# IG Design Group plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

# 2022

# 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.



## Governance

Information on how the Group is governed and activities of the Board.



## Financials – Group

The Group's consolidated financial statements and comprehensive notes covering the year ended 31 March 2022.



## Financials – Company

The Company's financial statements and comprehensive notes covering the year ended 31 March 2022.



Alternative performance measures (APMs): We use both statutory reported and adjusted measures in our strategic report. Adjusted measures in management's view reflect the under-lying performance of the business and provide 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 27. In order to show when such measures have been used, the APMs are highlighted in blue throughout the executive review.

# We are Design Group

# Driven by our purpose, our values and our goals


See more on page 08

See more on page 08

# Our commitment to shareholders

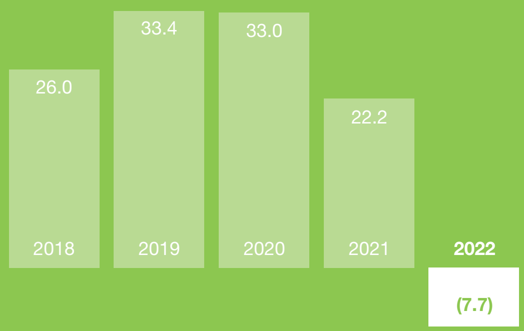
## Delivering growth

Adjusted earnings per share

Aim to deliver double-digit three-year compound annual growth

Through organic growth and acquisitions

**Adjusted earnings/(loss) per share[a], [b]**
(cents)




FY2022 reported diluted (loss)/earnings per share (3.3c) (FY2021: 8.4c)

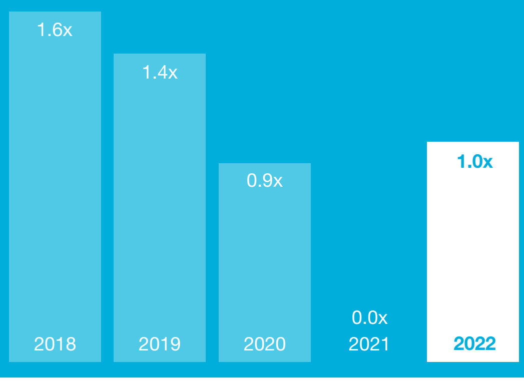
## Generating cash

Average leverage

Sustain long-term average leverage below 2.0x

Provides capacity for future investment

**Average leverage[a], [b]**



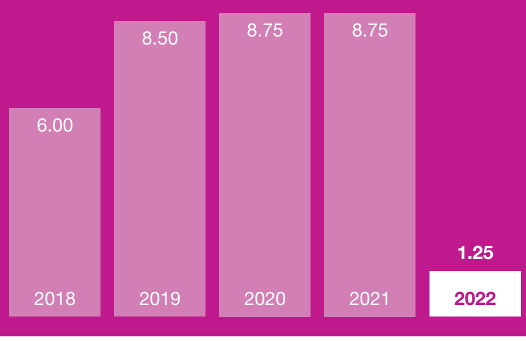

## Improving returns

Dividend

Trend upwards until 2.5x covered (40% payout)

Increased shareholder distributions

**Dividends**
(pence)



## Key performance indicators

### Revenue

**$965.1m**

FY2021: $873.2m

### Adjusted (loss)/profit before tax[a]

**$(1.3)m**

FY2021: $32.8m (restated)[b]

### Reported profit before tax

**$2.2m**

FY2021: $14.7m

### Adjusted EBITDA[a]

**$38.3m**

FY2021: $73.3m (restated)[b]

### Average bank debt

**$17.2m**

FY2021: $2.2m

### Cash conversion[a]

**15.1%**

FY2021: 93.2% (restated)[b]

### Return on capital employed[a]

**1.3%**

FY2021: 15.8% (restated)[b]

(a) For definitions please refer to detailed financial review on page 27.
(b) All relevant prior year adjusted results have been restated to reflect the inclusion of share-based payment credit/charges within adjusted metrics.

