses

	2020 £000	2019 £000
Interest payable on bank loans and overdrafts	**1,999**	1,754
Other similar charges	**297**	(74)
Lease liability interest	**1,609**	—
Unwinding of fair value discounts	**69**	86
Interest payable under the effective interest method	**3,974**	1,766
Derivative financial instruments at fair value through the income statement	**343**	552
	4,317	2,318
Adjusting items	**—**	158
	4,317	2,476

£580,000 has been reclassified in the prior year from interest payable on bank loans and overdrafts to derivative financial instruments at fair value through the income statement as this is the charge relating to swaps in the year.

7 Taxation

Recognised in the income statement

	2020 £000	2019 £000
Current tax (credit)/charge		
Current year	(11,001)	4,770
Adjustments in respect of previous years	(507)	38
	(11,508)	4,808
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	(2,603)	(617)
Adjustments in respect of previous years	(436)	(160)
	(3,039)	(777)
Total tax in income statement	(14,547)	4,031
Total tax (credit)/charge on adjusting items		
Total tax on profit before adjusting items	5,852	7,094
Total tax on adjusting items	(6,589)	(3,063)
Adjusting item – tax credit (US tax loss carryback)	(13,810)	—
Total tax in income statement	(14,547)	4,031

Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit before tax	263	17,282
Profit before tax multiplied by the standard rate of corporation tax rate of 19% in the UK (2019: 19%)	50	3,284
Effects of:		
Income not taxable	(339)	(88)
Expenses not deductible for tax purposes	628	208
Movement in unrecognised tax assets	—	296
Effect of tax rate changes	(142)	33
Differences between UK and overseas tax rates	453	1,053
Movement in uncertain tax provision	(457)	(408)
Local tax incentives	—	(100)
Other items	13	(125)
Adjustments in respect of previous periods	(943)	(122)
US tax loss carryback[(a)]	(13,810)	—
Total tax in income statement	(14,547)	4,031

(a) Please refer to note 11 for more detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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8 Property, plant and equipment

	Land and buildings		Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	Freehold £000	Leasehold £000	£000	£000	£000	£000
Cost						
Balance at 1 April 2018 (restated)	20,096	9,633	50,073	4,011	1,254	85,067
Additions	1,078	126	3,712	550	233	5,699
Additions on acquisition of business	462	—	8,851	—	—	9,313
Transfers between fixed asset categories	(57)	83	(43)	17	—	—
Transfers to computer software	—	—	(620)	(101)	—	(721)
Disposals	(405)	(8,252)	(352)	(285)	(351)	(9,645)
Effect of movements in foreign exchange	(127)	636	351	40	(8)	892
Balance at 1 April 2019 (restated)	21,047	2,226	61,972	4,232	1,128	90,605
Additions	598	204	6,683	398	250	8,133
Additions on acquisition of business (note 28)	16,840	933	13,510	261	151	31,695
Transfers between fixed asset categories	(1,242)	—	425	416	401	—
Transfers to computer software	—	—	—	2,338	—	2,338
Disposals	—	—	(1,176)	(170)	(125)	(1,471)
Disposal of a business (note 28)	—	—	(389)	—	—	(389)
Effect of movements in foreign exchange	881	130	1,864	51	(32)	2,894
Balance at 31 March 2020	**38,124**	**3,493**	**82,889**	**7,526**	**1,773**	**133,805**
Depreciation and impairment						
Balance at 1 April 2018 (restated)	(10,978)	(5,059)	(30,235)	(2,692)	(604)	(49,568)
Depreciation charge for the year	(769)	(414)	(3,478)	(502)	(165)	(5,328)
Transfers between fixed asset categories	6	—	35	(41)	—	—
Transfers to computer software	—	—	170	101	—	271
Disposals	152	3,769	86	248	84	4,339
Effect of movements in foreign exchange	57	(301)	(224)	(22)	6	(484)
Balance at 1 April 2019 (restated)	(11,532)	(2,005)	(33,646)	(2,908)	(679)	(50,770)
Depreciation charge for the year	(929)	(196)	(4,718)	(634)	(169)	(6,646)
Impairment charge for the year	—	—	(348)	—	—	(348)
Transfers between fixed asset categories	540	(13)	(63)	(154)	(310)	—
Transfers to computer software	—	—	—	(1,768)	—	(1,768)
Disposals	—	—	892	69	107	1,068
Disposal of a business (note 28)	—	—	281	—	—	281
Effect of movements in foreign exchange	(125)	(46)	(735)	(33)	12	(927)
Balance at 31 March 2020	**(12,046)**	**(2,260)**	**(38,337)**	**(5,428)**	**(1,039)**	**(59,110)**
Net book value						
Balance at 31 March 2020	**26,078**	**1,233**	**44,552**	**2,098**	**734**	**74,695**
At 31 March 2019	9,515	221	28,326	1,324	449	39,835

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

There has been a restatement to correct the prior year cost and accumulated depreciation of assets which were acquired in previous acquisitions. The net book values of these assets remain unchanged.

Security

All freehold properties are subject to a fixed charge in support of the banking facility.

9 Intangible assets

	Goodwill £000	Computer software £000	Trade names £000	Customer relationships £000	Other intangibles £000	Total £000
Cost						
Balance at 1 April 2018 (restated)	43,368	5,174	473	1,294	133	50,442
Additions	—	2,190	—	—	—	2,190
Additions on acquisition of businesses (restated) (note 28)	30,046	—	1,154	17,154	—	48,354
Transfer from fixed assets	—	721	—	—	—	721
Disposals	(33)	(465)	—	—	—	(498)
Effect of movements in foreign exchange	404	202	20	44	—	670
Balance at 1 April 2019 (restated)	73,785	7,822	1,647	18,492	133	101,879
Additions	—	2,997	—	—	—	2,997
Additions on acquisition of businesses (note 28)	21,957	2,234	2,422	—	—	26,613
Transfer from fixed assets	—	(2,338)	—	—	—	(2,338)
Disposals	—	(249)	—	—	—	(249)
Effect of movements in foreign exchange	2,374	323	134	799	(1)	3,629
Balance at 31 March 2020	**98,116**	**10,789**	**4,203**	**19,291**	**132**	**132,531**
Amortisation and impairment						
Balance at 1 April 2018 (restated)	(9,694)	(3,450)	(186)	(457)	(108)	(13,895)
Amortisation charge for the year	—	(700)	(392)	(1,214)	(3)	(2,309)
Transfers from fixed assets	—	(271)	—	—	—	(271)
Disposals	33	134	—	—	—	167
Effect of movements in foreign exchange	(475)	(57)	(11)	(26)	—	(569)
Balance at 1 April 2019 (restated)	(10,136)	(4,344)	(589)	(1,697)	(111)	(16,877)
Amortisation charge for the year	—	(990)	(1,126)	(1,680)	—	(3,796)
Transfers from fixed assets	—	1,768	—	—	—	1,768
Disposals	—	248	—	—	—	248
Effect of movements in foreign exchange	(354)	(95)	(41)	(72)	(3)	(565)
Balance at 31 March 2020	**(10,490)**	**(3,413)**	**(1,756)**	**(3,449)**	**(114)**	**(19,222)**
Net book value						
Balance at 31 March 2020	**87,626**	**7,376**	**2,447**	**15,842**	**18**	**113,309**
At 31 March 2019 (restated)	63,649	3,478	1,058	16,795	22	85,002

Computer software relates to purchased software and people costs associated with the implementation of software.

There has been a restatement to correct the prior year cost and accumulated depreciation of assets which were acquired in previous acquisitions and the net book values of these assets remain unchanged. The acquisition accounting for Impact has been reviewed and hindsight adjustments have been made to goodwill and intangibles.

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9 Intangible assets continued

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

	2020 £000	2019 £000
UK and Asia	**25,600**	25,600
Europe	**5,378**	5,248
USA (restated)	**54,165**	30,046
Australia	**2,483**	2,755
Total	**87,626**	63,649

All goodwill balances have arisen as a result of acquisitions and are not internally generated.

Impairment

The Group tests goodwill each 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, 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. 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 has prepared updated forecasts following the outbreak of the Covid-19 pandemic for each cash-generating unit for the following two years and these have been reviewed by the Board. The key assumptions in those forecasts 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 three years to determine discounted cash flows for five years plus a terminal value based on a conservative estimate of market growth of 1.0% (2019: 0.5%).

Generally, the Group's post-tax weighted average cost of capital ('WACC') is 6.8% prior to any risk factor, and 7.3% post application of a 0.5% risk weighting. This has been compared to other similar companies and is believed to be appropriate.

The cash-generating units used the following pre-tax discount rates which are derived from an estimate of the Group's future WACC adjusted to reflect the market assessment of the risks specific to the current estimated cash flows over the same period.

Pre-tax discount rates used were:

	2020	2019
UK and Asia	**8.5%**	10.9%
Europe	**9.6%**	11.7%
USA	**9.3%**	12.5%
Australia	**10.2%**	13.4%

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 2% movement in the discount rate and a flat budget growth rate assumption in their sensitivity assessment; with these changes in assumptions there is still significant headroom and no indication of impairment.

10 Right-of-use assets and lease liabilities

Right-of-use assets

	Land and buildings £000	Plant and machinery £000	Motor vehicles £000	Office equipment £000	Total £000
Net book value at 1 April 2019	33,736	984	488	294	35,502
Additions	5,388	167	117	99	5,771
Additions on acquisition of business	31,014	484	93	167	31,758
Disposals	(17)	—	—	(17)	(34)
Disposal of a business	(461)	—	—	—	(461)
Depreciation charge	(6,209)	(410)	(281)	(114)	(7,014)
Effect of movements in foreign exchange	1,166	29	11	—	1,206
Net book value at 31 March 2020	**64,617**	**1,254**	**428**	**429**	**66,728**

Income statement

The income statement shows the following amounts relating to leases:

	2020 £000
Interest expense (included in finance expenses)	**1,609**
Depreciation charge	**7,014**
Expense relating to short term leases	**2,446**

Short term lease commitments as at the end of the year for the coming twelve months are £371,000. This is significantly lower than the expenses in the financial year to 31 March 2020 following the cessation of a short term property lease in the USA which will be replaced by a lease with an initial term of six years and an estimated lease liability on commencement of £13.1 million.

Low value lease costs were negligible in the year.