## AT A GLANCE

# We're all around the world

We have more than **11,000** customers worldwide

Products sold across **210,000** stores

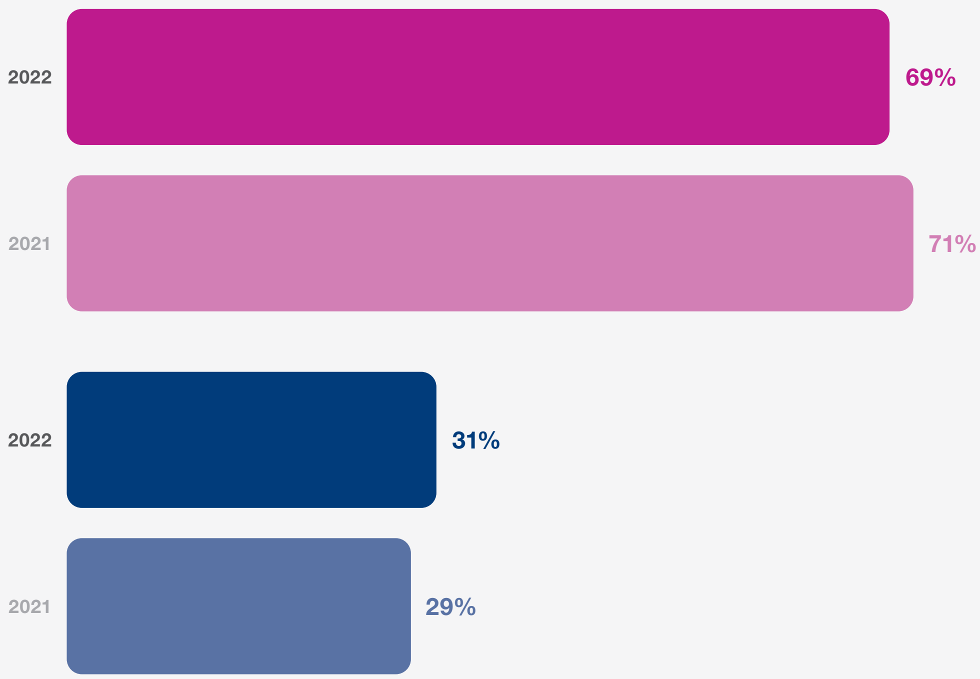
We operate in more than **80** countries

We benefit from considerable market presence around the world.

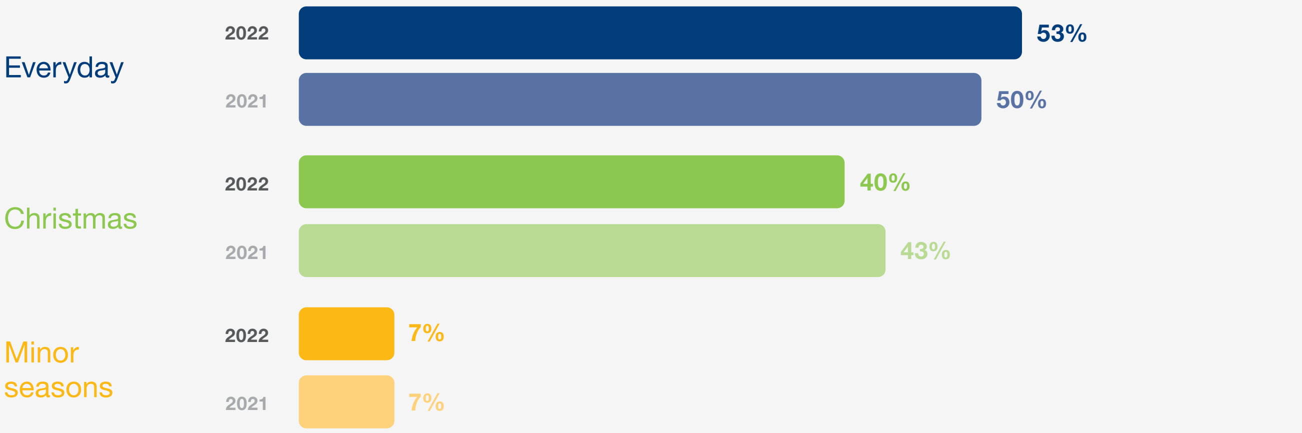
### Revenue by customer destination

Americas
**$665.1m**
2021: $621.7m

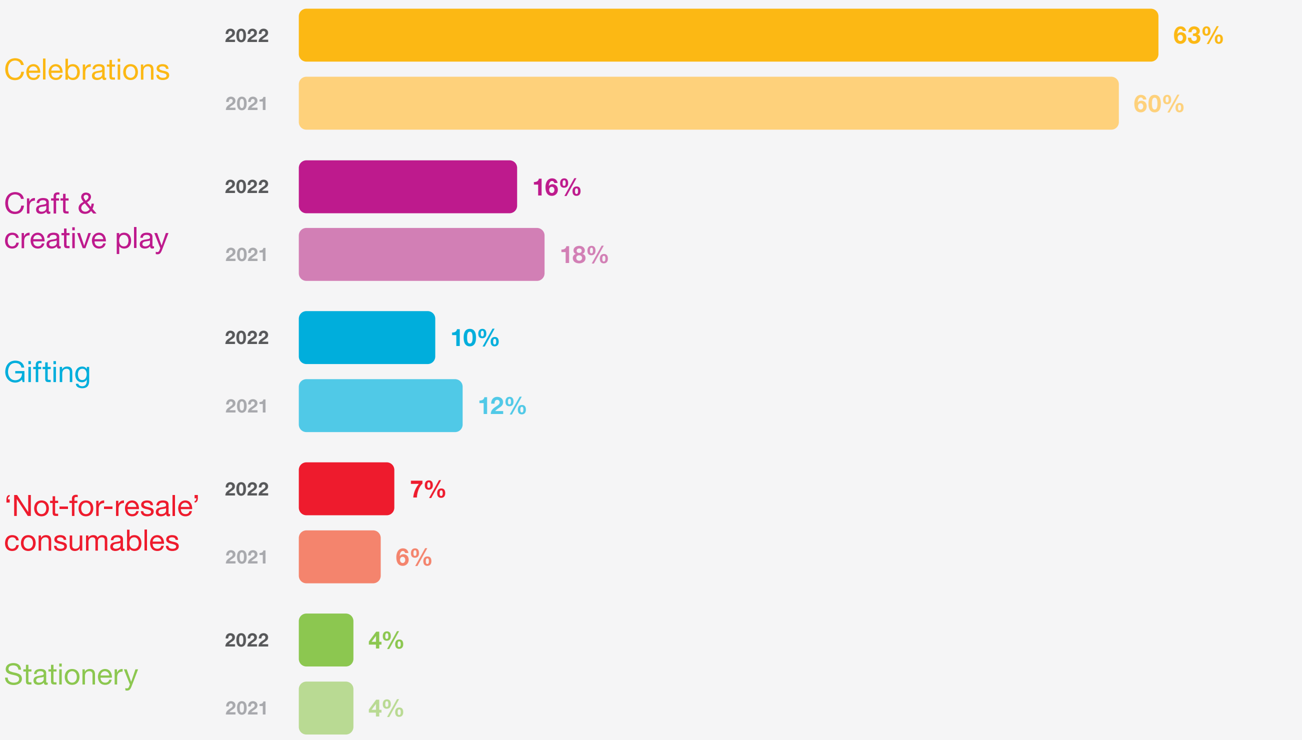
International
**$300.0m**
2021: $251.5m



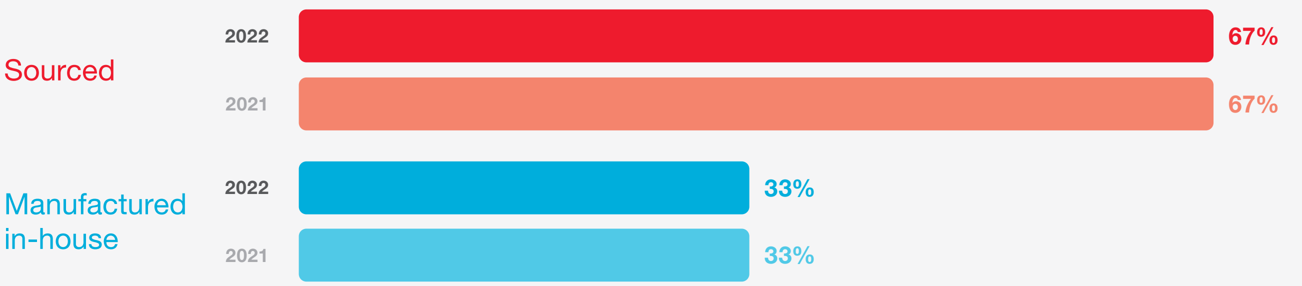
## Revenue by season

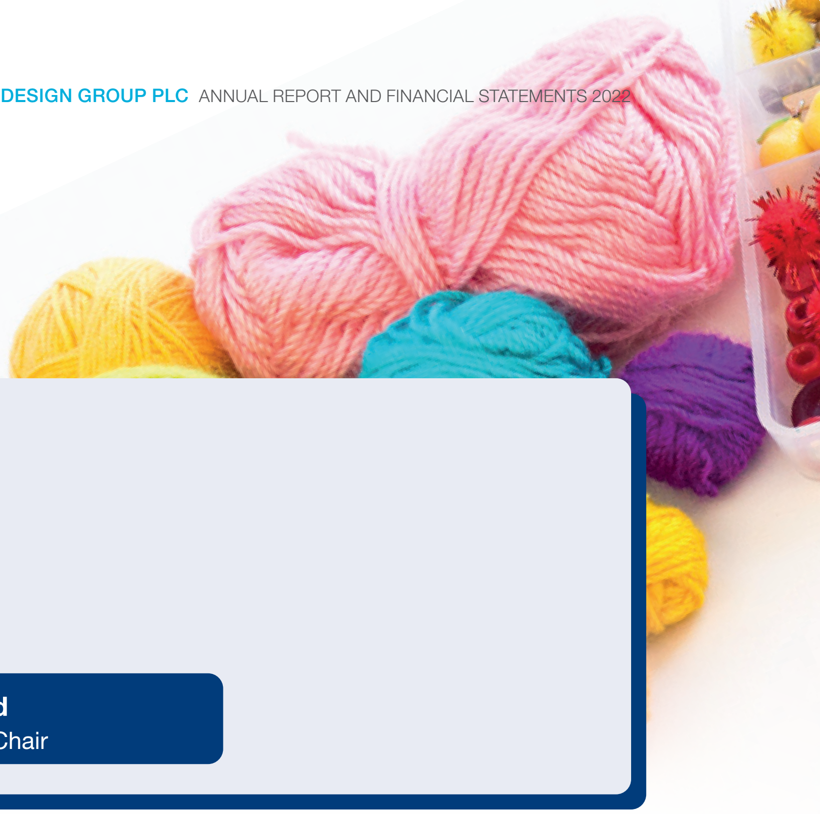



## Revenue by product




## Revenue by source





# STATEMENT FROM THE CHAIR

**Stewart Gilliland**
Interim Executive Chair

As I write my first statement as Chair of Design Group, I am reflecting on a year that has seen the Group go through some of its most significant challenges in its recent history, and as we have navigated a period of change and uncertainty, I have been impressed by the resilience and positive attitude displayed by all my colleagues. I would like to extend my appreciation to every employee in the Group for their unwavering hard work and I am delighted to be taking on the role of Interim Executive Chair for the Group for the near term whilst we work together to drive improvement in the performance of the Group.

## Operating results

This financial year has been one of considerable challenge for the Group, and whilst we have seen strong demand for our product from our valued customers, our ability to deliver on time and in full has been tested to its limits with the perfect storm of limited container availability driving up demand and therefore associated costs of freight, alongside labour constraints as the employment market in many of the jurisdictions in which we operate became, and remains, incredibly buoyant and therefore increasing labour costs for the Group. These increased costs alongside the rising costs of our key raw materials have meant that the Group's margins have suffered significantly this year.

Although our teams around the world engaged with both our customers and suppliers at an early stage as these events unfolded, the timing of these cost increases has meant that we have been limited in our ability to negotiate price increases with our customers or savings with our suppliers. This has compounded the impact on our financial results for the year.

## Priorities

The disappointing results have been driven by our Americas business, as they continue to work on the integration of the sizeable business post two acquisitions in quick succession.

Our focus now as we move forward is to review our priorities and plans with regard to the Americas business to ensure we get it back on track. Part of this progression has meant a change of leadership in the business as Lance Burn steps into the Interim Chief Executive Officer (CEO) of Americas role and my Board colleagues and I give him our full support as he works to drive forward the key priorities that can be seen in more detail in the executive review on pages 14 to 27.

## People

Our business model, which operates in a decentralised manner, relies heavily on our people, who are the centre of our operations. Their passion, commitment and drive as we have faced this period of uncertainty has been extraordinary. As I become more established in my role as Interim Executive Chair, I am excited to work with our teams on a day-to-day basis and gain a deeper understanding of how we operate and what drives our people to remain loyal and continue to dedicate themselves to this Group.