Operating lease (IAS 17) commitments and opening lease liabilities reconciliation

	£000
Operating lease commitments disclosed as at 31 March 2019 (restated)	41,522
Discounted using the lessee's incremental borrowing rate at the date of initial application	34,481
Less: contracts to which the short term leases exemption applies	(235)
Add/(less): adjustments as a result of a different treatment of extension and termination options	5,863
Lease liability recognised as at 1 April 2019	40,109
Of which are:	
Current lease liabilities	5,669
Non-current lease liabilities	34,440
Total	40,109

Lease liabilities as at 31 March 2020 are £76.9 million (of which £63.2 million are non-current liabilities and £13.7 million are current liabilities). The significant increase in lease liabilities is as a result of the acquisition of CSS Industries Inc.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2020 £000	2019 £000
Less than one year	**371**	6,866
Between one and five years	**—**	16,625
More than five years	**—**	18,031
Total	**371**	41,522

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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10 Right-of-use assets and lease liabilities continued

Segment assets and liabilities

Segment assets and segment liabilities for 31 March 2020 all increased as a result of the change in accounting policy. The segments were affected by the change in policy as follows:

	2020 Segment assets £000	2020 Segment liabilities £000
UK and Asia	**17,006**	**(19,450)**
Europe	**3,700**	**(3,738)**
USA	**41,360**	**(47,808)**
Australia	**4,575**	**(5,868)**
Central & eliminations	**87**	**(82)**
Total	**66,728**	**(76,946)**

Income from subleasing right-of-use assets

During the year sublease income from right-of-use assets was as follows:

	2020 £000
Sublease income in the year from subleasing right-of-use assets	**281**

	2020 £000
Non-cancellable operating lease rentals are receivable as follows:	
Less than one year	**310**
Between one and five years	**327**
Total	**637**

11 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Property, plant and equipment and intangible assets £000	Tax losses carried forward £000	Share-based payments £000	Doubtful debts £000	Other timing differences[a] £000	Total £000
At 1 April 2019	(4,438)	1,874	1,733	1,430	2,319	2,918
(Charge)/credit to income statement	(173)	1,565	(104)	1,676	75	3,039
(Charge)/credit to equity	6	348	(423)	85	719	735
Acquisitions	5,545	—	—	—	1,328	6,873
At 31 March 2020	**940**	**3,787**	**1,206**	**3,191**	**4,441**	**13,565**
Deferred tax liabilities	(1,246)	—	—	—	(148)	(1,394)
Deferred tax assets	2,186	3,787	1,206	3,191	4,589	14,959
	940	**3,787**	**1,206**	**3,191**	**4,441**	**13,565**

	Property, plant and equipment and intangible assets £000	Tax losses carried forward £000	Share-based payments £000	Doubtful debts £000	Other timing differences[a] £000	Total £000
At 1 April 2018	(1,137)	584	1,943	819	81	2,290
(Charge)/credit to income statement	(2,653)	1,103	1,004	611	712	777
(Charge)/credit to equity	(115)	187	(358)	—	137	(149)
Reclassification	(533)	—	(856)	—	1,389	—
At 31 March 2019	(4,438)	1,874	1,733	1,430	2,319	2,918
Deferred tax liabilities (restated)[b]	(4,443)	—	—	—	(208)	(4,651)
Deferred tax assets (restated)[b]	5	1,874	1,733	1,430	2,527	7,569
	(4,438)	1,874	1,733	1,430	2,319	2,918

(a) Other timing differences include a deferred tax closing balance of £1.5 million (2019: £1.3 million) in respect of provision for inventory and £1.2 million (2019: £nil) in respect of leases.
(b) For more details please refer to note 1.

Deferred tax is presented net on the balance sheet in so far as a right of offset exists. The net deferred tax asset is £14.6 million (2019: £3.6 million) and the net deferred tax liability is £1.1 million (2019: £692,000). Deferred tax assets and liabilities are treated as non-current as it is expected that they will be recovered or settled more than twelve months after the reporting date.

The prior year categorisation of deferred tax balances has been corrected. This has no impact on the total deferred tax balance as presented on the balance sheet.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted in the US which includes a temporary relaxation of rules limiting net operating loss deductions. As a result, existing net operating losses (NOLs) in CSS are being carried back to claim a refund with a tax value of £13.9 million ($17.3 million) for taxes paid in prior years. Given that these NOLs had limited value at the time of acquisition on 3 March 2020 (primarily as a result of change in ownership rules) and this law was enacted after the acquisition date, the carryback claim results in a significant tax credit in the year. This has been included as an adjusting tax item.

The deferred tax asset in respect of tax losses carried forward at 31 March 2020 of £3.8 million (2019: £1.9 million) comprises UK tax losses of £2.0 million (2019: £991,000), US tax losses of £1.8 million (2019: £883,000) and Asia tax losses of £109,000 (2019: £nil). The majority of the US tax losses may be carried forward indefinitely. UK and Asia 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. There are unrecognised deferred tax assets in respect of UK losses of £642,000 (2019: £574,000), £nil (2019: £369,000) in respect of China, and £nil (2019: £235,000) in respect of Asia.

Following the CSS acquisition there are temporary differences of $101.6 million (£81.9 million) and unused tax losses of $9.4 million (£7.6 million) (with no expiry date) on which deferred tax assets have not been provided. This excludes the CSS tax losses that have been carried back as noted above. Deferred tax assets have not been recognised on these primarily as a result of restrictions under the US change in ownership rules.

A deferred tax liability of £80,000 (2019: £237,000) has been recognised based on the tax cost of remitting earnings from China. No other deferred tax liability has been recognised on unremitted earnings of the overseas subsidiaries as if all unremitted earnings were repatriated with immediate effect, no other tax charge would be payable. The standard rate of UK corporation tax will no longer reduce to 17% from 1 April 2020. These proposed changes, which were substantively enacted in September 2016, were changed in March 2020 to maintain the UK corporate tax rate at 19% by a resolution under the Provisional Collection of Taxes Act 1968. This increased rate has been reflected in the calculation of deferred tax at the balance sheet date.

Included within current tax liabilities is £4.8 million (2019: £2.7 million) in respect of uncertain tax positions. This consists of various tax risks of which the majority are individually not material. As a result of the acquisition of CSS Industries Inc. in March 2020, additional liabilities have been recognised in respect of inherited uncertain tax positions. Of these liabilities, there is one individual liability that is material (£2.5 million). These risks arise because the Group operates in a complex multinational tax environment. The position is reviewed on an ongoing basis and generally these tax positions are released at the end of the relevant territories' statute of limitations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

11 Deferred tax assets and liabilities continued

Recognised deferred tax assets and liabilities continued

A total tax credit of £171,000 (2019: £764,000 credit) has been recognised through the statement of changes in equity in respect of share-based payments (consisting of a deferred tax charge and current tax credit of £146,000 (2019: £358,000) and £317,000 (2019: £1.1 million) respectively). A deferred tax credit of £771,000 has been recognised through the statement of changes in equity on adoption of IFRS 16 Leases. There are no deferred tax balances with respect to cash flow hedges.

12 Inventory

	2020 £000	2019 £000
Raw materials and consumables	19,886	19,242
Work in progress	20,179	7,818
Finished goods	74,380	42,511
	114,445	69,571

In 2020, materials, consumables, changes in finished goods and work in progress of £361.1 million (2019: £323.5 million) were recognised as an expense during the year and included in cost of sales.

Due to the impact of Covid-19, inventories have been assessed at the 2020 year end and an impairment of £6.2 million has been taken to reduce the value of inventories to net realisable value, this includes £0.2 million of impairment of consumables. In addition to this, inventories have been reduced by a further £5.2 million (2019: £4.2 million) as a result of write-down to net realisable value and this was recognised as an expense during 2020. This expense has been reduced by the reversal of previous write downs amounting to £3.9 million (2019: £478,000) due to inventory either being used or sold.

13 Long term assets and trade and other receivables

Long term assets acquired as part of the acquisition of CSS are as follows:

	2020 £000	2019 £000
Acquisition indemnities	581	—
UK pension surplus	482	—
Security deposits	877	—
Insurance related assets	3,079	—
	5,019	—

Acquisition indemnities relate to previous acquisitions made by CSS and indemnities provided by the seller, security deposits relate to leased properties, and insurance related assets including a corporate owned life insurance policy.

Trade and other receivables are as follows:

	2020 £000	2019 £000
Trade receivables (restated)[a]	77,716	44,097
Prepayments, other receivables and accrued income (restated)	10,700	4,993
VAT receivable	332	634
	88,748	49,724

(a) For more details please refer to note 1.

The Group has receivable financing arrangements in Hong Kong. None of this facility was drawn at 31 March 2020 (2019: £nil).

Please see note 15 for more details of the banking facilities.

There are no trade receivables in the current year (2019: £nil) expected to be recovered in more than twelve months.

The Group's exposure to credit and currency risks and provisions for doubtful debts related to trade and other receivables is disclosed in note 24.

14 Cash and cash equivalents/bank overdrafts

	2020 £000	2019 £000
Cash and cash equivalents (restated)[a]	**67,098**	85,315
Bank overdrafts (restated)[a]	**(25,004)**	(65,857)
Cash and cash equivalents per cash flow statement	**42,094**	19,458

(a) For more details please refer to note 1.

Net cash

	Note	2020 £000	2019 £000
Cash and cash equivalents		**42,094**	19,458
Bank loans and overdrafts	15	**(796)**	(2,405)
Loan arrangement fees		**975**	31
Net cash as used in the financial review		**42,273**	17,084

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 24.

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 15 for further details of the Group's loans and overdrafts.

Changes in net cash

	Loans and borrowings £000	Loan arrangement fees £000	Sub total £000	Other assets Cash/bank overdrafts £000	Total £000
Balance at 1 April 2018	(4,780)	105	(4,675)	9,031	4,356
Cash flows	2,350	30	2,380	11,178	13,558
Other changes					
Amortisation of loan arrangement fees	—	(104)	(104)	—	(104)
Effect of movements in foreign exchange	25	—	25	(751)	(726)
Balance at 1 April 2019	(2,405)	31	(2,374)	19,458	17,084
Cash flows	1,505	1,234	2,739	21,239	23,978
Changes from financing cash flows					
Amortisation of loan arrangement fees	—	(290)	(290)	—	(290)
Effect of movements in foreign exchange	104	—	104	1,397	1,501
Balance at 31 March 2020	**(796)**	**975**	**179**	**42,094**	**42,273**

15 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 24.