## The Group

As I learn more about the Group, I have been extremely impressed by our partnerships with our customers around the world and the focus on ensuring we continue to deliver the best possible service despite the challenges faced during the year. As a Group, design and innovation is critical to our core business model and our design capabilities across the world are superb and in my view differentiate us from our competitors.

One of my first roles on the Board was involvement in helping set some key KPIs in respect of the Group's sustainability agenda. More detail on these KPIs can be seen on pages 28 to 43 and I am excited to be part of this critical journey for the Group.

## Board

Not only have we seen some key changes in how we lead our business units, we have also seen an evolution of the Board.

Paul Fineman, who after 14 years as the Group's dedicated CEO, left the Group. The Board, along with all our colleagues around the Group, would like to thank Paul for all of his contributions over his time with us and wish him all the very best for his future endeavours.

We thank my predecessor, John Charlton, for his dedicated service as Chair of the Board for over a decade, and we also thank Elaine Bond who stepped down from her role on the Board, including her role as Chair of the Remuneration Committee.

Finally, we would like to thank Giles Willits, our former Group Chief Financial Officer (CFO), who will be leaving the Group at the end of June, in particular for his offer to stay with us for longer than his planned notice period whilst we recruited his successor and whilst we went through some significant leadership changes.

I want to welcome my new colleagues who have joined me on the Board this year: Paul Bal, our new Group CFO who joined us on 1 May 2022 and two new Non-Executive Directors; Clare Askem, our new Remuneration Committee Chair who joined us on 5 July 2021, and Claire Binyon who joined us on 1 June 2022.

As a Board we are committed to maintaining the highest standards of governance principles and practice.

## Conclusion

Whilst the Group will continue to face ongoing challenges that it has seen throughout FY2022, I am heartened by the resilience and agility of the teams around the world, and the support from our strong supplier and customer partnerships, and I look to FY2023 with optimism and know that together we will drive the Group back to the strong position we have celebrated in previous years.

**Stewart Gilliland**

Interim Executive Chair

## BUSINESS MODEL

# Designed to succeed

## Our key inputs

1. **Our people:**
   A passionate, skilled, diverse and innovative team
2. **Our products:**
   Trusted brands and a broad portfolio of products
3. **Our relationships:**
   Strong and trusted relationships with our customers and suppliers
4. **Our financial strength:**
   Strong resilient balance sheet

## Our goals

1. Partner of choice to our customers and suppliers
2. Creative and winning culture
3. Deliver returns to our investors above market performance

## What we do

### Innovative product design & development

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

### Responsible sourcing and manufacturing

Over 100,000 SKUs manufactured and sourced annually

### Distribution and fulfilment

Delivering over 1 billion units annually to customers through optimised channels

## Our values

### Our values underpin all we do

- 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
- 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'

## What makes us different

### Award-winning service

Walmart Seasonal Supplier of the Year for three years out of four

Tesco Supplier Partner Award for Sustainability

### Geographic diversity

Sales in **82** countries

### Broad range of products across five core categories, delivering a ‘one-stop-shop’ to our customers

- Celebrations
- Craft & creative play
- Gifting
- ‘Not-for-resale’ consumables
- Stationery

## Creating shared value

| | | |
|---|---|---|
| **Shareholders** | Long-term growth in dividends and share price | **1.25p** Dividend |
| **Employees** | Training and development, strong teams and relationships | **3,718** Number of direct employees |
| **Customers** | Innovative and trusted brands at the best prices across the globe | **11,000+** Number of customers |
| **Environment** | Recognising the need to reduce our impact | **29%** Waste to landfill |
| **Communities** | Local initiatives supporting local communities and national charities | **$0.7m** Amount raised for charity |

# Our strategy

## Our strategy has been built on leveraging our core strengths and focusing on market opportunities. A focus on ensuring the Group emerges more resilient will be key to a secure platform for continued organic growth.

The experiences of the past year mean the Group's medium to long-term strategy is being revisited by the Board. A key purpose of the new strategy will be to ensure that the Group emerges more resilient in its financial performance going forward, and this resilience providing a secure platform for future organic growth. The drivers behind the refreshed strategy will continue to prominently feature the three pillars described previously, being: Working with the winners, Design & innovation and Efficiency & scale.

**DRIVERS**

**Working with the winners**

**Design & innovation**

**Efficiency & scale**

# 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 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.

## Our key performance indicators

### Level of business with our top 20 customers (% of total revenue)

**Definition:** Percentage of Group revenue from our top 20 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 alongside them.

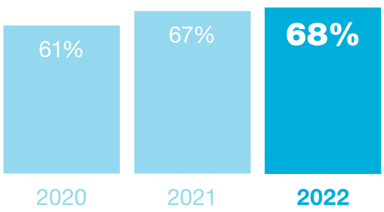
### Sales by channel (%)

**Definition:** Growing our revenues across different sales channels

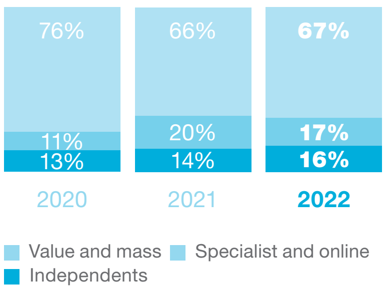
**Why chosen:** Our 'winners' are a broad range of customers across various sales channels including national and regional mass and discount retailers.

## Progress in FY2022

**Level of business with our top 20 customers**
(% of total revenue)




**Sales by channel**
(%)




Our customers have remained our focus during a very challenging year and our growth in overall revenues have shown that this strategy continues to be key. Our winning partnerships with our top 20 customers remain in line with the prior year, showing the strength of our relationships as they grow alongside overall revenues.

We have seen growth in our independents channel in FY2022, in particular in the US and Australia. Value and mass have grown in line with revenues.

## Priorities

Our key priorities in FY2023 include:

- Further growing revenues with our top retail partners as their 'one-stop' partner whilst ensuring the revenues drive overall improvement in margins
- Reducing our complexity and improving product mix
- Recoverability of higher costs through revised pricing

# OUR STRATEGY
CONTINUED

## 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 lifeblood 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 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.

### Our key performance indicators

**Product diversity (%)**

**Definition:** The growth of adjacent non-celebration product categories year-on-year

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

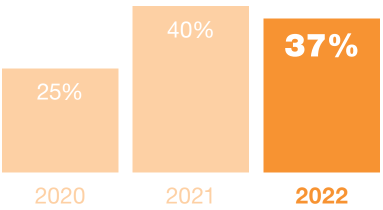
**Diversifying revenue (%)**

**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 minor seasons and everyday parts of our business.

### Progress in FY2022

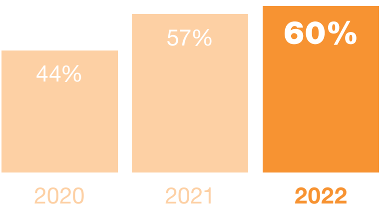
**Product diversity**
(% of total revenue)




**Adjacent product categories**

This year saw a growth in Creative play offset by a decline in Craft and Gifting sales post the pandemic normalising compared to the higher sales we achieved in FY2021.

**Diversifying revenue**
(%)




**Non-Christmas revenues**

Our Everyday revenues have grown 16% year-on-year despite the slight decline in Craft sales. Our strong Gifting, Creative play and 'Not-for-resale' consumables continue to grow revenues outside of our Celebrations category.

### Priorities

Our key priorities in FY2023 include:

- Consolidating and simplifying our offering in existing and adjacent categories
- Developing brands to support growth both with retail customers and online
- Investing in our development of sustainable product ranges

# Efficiency & scale

**Driving up margins through investment in process and people while bringing in new product categories and unlocking synergies through acquisition.**

## 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 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 ensures we have the right people operating our businesses on the ground.

Following a succession of material acquisitions in recent years, the Group will scale back the review of any potential acquisitions and ensure we focus on consolidation and unlocking identified synergies.

## Our key performance indicators

### Adjusted EBITDA margin (% of total revenue)

**Definition:** Adjusted EBITDA margin as a percentage of revenue

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

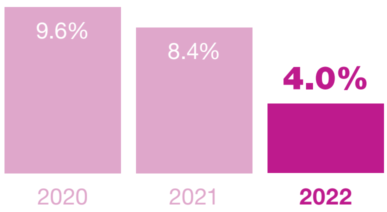
### M&A and investment ($m)

**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.

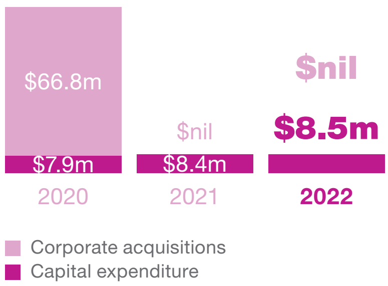
## Progress in FY2022

**Adjusted EBITDA margin**
(% of total revenue)




Our Adjusted EBITDA margin has reduced significantly year-on-year as a result of the decline in the Group's profitability. In addition, unlocking the synergies identified from the CSS acquisition have slowed in pace while the business focused on the operational challenges presented this year.