	2020 £000	2019 £000
Non-current liabilities		
Secured bank loans	**348**	1,421
Loan arrangement fees	**(525)**	—
	(177)	1,421
Current liabilities		
Current portion of secured bank loans	**448**	984
Loan arrangement fees	**(450)**	(31)
	(2)	953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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15 Loans and borrowings continued

Terms and debt repayment schedule

	2020 £000	2019 £000
Due within one year:		
Bank loans and borrowings	**448**	984
Due between one and two years:		
Secured bank loans	**348**	984
Due between two and five years:		
Secured bank loans	**—**	437
	796	2,405

Secured bank loans

On 5 June 2019, the Group entered into a new three year Group facility with a club of five banks chosen to reflect and support the geographical spread of the Group. The banks within the club are HSBC, NatWest, BNP Paribas, Sun Trust and PNC.

On 17 January 2020 the facility was increased to support the acquisition of CSS Industries Inc. on 3 March 2020 and to accommodate the enlarged Group.

The facilities, which run to May 2022, comprise of:

- a revolving credit facility ('RCF A') of $95.0 million;
- a further flexible revolving credit facility ('RCF B') with availability varying from month to month of up to £130.0 million. This RCF is flexed to meet our working capital requirements during those months when inventory is being built within our annual business cycle and is £nil when not required, minimising carry costs; and
- an invoice financing arrangement in Hong Kong, maximum limit $18.0 million but dependent on level of eligible receivables.

In total, the accessible facilities are approximately £212.0 million (maximum £219.0 million) and are more than sufficient to cover our peak requirements. Being partially framed in US dollars they also provide a hedge against currency movements. The facilities, which do not amortise with time, include an additional uncommitted amount to finance potential acquisitions.

Invoice financing arrangements are secured over the trade receivables that they are drawn on. The RCF facilities are secured with a fixed and floating charge over all other assets of the Group.

There are financial covenants, tested quarterly, attached to the existing facilities as follows:

- interest cover, being the ratio of adjusted earnings before interest, depreciation and amortisation (EBITDA) as defined by the banking facility to interest on a rolling twelve month basis; and
- leverage, being the ratio of debt to adjusted EBITDA as defined by the banking facility on a rolling twelve month basis.

Covenants are measured on pre IFRS 16 accounting definitions.

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.

In January 2018, the Group's Australia business obtained a secured loan from Westpac of £5.1 million (AU$9.0 million). This is repayable monthly over a five year period. It is subject to a variable interest rate linked to the Australian base rate. £1.5 million was repaid during the year which, along with £104,000 exchange movement results in a balance at 31 March 2020 of £796,000 (AU$1.6 million). The Australia business also borrows from Westpac for financing working capital and the current facility level is AU$5.0 million from January to June and AU$10.0 million July to December.

Loan arrangement fees represent the unamortised costs in arranging the Group facilities. These fees are being amortised on a straight line basis over the terms of the facilities.

16 Deferred income

	2020 £000	2019 £000
Included within non-current liabilities		
Deferred grant income	452	751
Included within current liabilities		
Deferred grant income	99	99
Other deferred income	32	—
	131	99

The deferred grant income is in respect of government grants relating to the development of the site in Wales. The conditions for this grant were all fully met in January 2019.

17 Provisions

	Property £000	Other £000	Total £000
Balance at 1 April 2019	3,434	327	3,761
Provisions made in the year	8	78	86
Additions of acquisition of business	1,753	2,284	4,037
Disposal of subsidiary	(158)	—	(158)
Provisions released during the year	(162)	(1,454)	(1,616)
Unwinding of fair value discounts	69	—	69
Provisions utilised during the year	(26)	—	(26)
Effect of movements in foreign exchange	149	52	201
Balance at 31 March 2020	**5,067**	**1,287**	**6,354**

	2020 £000	2019 £000
Non-current	4,163	2,671
Current	2,191	1,090
	6,354	3,761

The property provision represents the estimated reinstatement cost of 13 (2019: six) of the Group's leasehold properties under fully repairing leases. A professional valuation was performed during 2016 for one of the leasehold properties and the provision was reassessed and is stated after discounting. £990,000 (2019: £935,000) of the non-current balance relates to a lease expiring in 2036; the balance relates to items between one and five years.

As a result of the acquisition of CSS Industries Inc. additional provisions of £4.0 million have been recognised, of which £1.8 million relates to the reinstatement costs of CSS' leased properties. £2.2 million of other provisions relates to onerous customer contracts, which is a short term provision.

Other provisions are short term and represent management's best estimate in respect of minor amounts arising in the normal course of business.

The timing of the utilisation of provisions assumes the business continues to operate based on the most up-to-date business plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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18 Other financial liabilities

	2020 £000	2019 £000
Included within non-current liabilities		
Other creditors and accruals	5,471	1,817
Included within current liabilities		
Other creditors and accruals (restated)	38,698	18,942
Interest rate swaps and forward foreign currency contracts carried at fair value through the income statement	—	—
Interest rate swaps and forward foreign exchange contracts carried at fair value through the hedging reserve	7	2
	38,705	18,944

19 Trade and other payables

	2020 £000	2019 £000
Trade payables	90,820	57,336
Other payables including social security	7,090	947
VAT payable	447	280
	98,357	58,563

20 Share capital

Authorised share capital at 31 March 2020 and 2019 was £6.0 million into 121.0 million ordinary shares of 5p each.

	Ordinary shares	
In thousands of shares	2020	2019
In issue at 1 April	78,366	63,890
Options exercised during the year	711	1,655
Share issue as part of the consideration for Impact Innovations, Inc.	—	3,017
Share placing	17,290	9,804
In issue at 31 March – fully paid	96,367	78,366

	2020 £000	2019 £000
Allotted, called up and fully paid		
Ordinary shares of £0.05 each	4,818	3,918

Of the 96.4 million shares in the Company, 31,000 (2019: 31,000) are held by the International Greetings Employee Benefit Trust.

No share options were exercised during the year (2019: 200,000 ordinary shares were issued as a result of share option exercises which generated cash proceeds of £28,000).

LTIP options exercised during the year resulted in 711,000 ordinary shares being issued at nil cost (2019: 1.5 million ordinary shares being issued at nil cost).

In support of the acquisition of CSS Industries, Inc. on 24 January 2020, the Group raised £53.4 million after expenses of £1.4 million by way of a share placing of 7.9 million new ordinary shares at a share price of £6.94 per share. On 12 February 2020, the Group raised an additional £63.5 million after expenses of £1.7 million by way of a share placing of 9.4 million new ordinary shares at a share price of £6.94 per share.

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.

21 Earnings per share

	Note	2020 £000	2019 £000
Earnings			
Earnings attributable to equity holders of the Company		14,060	11,925
Adjustments			
Adjusting items (net of non-controlling interest effect)		28,562	12,891
Tax charge/(relief) on adjustments (net of non-controlling interest effect)		(6,504)	(3,016)
Adjusting item – tax credit[a]	7	(13,810)	—
Adjusted earnings attributable to equity holders of the Company		22,308	21,800
Weighted average number of shares			
Basic weighted average number of shares outstanding		82,605	73,610
Dilutive effect of employee share option plans		476	1,269
Diluted weighted average ordinary shares[b]		83,081	74,879
Earnings per share (pence)			
Basic earnings per share		17.0	16.2
Adjustment		10.0	13.4
Basic adjusted earnings per share		27.0	29.6
Diluted earnings per share[b]		16.9	15.9
Diluted adjusted earnings per share[b]		26.9	29.1

Adjusted earnings per share is provided to reflect the underlying earnings performance of the Group.

In thousands of shares	2020	2019[a]
Issued ordinary shares at 1 April	78,366	63,890
Shares held by Employee Benefit Trust	—	(31)
Shares relating to share options	1,594	2,419
Shares issued as part of the consideration for Impact	—	1,761
Shares issued in respect of share placing	2,645	5,571
Weighted average number of shares at 31 March	82,605	73,610

(a) Please refer to note 11 for details of the adjusting tax credit associated with a US loss carry back claim.
(b) From 2020 onwards, the Group has adjusted its assumptions as to the shares that are to be included in the calculation of the weighted average number of shares for diluted EPS purposes. As such, the numbers detailed in respect of 2019 have been re-presented using the same methodology in order to provide appropriate comparatives.

Diluted earnings per share

The diluted earnings per share is calculated taking into account LTIP awards whose specified conditions were satisfied at the end of the year of 476,000 (2019: 1.2 million) share options (including those under the Executive share options scheme). At 31 March 2020 the diluted number of shares was 83.1 million (2019: 74.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

22 Dividends paid and proposed

A final dividend for year ending 31 March 2019 of 6.00p (for year ending 31 March 2018: 4.00p) was paid on 16 September 2019. An interim dividend of 3.00p was paid on 17 January 2020 (2019: 2.50p). The Directors are recommending a final dividend of 5.75p in respect of the year ended 31 March 2020 (2019: 6.00p). If approved it will be paid in November 2020 to shareholders on the register at the close of business on 2 October 2020.

	2020		2019	
	Pence per share	£000	Pence per share	£000
Final equity dividend for prior year	**6.00**	**4,732**	4.00	2,597
Interim equity dividend for current year	**3.00**	**2,372**	2.50	1,956
Dividends paid in the year		**7,104**		4,553

	2020		2019	
Proposed for approval at Annual General Meeting	Pence per share	£000	Pence per share	£000
Final equity dividend for the current year	**5.75**	**5,541**	6.00	4,702

23 Employee benefits

Post employment benefits

The Group administers a defined benefit pension plan that was inherited through the acquisition of CSS Industries Inc. and covers certain employees of a UK subsidiary. The scheme closed to future accrual on 31 December 2012. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. The plan assets held in trust are governed by UK regulations and responsibility for governance of the plan – including investment decisions and contribution schedules – lies with the group of trustees. The assets of the scheme are invested in the SPI With-Profits Fund, which is provided by Phoenix Life Limited.

The last triennial valuation performed was in December 2017. A further actuarial valuation was carried out at 28 February 2020, just prior to the acquisition of the CSS business, by a qualified actuary, independent of the scheme's sponsoring employer. No additional valuation was performed at the balance sheet date based on the assumed immaterial movement between acquisition and year end.

The major assumptions used by the actuary are shown below.

Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)

	2020 £000
Fair value plan of assets	**2,442**
Present value of defined benefit obligation	**(1,960)**
Surplus (deficit) in plan	**482**
Net defined benefit asset (liability) to be recognised	**482**

Reconciliation of opening and closing balances of the defined benefit obligation

	2020 £000
Defined benefit obligation at start of year	**–**
Liabilities acquired in a business combination	**(1,960)**
Defined benefit obligation at end of year	**(1,960)**

Reconciliation of opening and closing balances of the fair value of plan assets

	2020 £000
Fair value of plan assets at start of year	–
Assets acquired in a business combination	2,442
Fair value of plan assets at end of year	2,442

Given the timing between acquisition and financial year end, no amounts have been expensed against Group operating profit, nor has any finance expense been incurred.

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 are as follows:

	2020
Increase in salaries	–
Increase in pensions	–
at RPI capped at 5%	3.50%
at CPI capped at 5%	1.95%
at CPI capped at 2.5%	1.95%
Discount rate	1.70%
Inflation rate – RPI	2.80%
Inflation rate – CPI	1.95%

Due to the timescale covered, the assumptions may not be borne out in practice.

The life expectancy assumptions (in number of years) used to estimate defined benefit obligations at the year end are as follows:

	2020
Male retiring today at age 60	26.4
Female retiring today at age 60	28.5
Male retiring in 20 years at age 60	28.0
Female retiring in 20 years at age 60	30.1

Long Term Incentive Plan

On 31 March 2014, the Group announced the introduction of a new Long Term Incentive Plan ('LTIP'). Under the LTIP, options to subscribe for ordinary shares of a nominal value 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. 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 to buy ordinary shares through an Employee Benefit Trust to mitigate future dilution should it need to do so.

The performance period for each award under the LTIP is three years. The cost to employees of ordinary shares issued under the LTIP if the performance criteria are met is nil. In principle the number of ordinary shares to be granted to each employee under the LTIP will not be more than 325% in value of the relevant employee's salary base. The maximum opportunity available is up to 175% for the CEO and for other Executive Directors up to 150% of base salary. For the 2018-2021 scheme 'Grant B' and the 2019-2022 scheme (for Paul Fineman, Giles Willits, Lance Burn and two other members of the Executive Committee) there is an outperformance element of up to 50% of the initial grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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23 Employee benefits continued

Vested LTIP schemes – outstanding options

	Number of ordinary shares	Exercise price pence	Exercise dates
2014-2017 LTIP scheme	36,401	nil	June 2017-August 2024
2015-2018 LTIP scheme	408,236	nil	June 2018-January 2028
2016-2019 LTIP scheme	438,402	nil	June 2019-January 2028
2017-2020 LTIP scheme[(a)]	476,449	nil	July 2020-August 2027
	1,359,488		

All performance criteria have been met for the above schemes.

	2020		2019	
	Weighted average exercise price pence	**Number of options**	Weighted average exercise price pence	Number of options
Outstanding at the beginning of the year	**nil**	**1,575,385**	nil	2,306,034
Prior year adjustment[(a)]	**nil**	**18,337**	—	—
Options vesting during the year[(b)]	**nil**	**476,449**	nil	723,632
Exercised during the year	**nil**	**(710,683)**	nil	(1,454,281)
Outstanding at the end of the year	**nil**	**1,359,488**	nil	1,575,385
Exercisable at the end of the year	**nil**	**1,359,488**	nil	1,575,385

(a) Relates to share options not included in the prior year balance.
(b) 76% of the initial award plus dividend shares will formally vest on 23 July 2020 following the Remuneration and Audit Committees' approval of the results of the year ended 31 March 2020.

Scheme details for LTIPs in vesting periods during the year

During the financial year to 31 March 2020 there were three LTIP schemes still within their vesting periods (2019: three).

The award and performance targets for these are in the tables below.

Awards

	2017-2020		2018-2021		2019-2022
	Grant A	Grant B	Grant A	Grant B	Grant A
Fair value per share (£)	3.71	4.04	5.55	5.56	6.02
Number of participants	18	2	16	5	30
Initial award	354,638	297,844	151,859	633,372	758,782
Dividend shares	8,963	8,686	2,303	11,841	10,796
Lapses and forfeitures	(122,199)	(71,483)	(29,649)	—	(8,311)
Potential to vest as at 31 March 2020	**241,402**	**235,047**	**124,513**	**645,213**	**761,267**
Potential to vest as at 31 March 2019	305,401	304,897	134,154	636,080	—

The LTIP awards 'Grant A' were made in 2017, 2018 and 2019 respectively. The LTIP awards 'Grant B' were made in January 2018 to Paul Fineman in respect of the 2015-2018 and 2016-2019 schemes and to Paul Fineman and Giles Willits in respect of the 2017-2020 scheme. There was also a 'Grant B' award in respect of the 2018-2021 scheme to Paul Fineman, Giles Willits, Lance Burn and two other members of the Executive Committee in November 2018.

The grant date fair value of the options granted in the year assuming they are to vest in full is £4.6 million (2019: £4.4 million). The exercise price is nil.

Performance targets

Awards are granted with threshold and stretch targets. 25% of the weighted awards vests if the relevant threshold target is achieved, with straight-line vesting of the balance up to 100% of the weighted award if the stretch target is achieved.

The 'Grant B' of the 2018-2021 scheme and the 2019-2022 scheme (for the Executive Board) also includes a super stretch target which will vest in accordance with the following bands relating to CAGR[b] in EPS[a]:

- more than 17% but not more than 20%: 10% x number of shares in respect of which the base award vests;
- more than 20% but not more than 22.5%: 22% x number of shares in respect of which the base award vests;
- more than 22.5% but not more than 25%: 35% x number of shares in respect of which the base award vests; and
- more than 25%: 50% x number of shares in respect of which the base award vests.

	Weighting	Threshold	Stretch	Super stretch
2017-2020 scheme				
EPS[a]	100%	CAGR[b] 10%	CAGR[b] 17.5%	—
2018-2021 scheme				
EPS[a]	100%	CAGR[b] 10%	CAGR[b] 17.0%	CAGR[b] 25.0%
2019-2022 scheme				
EPS[a]	100%	CAGR[b] 10%	CAGR[b] 17.0%	CAGR[b] 25.0%

(a) EPS before Board approved adjusting items.
(b) Compound annual growth rate.

In light of Covid-19, the Remuneration Committee is reviewing the schemes that have not yet vested with a view to amending the performance targets. At the reporting date, no decision on revised metrics had been made.

Share-based payments charges

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

	2020 £000	2019 £000
(Credit)/charge in relation to the 2016-2019 LTIP scheme	—	637
(Credit)/charge in relation to the 2017-2020 LTIP scheme	382	1,083
(Credit)/charge in relation to the 2018-2021 LTIP scheme	(613)	613
(Credit)/charge in relation to the 2019-2022 LTIP scheme	—	—
Equity-settled share-based payments (credit)/charge	(231)	2,333
Social security charge on LTIP awards	29	672
Total equity-settled share-based payments (credit)/charge	(202)	3,005

Social security charges on share-based payments

Social security 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.

The total social security accrual outstanding at the year end in respect of share-based payment transactions was £824,000 (2019: £1.1 million).

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24 Financial instruments

Derivative financial assets

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 2020, the Group had derivative contracts, which were measured at Level 2 fair value subsequent to initial recognition, to the value of an asset of £332,000 (2019: £129,000) and a liability of £7,000 (2019: £2,000).

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 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 provisions for doubtful debts 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 £150.2 million (2019: £129.7 million after restatement) being the total of the carrying amount of financial assets, excluding equity investments above.

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

	2020 £000	2019 £000
UK and Asia	9,246	8,998
USA (restated)	60,631	25,933
Europe	5,106	5,303
Australia	2,733	3,863
	77,716	44,097

Credit quality of financial assets and impairment losses

There was no change to the level of provision for doubtful debts upon the adoption of IFRS 9.

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

	2020			2019		
	Expected loss rate %	Gross £000	Provisions for doubtful debts £000	Expected loss rate %	Gross £000	Provisions for doubtful debts £000
Not past due (restated)	8.0	62,707	(5,028)	0.6	35,985	(200)
Past due 0-60 days	11.1	17,988	(1,998)	5.4	6,854	(369)
61-90 days	33.6	1,975	(664)	18.4	1,601	(295)
More than 90 days	64.4	7,687	(4,951)	90.9	5,727	(5,206)
	14.0	90,357	(12,641)	12.1	50,167	(6,070)

There were no unimpaired balances outstanding at 31 March 2020 (2019: £nil) where the Group had renegotiated the terms of the trade receivable.

Expected credit loss assessment

For the Group's trade receivables, expected credit losses are measured using a provisioning matrix based on the reason the trade receivable is past due. The provision matrix rates are based on actual credit loss experience over the past three years and adjusted, when required, to take into account current macro-economic factors. The Group applies experienced credit judgement that is determined to be predictive of the risk of loss to assess the expected credit loss, taking into account external ratings, financial statements and other available information. The Group's trade receivables are unlikely to extend past twelve months and, as such, for the purposes of expected credit loss modelling, the lifetime expected credit loss impairments recognised are the same as a twelve month expected credit loss.

There have been no significant credit risk movements since initial recognition of impairments.

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

	2020 £000	2019 £000
Balance at 1 April	6,070	804
Charge for the year	6,505	1,697
Unused amounts reversed	(1,034)	(51)
Acquisition of businesses	1,757	3,724
Amounts written off	(953)	(407)
Effects of movement in foreign exchange	296	303
Balance at 31 March	12,641	6,070

The allowance account for trade receivables is used to record provisions for doubtful debts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

24 Financial instruments continued

Derivative financial assets continued

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group, although solvent, will encounter difficulties in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. 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 2020 are set out in note 15.

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

31 March 2020	Note	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
Non-derivative financial liabilities							
Secured bank loans – Australian dollar[a]		796	(821)	(460)	(361)	—	—
Other financial liabilities[b]	18	44,169	(44,169)	(38,699)	(5,446)	(22)	(2)
Lease liabilities[b]	10	76,946	(88,341)	(16,247)	(14,753)	(32,298)	(25,043)
Trade payables[b]	19	90,820	(90,820)	(90,820)	—	—	—
Other payables[b]	19	7,537	(7,537)	(7,537)	—	—	—
Derivative financial liabilities							
Forward foreign exchange contracts carried at fair value through the hedging reserve[b]		7	(3,629)	(3,629)	—	—	—
		220,275	(235,317)	(157,392)	(20,560)	(32,320)	(25,045)

(a) Nominal interest rate 4.49%.
(b) Measured at Level 2.