**M&A and investment**
($m)




Capital investment has similarly remained at lower levels this year.

## Priorities

Our key priorities in FY2023 include:

- A reduced focus on acquisition opportunities whilst we ensure the business going forward is resilient
- Ensuring we have the right people and strong leadership and teams to fully execute our ongoing integration strategy
- Investing in capital projects that improve manufacturing efficiencies
- Optimising SKU numbers to maximise profitability by category
- Leveraging scale for improved sourcing

# EXECUTIVE REVIEW

## Overview

The Group has experienced a very challenging FY2022. Despite continued strong demand from our customers which delivered double-digit **revenue** growth of 11% over the prior year, the full-year earnings performance has been significantly impacted by unprecedented cost headwinds and supply chain availability issues experienced during the year. Therefore, Group **Adjusted operating margins** reduced from 4.3% to 0.4% in the year.

This impact was most significantly felt in DG Americas, which delivered an **Adjusted operating loss**, despite growing revenues by 7%. As previously announced, in early 2022 the Board took the decision to change the leadership of DG Americas, with Lance Burn, who was previously CEO of DG International, also taking on the role of Group Interim Chief Operating Officer (COO), including the role of Interim CEO of DG Americas.

DG International benefited from a 16% increase in **revenue** which helped offset some of the cost challenges. **Adjusted operating margins** for DG International reduced to 6.8%, a 260 bps drop year-on-year.

The Group has experienced significant cost increases in relation to freight and raw materials. Freight presented the most significant challenge across the Group with the scarce availability of sea containers, driven by increased demand and Covid-19 related shipping delays, significantly increasing the freight rates paid, and reducing the Group's operating margin. Freight rates in FY2022 were significantly higher than the prior year with the average rate paid nearly triple that from the prior year, a situation further exacerbated by the timing of these increases, which limited the ability of the business to renegotiate pricing with customers to recover the higher costs.

Raw material costs have also increased significantly during FY2022, as a result of the Group's two major categories of material purchases, paper and polypropylene (used in the DG Americas ribbons and bows business) increasing in cost. The average prices paid for paper increased beyond 50% during the year and beyond 100% for polypropylene compared to that paid for the financial year ending 31 March 2020.

The Group's financial performance was further impacted by the challenges experienced in the labour markets. The 'Great Resignation' which has been experienced across most economies of the world following the Covid-19 pandemic, also impacted the Group, particularly in the UK and the US. This resulted in driving up labour rates whilst also reducing operating efficiencies. As market rates increased, reflecting the lower availability of labour in the market, employee turnover within the Group also increased, particularly in our manufacturing and distribution facilities. As a result, the Group responded by increasing wages and salaries in order to remain competitive in the market and ensure operational continuity.

The disappointing financial performance in the year overshadows some notable commercial and operational achievements across the Group. In the US, DG Americas was again awarded 'Supplier of the Year for Seasonal and Celebrations Products' by Walmart, and delivered further cost synergies from the acquisition of CSS Industries, Inc. and strong growth in certain product categories. In DG UK, the focus on sustainable product innovation was recognised by the receipt of Tesco's 'Supplier Partner Award for Sustainability', while DG Europe delivered 26% **revenue** growth by working swiftly with customers to address the challenging market conditions.

On 1 June 2022, the Company signed an amendment to the existing banking facilities primarily to extend the agreement to March 2024 and replace the existing covenants with two new covenants which run to March 2023. This was a necessary change, and a result, the Directors believe the Group has sufficient facilities that secure funding to support the working capital requirements of the business through the current financial year. As originally planned, the Group aims to complete a full refinancing in the second half of FY2023. More details relating to the amended and restated facility arrangements are included in the detailed financial review.

## Board changes

In addition to the leadership change in DG Americas, the Group has also seen changes at Board level.