31 March 2019	Note	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
Non-derivative financial liabilities							
Secured bank loans – Australian dollar[a]		2,405	(2,532)	(1,069)	(1,023)	(440)	—
Other financial liabilities[b] (restated)	18	20,759	(20,759)	(18,942)	(373)	(171)	(1,273)
Trade payables[b]	19	57,336	(57,336)	(57,336)	—	—	—
Other payables[b]	19	1,227	(1,227)	(1,227)	—	—	—
Derivative financial liabilities							
Forward foreign exchange contracts carried at fair value through the hedging reserve[b]		2	(248)	(248)	—	—	—
		81,729	(82,102)	(78,822)	(1,396)	(611)	(1,273)

(a) Nominal interest rate 4.49%.
(b) Measured at Level 2.

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

	31 March 2020				31 March 2019			
	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	**796**	**(821)**	**—**	**(821)**	2,405	(2,532)	—	(2,532)
Corporate revolving credit facilities	**—**	**—**	**(78,246)**	**(78,246)**	—	—	(29,602)	(29,602)
Receivables financing	**—**	**—**	**—**	**—**	—	—	(15,967)	(15,967)
Bank overdraft	**—**	**—**	**(3,581)**	**(3,581)**	—	—	(3,249)	(3,249)
	796	**(821)**	**(81,827)**	**(82,648)**	2,405	(2,532)	(48,818)	(51,350)

The receivables financing facilities are dependent upon the levels of the relevant 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 £219.0 million (2019: £139.0 million).

At 31 March 2020 the facility amounted to £78.2 million (2019: £45.6 million).

Additional facilities were available at other banks of £3.6 million (2019: £3.2 million).

On 5 June 2019 the Group entered into a new three year banking facility, see note 15 for more information.

d) Cash flow hedges

The following derivative financial instruments were designated as cash flow hedges:

Forward exchange contracts carrying amount	2020 £000	2019 £000
Derivative financial assets	**332**	129
Derivative financial liabilities	**(7)**	(2)

The Group has forward currency hedging contracts outstanding at 31 March 2020 designated as hedges of expected future purchases in US dollars and Chinese renminbi and sales in euros for which the Group has firm commitments, as the derivatives are based on forecasts and an economic relationship exists at the time the derivative contracts are taken out.

The terms of the forward currency hedging contracts have been negotiated to match the terms of the commitments. All contracts outstanding at the year end crystallise within twelve months of the balance sheet date at average prices of 1.11 for US dollar contracts (2019: 1.16), 7.09 for Chinese renminbi contracts (2019: n/a) and 1.14 for euro contracts (2019: n/a). At the year end the Group held $9.6 million (2019: $6.7 million), RMB 31.9 million (2019: RMB nil) and €0.9 million (2019: €nil) in hedge relationships.

When assessing the effectiveness of any derivative contracts, the Group assesses sources of ineffectiveness which include movements in volumes or timings of the hedged cash flows.

The cash flow hedges of the expected future purchases in 2021 were assessed to be highly effective and as at 31 March 2020 a net unrealised gain of £517,000 (2019: £377,000) with related deferred tax credit of £nil (2019: £nil) was included in other comprehensive income in respect of these hedging contracts. Amounts relating to ineffectiveness recorded in the income statement in the year was £nil (2019: £27,000 credit).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

24 Financial instruments continued

Derivative financial assets continued

e) Market risk

Financial risk management

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

The Group hedges a proportion, as deemed appropriate by management, of its 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.

31 March 2020	Note	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Long term assets		—	—	5,019	—	5,019
Cash and cash equivalents	14	7,988	2,682	50,238	6,190	67,098
Trade receivables	13	7,823	5,090	62,012	2,791	77,716
Derivative financial assets		198	—	—	134	332
Secured bank loans	15	—	—	—	(796)	(796)
Bank overdrafts		—	(10,408)	(14,559)	(37)	(25,004)
Loan arrangement fees	15	975	—	—	—	975
Trade payables	19	(8,858)	(6,335)	(73,382)	(2,245)	(90,820)
Other payables	19	(754)	(632)	(5,991)	(160)	(7,537)
Balance sheet exposure		7,372	(9,603)	23,337	5,877	26,983

31 March 2019	Note	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents (restated)	14	65,845	4,922	9,719	4,829	85,315
Trade receivables (restated)	13	7,731	5,403	27,112	3,851	44,097
Other receivables		966	22	1,651	40	2,679
Derivative financial assets		110	—	—	19	129
Secured bank loans	15	—	—	—	(2,405)	(2,405)
Bank overdrafts (restated)		—	(9,539)	(56,315)	(3)	(65,857)
Loan arrangement fees	15	31	—	—	—	31
Trade payables	19	(10,494)	(7,013)	(30,378)	(9,451)	(57,336)
Other payables	19	(541)	(409)	—	(277)	(1,227)
Balance sheet exposure		63,648	(6,614)	(48,211)	(3,397)	5,426

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
Euro	1.14	1.13	1.12	1.16
US dollar	1.27	1.31	1.24	1.30

Sensitivity analysis

A 10% weakening of the following currencies against sterling at 31 March 2020 would have affected 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 was performed on the same basis for 31 March 2019.

	Equity		Profit/(loss)	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Euro	**(873)**	601	**22**	6
US dollar	**2,122**	4,775	**183**	883

On the basis of the same assumptions, a 10% strengthening of the above currencies against sterling at 31 March 2020 would have affected equity and profit or loss by the following amounts:

	Equity		Profit/(loss)	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Euro	**1,067**	(735)	**(27)**	(8)
US dollar	**(2,593)**	(5,837)	**(223)**	(1,079)

Profile

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

	Note	**2020 £000**	2019 £000
Variable rate instruments			
Financial assets (restated)		**67,098**	85,315
Financial liabilities (restated)		**(25,800)**	(68,262)
Loan arrangement fees		**975**	31
Net cash	14	**42,273**	17,084

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 affected 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 and financial instruments at fair value through profit or loss. The analysis is performed on the same basis for 31 March 2019.

Sensitivity analysis

	2020 £000	2019 £000
Equity		
Increase	**206**	85
Decrease	**—**	—
Profit or loss		
Increase	**206**	85
Decrease	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

24 Financial instruments continued

Derivative financial assets continued

f) Capital management

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

The Board manages as capital its trading capital, which it defines as its net assets plus net debt. Net debt is calculated as total debt (bank overdrafts, loans and borrowings 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.

		Equity	
	Note	2020 £000	2019 £000
Net equity attributable to owners of the Parent Company		299,375	171,506
Net cash	14	(42,273)	(17,084)
Trading capital		257,102	154,422

The main areas of capital management relate to the management of the components of working capital including monitoring inventory turn, 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 Financial Officer and Chief Executive Officer or, above certain limits, by the Board. 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 average monthly net debt to EBITDA before adjusting items.

25 Capital commitments

At 31 March 2020, the Group had outstanding authorised capital commitments to purchase plant and equipment for £1.9 million (2019: £2.7 million).

26 Related parties

	2020 £000	2019 £000
Sale of goods:		
Hedlunds Pappers Industri AB	209	69
Festive Productions Ltd	7	12
Hedlund Import AB	2,225	2,955
S A Greetings (Pty) Ltd	169	126
	2,610	3,162
Purchase of goods:		
Mattr Media Ltd	71	56
	71	56
Receivables:		
Hedlund Import AB	—	29
S A Greetings (Pty) Ltd	—	31
	—	60
Payables:		
Mattr Media Ltd	25	—
Balance at 31 March	25	—

Identity of related parties and trading

Hedlund Import AB and AB Alrick-Hedlund are under the ultimate control of the Hedlund family, who are a major shareholder in the Company. 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 (South African Greetings).

During the year the Company paid for marketing services to Mattr Media Ltd, a company controlled by Joshua Fineman, who is the son of the Group CEO.

The above trading takes place in the ordinary course of business.

Other related party transactions

Directors of the Company and their immediate relatives have an interest in 27% (2019: 34%) of the voting shares of the Company. The shareholdings of Directors and changes during the year are shown in the Directors' report on page 78.

Directors' remuneration

	2020 £000	2019 £000
Short term employee benefits	**1,407**	1,835
Post-employment benefits	**8**	12
Share-based payments (credit)/charge	**(17)**	1,937
	1,398	3,784

See the Directors' remuneration report on pages 71 to 76 for more detail.

27 Subsidiary with significant non-controlling interest

The Company has two subsidiary companies which have a material non-controlling interest: IG Design Group Australia Pty Ltd ('Australia') and Anker Play Products LLC ('APP'). Summary financial information in relation to Australia and APP is shown below.

	2020			2019		
Non-controlling interest – balance sheet as at 31 March	**Australia £000**	**APP £000**	**Total £000**	Australia £000	APP £000	Total £000
Non-current assets	**8,540**	**191**	**8,731**	4,582	16	4,598
Current assets	**9,269**	**2,514**	**11,783**	10,052	3,219	13,271
Current liabilities	**(4,997)**	**(2,752)**	**(7,749)**	(6,755)	(2,600)	(9,355)
Non-current liabilities	**(5,325)**	**(62)**	**(5,387)**	(143)	—	(143)

	2020			2019		
Non-controlling interest – comprehensive income for the year ended 31 March	**Australia £000**	**APP £000**	**Total £000**	Australia £000	APP £000	Total £000
Revenue	**32,337**	**14,979**	**47,316**	39,067	11,078	50,145
Profit after tax	**1,500**	**(731)**	**769**	2,434	531	2,965
Total comprehensive income	**1,615**	**(731)**	**884**	2,229	531	2,760

	2020			2019		
Non-controlling interest – cash flow for the year ended 31 March	**Australia £000**	**APP £000**	**Total £000**	Australia £000	APP £000	Total £000
Net increase/(decrease) in cash and cash equivalents	**374**	**50**	**424**	444	(35)	409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

27 Subsidiary with significant non-controlling interest continued

	2020			2019		
Non-controlling interest	Australia £000	APP £000	Total £000	Australia £000	APP £000	Total £000
1 April	**3,740**	**311**	**4,051**	3,661	—	3,661
Share of profits for the year	**750**	**—**	**750**	1,326	—	1,326
Other comprehensive income	**57**	**—**	**57**	(10)	—	(10)
(Derecognition)/recognition of non-controlling interest	**—**	**(325)**	**(325)**	—	311	311
Disposal of Urban Dollar	**—**	**—**	**—**	(110)	—	(110)
Dividend paid to non-controlling interest	**—**	**—**	**—**	(1,075)	—	(1,075)
IFRS 16 retained earnings adjustment	**(440)**	**—**	**(440)**	—	—	—
Currency translation	**(363)**	**14**	**(349)**	(52)	—	(52)
31 March	**3,744**	**—**	**3,744**	3,740	311	4,051

28 Acquisitions and disposals of subsidiaries

Acquisitions in the year

On 3 March 2020, the Group acquired 100% of the equity of CSS Industries, Inc. ('CSS'), a creative consumer products company, focused on the craft, gift and seasonal categories predominately within the US.

The acquisition, made through a wholly owned subsidiary of IG Design Group plc, IG Design Group Americas Inc., was satisfied by total consideration of £95.9 million ($122.8 million), all of which was paid in cash.

CSS was a NYSE listed designer and manufacturer of craft, seasonal and gift products. CSS specialises in the creative development, manufacture and sale of products through a multi-channel distribution model to a broad base of mass, specialty and online retailers and distributors. Its core products within each category are as follows:

- Craft – sewing patterns, ribbons, trims, buttons, needle arts and kids' crafts;
- Gift – products designed to celebrate certain life events or special occasions, with a focus on ribbons, bows, bags and wrap, as well as stationery, baby gift items, and party and entertaining products; and
- Seasonal – holiday gift packaging items including ribbons, bows, bags, tags and gift card holders, in addition to specific holiday-themed decorations and activities.

The Directors believe that the acquisition will:

- broaden the Group's product portfolio and provide its customers with a substantially enhanced "one-stop-shop" product and service offering;
- allow Design Group entry into the craft market and accelerate online revenues;
- deliver substantial estimated annual synergies of £10.0 million by March 2023; and
- provide for tangible operating synergies through the combination of the Group's US business with CSS, including economies of scale, enhanced US manufacturing capacity and combined US distribution network.

In the period from acquisition to 31 March 2020, CSS contributed sales of £15.9 million to the consolidated Group revenue for the year ended 31 March 2020 and adjusted profit of £3.4 million. If the acquisition had occurred on 1 April 2019, Group revenue would have been £716.7 million and net adjusted profit before tax would have been £28.9 million.

£3.6 million of transaction costs were recognised in the consolidated income statement in adjusting items.

Effect of acquisition of CSS

	Provisional fair values recognised on acquisition £000
Property, plant and equipment	31,695
Right-of-use assets	31,758
Intangible assets	4,656
Inventories	44,242
Trade and other receivables	51,013
Doubtful debt provision	(1,743)
Cash	8,233
Trade and payables	(58,739)
Provisions	(4,037)
Income taxes	(2,991)
Deferred tax	6,873
Lease liabilities	(36,988)
Net identifiable assets and liabilities	**73,972**
Consideration paid in shares	—
Consideration paid in cash	95,929
Total consideration	95,929
Goodwill	**21,957**

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

- property, plant and equipment has been valued using market comparison and cost techniques. The valuation model considers market prices for similar items when they are available, and depreciated replacement costs when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. The Directors consider that the property, plant and equipment has been fairly valued using the depreciated replacement cost method although the assessment is provisional and will be finalised during the look back period; and
- intangible assets are made up of customer relationships which have been valued using a Multi-period Excess Earnings Method ('MEEM') approach and brands valued using the relief-from royalty method; and the replacement cost approach has been used to value the raw materials, intermediary inventory and finished goods purchased (adjusted for reserves) as at the valuation date. WIP and finished goods manufactured are valued using the Net Realisable Value ('NRV') method.

The goodwill recognised above includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, the skills and experience of the assembled workforce, the increase in scale, significant synergies and the future growth opportunities that the business provide to the Group's operations. The goodwill is not deductible for tax purposes.

Contingent liabilities of £3.6 million were recognised as part of the business combination relating to reinstatement costs of leased buildings, potential change of control penalties, potential environmental claims and potential litigation. The liabilities have the potential to unwind over one to five years and contain estimates.

Fair values of assets and liabilities, including property, plant and equipment, acquired for CSS are provisional and subject to change as the Group is still permitted to make fair value adjustments up until twelve months after the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

28 Acquisitions and disposals of subsidiaries continued

Disposals in the current year

On 24 February 2020, the Group divested of its operations in Shaoxing to Chen Yue, a well-known supplier to the Group, and comprised a sale of 100% of the equity of the company, which was a direct subsidiary of IG Design Group Americas Inc. After the release of acquisition risks provisions in the opening balance sheet relating to commercial and tax issues, the disposal resulted in a gain before tax of £2.0 million, which has been recognised within adjusting items. Related transaction costs and tax costs of £487,000 were also recognised in the consolidated income statement in adjusting items.

The disposal proceeds, net liabilities disposed of and gains arising from the movement in foreign currency exchange from the divestment of the Shaoxing business were as follows:

	£000
Property, plant and equipment	108
Right-of-use assets	461
Inventories	635
Trade and other receivables	561
Corporation tax	(2,570)
Trade and other payables	(444)
Provisions	(158)
Lease liabilities	(502)
	(1,909)
Gain on disposal calculated as:	
Disposal proceeds	98
Net liabilities disposed	1,909
	2,007
Transaction costs	(193)
Tax on sale of business (including Chinese withholding tax)	(294)
Reclassification of gains from movement in foreign currency exchange	(34)
	1,486
Disposal proceeds	
Satisfied by:	
Cash consideration	98
Deferred consideration	(98)
Net cash outflow from disposals of businesses	—

Acquisitions in the prior year

Impact Innovations Inc.

On 31 August 2018, the Group acquired 100% of the equity of Impact Innovations Inc. (‘Impact’), a leading supplier of gift packaging and seasonal décor products in the US.

The provisional acquisition accounting as stated in the financial statements to 31 March 2019 has been reviewed and measurement period adjustments made to goodwill, intangibles and provisions. The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period. The changes made were the creation of additional provisions of £1.3 million and reduction of certain intangible assets (trade name) from £1.9 million to £1.2 million.

In the period from acquisition to 31 March 2019, Impact contributed sales of £88.7 million to the consolidated Group revenue for the year ended 31 March 2019. If the acquisition had occurred on 1 April 2018, Group revenue would have been £489.8 million. Following the restructuring of the US business to combine manufacturing facilities into one operation, it is no longer possible to separately disclose the profit of the Impact business.

Adjustment to provisional accounting

	Provisional fair values recognised on acquisition £000	Adjustments within the measurement period £000	**Final fair values recognised on acquisition £000**
Property, plant and equipment	9,313	—	**9,313**
Intangible assets	19,000	(692)	**18,308**
Inventories	26,295	—	**26,295**
Trade and other receivables	31,966	—	**31,966**
Cash	1,208	—	**1,208**
Trade and other payables	(31,433)	—	**(31,433)**
Provisions (including taxation)	(2,197)	(1,312)	**(3,509)**
Net identifiable assets and liabilities	54,152	(2,004)	**52,148**
Consideration paid in shares	15,385	—	**15,385**
Consideration paid in cash	66,809	—	**66,809**
Total consideration	82,194	—	**82,194**
Goodwill	28,042	2,004	**30,046**

Fair value adjustments were made to trade names, customer relationships and inventory.

29 Non-adjusting post balance sheet events

There were no known material non-adjusting events which occurred between the end of the reporting period and prior to the authorisation of these financial statements on 27 July 2020.

COMPANY BALANCE SHEET
AS AT 31 MARCH 2020

	Notes	2020 £000	Restated[a] 2019 £000
Fixed assets			
Intangible assets	2	**67**	—
Tangible assets	3	**3**	2
Investments	4	**213,107**	44,630
Deferred tax	5	**2,113**	1,998
Total non-current assets		**215,290**	46,630
Current assets			
Debtors – due within one year	6	**875**	2,114
Debtors – due after more than one year	7	**27,374**	26,849
Cash at bank and in hand	8	**18,588**	58,093
		46,837	87,056
Creditors: amounts falling due within one year	9	**(23,200)**	(5,400)
Net current assets		**23,637**	81,656
Total assets less current liabilities		**238,927**	128,286
Provisions for liabilities – other provisions	10	**(58)**	(115)
Net assets		**238,869**	128,171
Capital and reserves			
Called up share capital	11	**4,818**	3,918
Share premium account		**172,383**	56,323
Capital redemption reserve		**1,340**	1,340
Merger reserve		**32,399**	32,399
Hedging reserve		**198**	110
Profit and loss account		**27,731**	34,081
Total equity		**238,869**	128,171

(a) Details of the restatement can be found in note 1.

IG Design Group plc is registered in England and Wales, number 1401155.

The Company made a profit in the year of £889,000 (2019: £1.2 million).

The financial statements on pages 142 to 156 were approved by the Board of Directors on 27 July 2020 and were signed on its behalf by:

Paul Fineman
Director

Giles Willits
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2020

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Profit and loss account £000	Total equity £000
At 1 April 2018	3,194	8,475	1,340	17,164	(91)	34,756	64,838
Profit for the year	—	—	—	—	—	1,160	1,160
Other comprehensive income	—	—	—	—	201	—	201
Total comprehensive income	—	—	—	—	201	1,160	1,361
Transactions with owners in their capacity as owners							
Equity-settled share-based payments (note 12)	—	—	—	—	—	1,478	1,478
Tax on equity-settled share-based payments (note 5)	—	—	—	—	—	457	457
Share options charge relating to subsidiary employees (note 4)	—	—	—	—	—	855	855
Shares issued (restated)[a] (note 11)	641	47,830	—	15,235	—	—	63,706
Options exercised (note 11)	83	18	—	—	—	(72)	29
Equity dividend paid (note 17)	—	—	—	—	—	(4,553)	(4,553)
At 31 March 2019 (restated)	3,918	56,323	1,340	32,399	110	34,081	128,171
Profit for the year	**—**	**—**	**—**	**—**	**—**	**889**	**889**
Other comprehensive income	**—**	**—**	**—**	**—**	**88**	**—**	**88**
Total comprehensive income	**—**	**—**	**—**	**—**	**88**	**889**	**977**
Transactions with owners in their capacity as owners							
Equity-settled share-based payment (note 12)	**—**	**—**	**—**	**—**	**—**	**(42)**	**(42)**
Tax on equity-settled share-based payments (note 5)	**—**	**—**	**—**	**—**	**—**	**132**	**132**
Share options charge relating to subsidiary employees (note 4)	**—**	**—**	**—**	**—**	**—**	**(189)**	**(189)**
Shares issued (note 11)	**864**	**116,060**	**—**	**—**	**—**	**—**	**116,924**
Options exercised (note 11)	**36**	**—**	**—**	**—**	**—**	**(36)**	**—**
Equity dividend paid (note 17)	**—**	**—**	**—**	**—**	**—**	**(7,104)**	**(7,104)**
At 31 March 2020	**4,818**	**172,383**	**1,340**	**32,399**	**198**	**27,731**	**238,869**

(a) Details of the restatement can be found in note 1.

Within the profit and loss account is a cumulative amount of £2.6 million (2019: £2.8 million) which is unrealised in respect of share options granted to subsidiary employees. See the consolidated statement of changes in equity for descriptions of reserve.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2020

1 Accounting policies – Company

Basis of preparation

IG Design Group plc (the 'Company') is a company limited by shares and incorporated and domiciled in England and Wales, UK.

The Company financial statements present the information about the Company as a separate entity and not about the Group.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006. The presentation and functional currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these 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 note 16.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the following exemptions in its individual financial statements:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows.

Measurement convention

The financial statements are prepared on the historical cost basis except for the recognition of certain financial assets and liabilities measured at fair value.

Going concern

See note 1 to the Group accounting policies on page 96. Based on the financial performance of the Group, the Directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate prevailing at that date and recognised in the income statement unless hedge accounting criteria apply (see policy for financial instruments).

Basic financial instruments

Trade and other debtors

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

Trade and other payables are stated at their nominal value which is considered to be their fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest, less direct arrangement costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any provision for impairment.

Cash and cash equivalents

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

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except that hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement of fair value is recognised immediately in profit or loss, except where it qualifies for hedge accounting.

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 directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Company discontinues 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 equity 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 equity is recognised in the income statement immediately.

Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software 3-5 years

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

- Fixtures and fittings 3-5 years

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Leases

Where the Company enters into a lease which does not entail taking substantially all the risks and rewards of ownership of an asset, the lease is accounted for as an 'operating lease' and the rentals payable are charged to the profit and loss account on a straight-line basis over the life of the lease.

Share-based payments

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.

Employer's social security charges are 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

1 Accounting policies – Company continued

Share-based payments continued

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

Own shares held by Employee Benefit Trust

Transactions of the Group-sponsored 'International Greetings Employee Benefit Trust' are included in the Group financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

Dividends on shares presented within shareholders' funds

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

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Employee benefits

Pensions

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

Restatement/reclassifications

In the preparation of these financial statements, comparative amounts have been restated to reflect the following:

- the shares issued in the year ended 31 March 2019 as consideration for the acquisition of Impact qualified for merger relief in accordance with the Companies Act 2006 (Section 612). Accordingly, for the year ended 31 March 2019, the Company has restated £15.2 million from the share premium reserve to the merger reserve. This has no overall impact on the total equity and reserves for the Company.

There have also been some reclassifications between balance sheet categories:

- the deferred tax asset has been moved from Debtors – due after more than one year to a separate line on the face of the balance sheet;
- derivative financial assets previously shown on the face of the balance sheet are now included in Debtors – due within one year;
- loan arrangement fees previously shown as debit balances in Creditors have been reclassified into Debtors.

2 Intangible assets

	Software £000
Cost	
Balance at 1 April 2019	86
Additions	67
Balance at 31 March 2020	**153**
Depreciation and impairment	
Balance at 1 April 2019	(86)
Amortisation charge for the year	—
Balance at 31 March 2020	**(86)**
Net book value	
At 31 March 2020	**67**
At 31 March 2019	—

3 Tangible assets

	Fixtures and fittings £000
Cost	
Balance at 1 April 2019	178
Additions	3
Balance at 31 March 2020	**181**
Depreciation and impairment	
Balance at 1 April 2019	(176)
Depreciation charge for the year	(2)
Balance at 31 March 2020	**(178)**
Net book value	
At 31 March 2020	**3**
At 31 March 2019	2

4 Investments

	Shares in Group undertakings £000	Loans to Group undertakings £000	Total £000
Cost			
At 1 April 2018	25,204	5,428	30,632
Additions – share option charge relating to subsidiary employees	855	—	855
Additions – investment in subsidiary	15,386	—	15,386
Effects of movement in foreign exchange	—	417	417
At 31 March 2019	41,445	5,845	47,290
Additions – share option charge relating to subsidiary employees	(189)	—	(189)
Additions – investment in subsidiary	168,383	—	168,383
Effects of movement in foreign exchange	—	283	283
At 31 March 2020	**209,639**	**6,128**	**215,767**
Provisions			
At 31 March 2019 and 2020	(2,660)	—	(2,660)
Net book value			
At 31 March 2020	**206,979**	**6,128**	**213,107**
At 31 March 2019	38,785	5,845	44,630

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

4 Investments continued
The Company has the following investments in subsidiaries:

	Country of incorporation	Percentage of ordinary shares held 2020	Percentage of ordinary shares held 2019
Trading companies			
Anchor International BV Registered office: Voltastraat 12, 3281 NG Numansdorp, The Netherlands	Netherlands	100[(a)]	100[(a)]
Anker Play Products, LLC Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA	USA	50[(a)]	50[(a)]
Berwick Management LLC Registered office: Bomboy Lane & Ninth Street, Berwick, PA 18603, USA	USA	100[(a)]	–
Berwick Offray Hong Kong Limited Registered office: 31/F., 148 Electric Road, North Point, Hong Kong	Hong Kong	100[(a)]	–
Berwick Offray LLC Registered office: 2015 West Front Street, Berwick, Pennsylvania 18603, USA	USA	100[(a)]	–
BOC Distribution Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
C.R. Gibson, LLC Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
British Trimmings Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	–
C.R. Gibson Pacific Rim Limited Registered office: 31/F., 148 Electric Road, North Point, Hong Kong	Hong Kong	100[(a)]	–
CRG Distribution, Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
Greetings Ningbo Business Consulting Limited Registered office: 13-8, Building 003, No 3, 5 and 6 of Century Oriental Business Plaza, Yinzhou, Ningbo, China	China	100[(a)]	100[(a)]
CSS Industries, Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
CSS Pacific Rim Limited Registered office: 31/F., 148 Electric Road, North Point, Hong Kong	Hong Kong	100[(a)]	–
IG Design Group Americas, Inc Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA	USA	100	100
IG Design Group Australia Pty Limited Registered office: 121 Rayhur Street, Clayton, South Victoria 3169, Australia	Australia	50	50
IG Design Group BV Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands	Netherlands	100[(a)]	100[(a)]
IG Design Group UK Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(b)]	100[(b)]
IG Design Group S.p.z.o.o Registered office: Jędrzychowice 116A, 59-900 Zgorzelec, Poland	Poland	100[(a)]	100[(a)]
India Trimmings Private Limited Registered office: Tamil Nadu, Coimbatore, India	India	100[(a)]	–
International Greetings Asia Limited Registered office: 21F, 69 Jervois Street, Sheung Wan, Hong Kong	Hong Kong	100	100

	Country of incorporation	Percentage of ordinary shares held 2020	Percentage of ordinary shares held 2019
Trading companies			
Impact Innovations, Inc Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA	USA	100[(a)]	100[(a)]
Impact Innovations Asia Limited Registered office: Flat 11A, Eldex Industrial Building, 21 Ma Tam Wai Road, To Kwa Wan Kowloon, Hong Kong	Hong Kong	100[(a)]	100[(a)]
Lion Ribbon Company, LLC Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
McCall Distribution, Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
McCall Pattern Company Limited Registered office: 3rd Floor, Condor House, 5-10 St. Paul's Churchyard, London, EC4M 8AL, UK	Great Britain	100[(a)]	–
Paper Magic Group, Inc Registered office: 54 Glenmaura National Blvd., Suite 200, Moosic, Pennsylvania 18507, USA	USA	100[(a)]	–
Paper Magic Distribution, Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
Paper Magic Group (Hong Kong) Limited Registered office: 31/F., 148 Electric Road, North Point, Hong Kong	Hong Kong	100[(a)]	–
Simplicity Creative Corp Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
Simplicity Limited Registered office: PO Box 367, Coronation Street, Stockport, Cheshire, SK5 7WZ, UK	Great Britain	100[(a)]	–
Simplicity Pty Limited Registered office: Derham Houston Lawyers, Suite 12 Level 12, 37 Bligh Street, Sydney NSW 2000, Australia	Australia	100[(a)]	–
The Huizhou Gift International Greetings Company Limited Registered office: Fuda industrial Zone, Futian Town, Bolao, Huizho City, Guangdong, China	China	100[(a)]	100[(a)]
The Lang Companies, Inc Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA	USA	100[(a)]	100[(a)]
The McCall Pattern Company Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	–
Wrights Commercial (Shanghai) Co Limited Registered office: Unit E, 12th Floor, Building 1 N, 107, South Zhongshan Er Road, Xuhui District, Shanghai, China	China	100[(a)]	–
Non-trading and dormant companies			
Anker International plc Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
Belgrave Graphics Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

4 Investments continued

	Country of incorporation	Percentage of ordinary shares held 2020	Percentage of ordinary shares held 2019
Non-trading and dormant companies			
Britesparks Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100	100
British Trimmings (1997) Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
British Trimmings (Leek) Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
British Trimmings (Reddish) Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
Concorde Industries Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	99[(a)]	99[(a)]
Copywrite Designs Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100	100
Credit Collection Consultants Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	50[(a)]	50[(a)]
Dominion Simplicity Patterns Limited 5240 Finch Avenue East, Scarborough, Ontario M1S5A2, Canada	Canada	100[(a)]	—
Hoopack Hoogeveen BV Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands	Netherlands	100[(a)]	100[(a)]
Howard Industries Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
IG Design Group (Lang), Inc Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA	USA	100[(a)]	100[(a)]
IG Design Group Europe BV Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands	Netherlands	100	100
IG Employee Share Trustee Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(b)]	100[(b)]
Impact Paper Products, LLC Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA	USA	100[(a)]	100[(a)]
Impact Paper Hong Kong Limited Registered office: Flat 11A, Eldex Industrial Building, 21 Ma Tam Wai Road, To Kwa Wan Kowloon, Hong Kong	Hong Kong	100[(a)]	100[(a)]
LR Texas Corp Registered office: 350 North St. Paul Street, Suite 2900, Dallas, Texas 75201, USA	USA	100[(a)]	—
McCall Pattern Service NZ Limited Registered office: Simpson Grierson, 88 Shortland Street, Auckland Central, Auckland, 1010, New Zealand	New Zealand	100[(a)]	—
McCall Pattern Service Pty Limited Registered office: Derham Houston Lawyers, Suite 12 Level 12, 37 Bligh Street, Sydney NSW 2000, Australia	Australia	100[(a)]	—
Paper Magic de Mexico, SA de CV No registered address	Mexico	100[(a)]	—
Polaris Plastics Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]

	Country of incorporation	Percentage of ordinary shares held 2020	Percentage of ordinary shares held 2019
Non-trading and dormant companies			
Philadelphia Industries, Inc Registered office: 1105 North Market Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	—
School Supplyline Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
Scoop Designs Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
Simplicity Creative Group Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
Tom Smith Christmas Crackers Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
Tom Smith Crackers Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100	100
Tom Smith Group Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(b)]	100[(b)]
Tom Smith Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100	100
Tom Smith Online Limited Registered office: No 7 Water End Barns, Water End, Eversholt MK17 9EA, UK	Great Britain	100[(a)]	100[(a)]
Variety Accessories, LLC Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA	USA	100[(a)]	100[(a)]
Weltec BV Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands	Netherlands	100[(a)]	100[(a)]
Wendy A. Cushing Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
Wendy Cushing Trimmings Limited Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK	Great Britain	100[(a)]	—
W.J.S. Furniture, Inc Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA	USA	100[(a)]	—

(a) Indirect holding.
(b) 50% direct/50% indirect holding.

Class of shares held are ordinary shares for companies incorporated in Great Britain or the equivalent for the overseas subsidiaries.

Concorde Industries Ltd and Credit Collection Consultants Ltd are dormant companies that have never traded and both have net assets of £2.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

5 Deferred tax asset

	2020 £000	2019 £000
Accelerated capital allowances	**72**	81
Tax loss carried forward	**1,168**	760
Other timing differences	**873**	1,157
	2,113	1,998

Deferred tax is presented net on the balance sheet in so far as a right of offset exists. The net deferred tax asset is £2.1 million (2019: £2.0 million). Deferred tax assets and liabilities are treated as non-current as it expected that they will be recovered or settled more than twelve months after the reporting date.

A total tax credit of £132,000 (2019: £457,000 credit) has been recognised through the statement of changes in equity in respect of share-based payments (consisting of a deferred tax credit and current tax credit of £12,000 (2019: £275,000 debit) and £120,000 (2019: £732,000) respectively). There are no deferred tax balances with respect to cash flow hedges.

6 Debtors – due within one year

	2020 £000	2019 £000
Trade receivables	**2**	17
Amounts owed by Group undertakings	**98**	1,065
Other debtors	**—**	757
Prepayments	**127**	134
Financial assets designated at fair value through hedging reserve (restated)	**198**	110
Loan arrangement fees (restated)	**450**	31
	875	2,114

The deferred tax asset has been moved to a separate line on the face of the balance sheet.

Derivative financial assets previously shown on the face of the balance sheet are now included above.

Loan arrangement fees previously shown as debit balances in Creditors have been reclassified above.

7 Debtors – due after more than one year

	2020 £000	2019 £000
Amounts owed by Group undertakings[(a)]	**26,849**	26,849
Loan arrangement fees (restated)	**525**	—
	27,374	26,849

(a) Attracts interest at market rate and is repayable on 31 July 2021.

Loan arrangement fees previously shown as debit balances in Creditors have been reclassified above.

8 Cash at bank and in hand

	2020 £000	2019 £000
Cash at bank and in hand	**18,588**	58,093
Bank overdrafts	**(10,446)**	—
Cash and cash equivalents per cash flow statement	**8,142**	58,093

9 Creditors: amounts falling due within one year

	Note	2020 £000	Restated[a] 2019 £000
Bank loans and overdrafts	8	**10,446**	—
Trade creditors		**1,393**	130
Amounts owed to undertakings		**8,398**	1,533
Other creditors including taxation and social security		**91**	203
Accruals and deferred income		**2,872**	3,534
		23,200	5,400

Refer to note 15 to the Group's financial statements for more details of the terms of the bank borrowings.

(a) Loan arrangement fees previously shown as debit balances in Creditors have been moved into Debtors.

10 Provisions for liabilities – other provision

	2020 £000	2019 £000
Balance at 1 April	**115**	104
Reclassified from other creditors	**—**	43
Provisions made in the year	**8**	7
Provisions released in the year	**(53)**	—
Provisions used during the year	**(26)**	(71)
Unwinding of discounted amount	**14**	32
	58	115

The provision relates to dilapidations of a property lease that expires in August 2021.

11 Called up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
96,366,799 (2019: 78,365,046) ordinary shares of 5p each	**4,818**	3,918

Of the 96.4 million (2019: 78.4 million) shares in the Company, 31,000 (2019: 31,000) are held by the International Greetings Employee Benefit Trust.

Refer to note 20 to the Group's financial statements for details of movements in share capital.

12 Share-based payments

Refer to note 23 to the Group's financial statements for details of share-based payments.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

13 Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2020 £000	2019 £000
Assets measured at fair value through the hedging reserve	**198**	110
Assets measured at amortised cost	**45,633**	86,781
Liabilities measured at amortised cost	**(20,237)**	(1,663)
	25,594	85,228

(b) Financial instruments measured at fair value

Derivative financial instruments

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

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models, which is in line with when they are expected to affect profit and loss.

	2020			2019		
	Carrying amount £000	Expected cash flows £000	One year or less £000	Carrying amount £000	Expected cash flows £000	One year or less £000
Forward exchange contracts:						
Assets	**198**	**9,565**	**9,565**	110	5,799	5,799

The Company uses cash flow hedge accounting in line with FRS 102.12, by entering into forward exchange contracts to hedge foreign exchange exposure. Fair value at 31 March 2020 was £198,000 (2019: £110,000) recognised in other comprehensive income.

The amount recognised in the profit and loss account for the year was £nil (2019: £nil).

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	Fair value 2020 £000	Fair value 2019 £000
Forward exchange contracts:		
Assets	**198**	110

14 Contingencies

The Company has given, together with certain of its subsidiary undertakings, an unlimited composite joint and several guarantee in respect of the Group facility provided by HSBC, NatWest, BNP Paribas, Sun Trust and PN of itself and its subsidiaries. At 31 March 2020, the Company had cash of £18.6 million (2019: £58.1 million) which offset net borrowings elsewhere in the Group of £25.0 million (2019: £65.9 million). Therefore, the total of this guarantee at the year end, in relation to the Company only, was £25.0 million (2019: £65.9 million).

The Company has given HSBC Bank (China) Company Ltd a guarantee of RMB15.4 million (£1.8 million) and $3.8 million (£3.1 million) on behalf of its subsidiary The Huizhou Gift International Greetings Company Limited.

As part of the Group refinancing completed in June 2016 the Company provided guarantees to HSBC banks in the Netherlands of €1.2 million (£1.1 million), the USA $5.9 million (£4.8 million) and in Hong Kong $18.5 million (£14.9 million) on behalf of the Group's trading subsidiaries in those countries.

15 Related parties

Identity of related parties with which the Company has transacted:

Group undertakings:

- IG Design Group UK Limited;
- IG Design Group Americas, Inc;
- Impact Innovations, Inc;
- The Lang Companies, Inc;
- International Greetings Asia Limited;
- The Huizhou Gift International Greetings Company Limited;
- IG Design Group BV;
- Anchor International BV;
- IG Design Group S.p.z.o.o; and
- IG Design Group Australia Pty Limited.

Related party transactions – transactions with key management

	2020 £000	2019 £000
Short term employee benefits	**1,407**	1,835
Post-employment benefits	**8**	12
Share-based payment	**(17)**	1,937
	1,398	3,784

Related party transactions – transactions with Group undertakings

	2020 £000	2019 £000
Management recharges	**1,703**	2,613
Receivables outstanding	**26,947**	27,914
Creditors outstanding	**(8,398)**	(1,533)

During the year the Company paid £71,000 (2019: £56,000) for marketing services to Mattr Media Ltd, a company controlled by Joshua Fineman, who is the son of the Group CEO, and had an outstanding unpaid balance of £25,000 (2019: £nil).

16 Accounting estimates and judgements

Management does not consider that there are any significant accounting estimates or judgements other than those showing in note 1 to the Group financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2020

17 Dividends paid and proposed

A final dividend for year ending 31 March 2019 of 6.00p (for year ending 31 March 2018: 4.00p) was paid on 16 September 2019. An interim dividend of 3.00p was paid on 17 January 2020 (2019: 2.50p). The Directors are recommending the payment of a final dividend of 5.75p in respect of the year ended 31 March 2020 (2019: 6.00p). If approved it will be paid in November 2020 to shareholders on the register at the close of business on 2 October 2020.

	2020		2019	
Dividends paid in the year	**Pence per share**	**£000**	Pence per share	£000
Final equity dividend for prior year	**6.00**	**4,732**	4.00	2,597
Interim equity dividend for current year	**3.00**	**2,372**	2.50	1,956
Dividends paid in the year		**7,104**		4,553

	2020		2019	
Proposed for approval at Annual General Meeting	**Pence per share**	**£000**	Pence per share	£000
Final equity dividend for current year	**5.75**	**5,541**	6.00	4,702

18 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year was 17 (2019: 17), all relating to management and administration.

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**1,844**	2,321
Share-based payments – Long Term Incentive Plan charge	**20**	2,064
Social security costs	**246**	317
Other pension costs	**101**	96
	2,211	4,798

For information on Directors' remuneration please refer to the section titled 'Directors' remuneration' within the Directors' remuneration report (pages 71 to 76) and Long Term Incentive Plan (page 127), which form part of these audited financial statements.

19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020 £000	2019 £000
Less than one year	**56**	49
Between one and five years	**28**	69
More than five years	**—**	—
	84	118
Operating lease expense in the income statement	**54**	49

20 Non-adjusting post balance sheet event

There were no known material non-adjusting events which occurred between the end of the reporting period and prior to the authorisation of these financial statements on 27 July 2020.

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