In September 2021, Stewart Gilliland, having joined the Board in July 2021, took over from John Charlton as Chair of the Group's Board. John stepped down from the Board, and we thank him for his service to the Board and the Group.

The Group announced in February 2022 that Paul Fineman was stepping down from his role as Group CEO, after 14 years in the role. Paul's contribution to the Group has been significant and the Board thank him for his committed service and contribution. Also in February, Executive Board Director Lance Burn, who has been with the Group for over ten years, took on the role of Interim Group COO. This follows his previous role as CEO of DG International.

From June 2022, Stewart has assumed the role of Interim Executive Chair, pending the appointment of a new Group CEO, for which the search is underway.

The Group also welcomes Paul Bal, who joined the Board in May 2022 following the resignation of Giles Willits in August 2021. The Board would like to thank Giles for his contribution during his time with the Group and particularly appreciate him working beyond his notice period to ensure the Group remained under steady leadership during this period of transition. Giles steps down from the Board at the end of June 2022.

In addition, the Group is pleased to welcome two new independent Non-Executive Directors: Clare Askem, who joined the Board in July 2021, and Claire Binyon, who joined in June 2022, replacing Elaine Bond who stepped down from the Board in December 2021. We thank Elaine for her service to the Group.

## Incentive scheme

On 19 February 2021, the Company put in place a long-term incentive Value Creation Scheme (the VCS). The Remuneration Committee of the Company, following consultation with participants of the VCS, intends to cancel grants made under the VCS effective 28 June 2022.

The Remuneration Committee no longer believes the VCS aligns to the interests of employees and shareholders and therefore a more appropriate incentive scheme will be developed over the coming months.

# EXECUTIVE REVIEW CONTINUED

## Outlook

The challenges faced this year have caused the Group to review its priorities, plans and strategy. The sheer scale and speed of the change in the cost architecture of the Group's product ranges, particularly in DG Americas, has resulted in the need to challenge the assumptions that underpin the commercial operations to ensure that the business going forward is delivering profitable product ranges based on more sustainable cost structures. As a result, the Growth Plan announced in June 2021, which set out targets aiming to double the size of the Group by FY2025, is to be replaced by a strategy to restore profitable and sustainable growth. This is explored in more detail in the strategy section below.

Looking ahead, macroeconomic challenges are expected to continue in the new financial year, bringing further uncertainty. However, the Board is encouraged by the ongoing strength of the Group's customer relationships which has delivered an increased orderbook at over 71%, compared to 60% in the prior year. Operating margins are forecast to improve gradually over the year, particularly in DG Americas. However, these gains will be offset by higher finance charges resulting from increased borrowing costs following the recent facility amendment and the increased average debt to support the higher working capital required to deliver the FY2023 seasonal orderbook.

Consequently, as announced in the April 2022 Trading Update, the Group expects to deliver a marginal profit improvement in FY2023, reflecting progress being made in DG Americas, with the **Adjusted loss before tax** expected to be broadly flat on the FY2022 results and driven primarily by the increased finance costs in the year ahead. Average debt across the Group is expected to increase to c.$75-80 million over FY2023, compared with c.$15 million in FY2022, reflecting the expected higher working capital requirements throughout FY2023 as the Group navigates the outlined challenges.

The Board aspires to return to paying dividends in line with its historic policy, but based on the current outlook for the Group, the Board does not expect to be in a position to pay a dividend in relation to the 2023 financial year.

## Summary FY2022 financial results

**Revenue** increased by 11% to $965.1 million (FY2021: $873.2 million). Despite the increase in sales, the supply chain cost headwinds, most significantly related to freight and raw materials, reduced **Adjusted operating margins** to 0.4% (FY2021: 4.3%). As a result, **Adjusted loss before tax** was $1.3 million compared to the prior year profit of $32.8 million and **Adjusted loss per share** was 7.7 cents (FY2021: Adjusted earnings per share of 22.2 cents) reflecting primarily the decline in adjusted earnings alongside a non-cash one-time reversal of UK deferred tax assets.

The Group finished the year with a net cash balance of $30.2 million (FY2021: $76.5 million) with **average leverage** for the year at 1.0 times (FY2021: 0.0 times) reflecting the reduced EBITDA as well as the additional working capital requirements in the year to fund the cost increases.

Adjusting items in FY2022 were a net credit of $3.5 million (FY2021: charge $18.1 million) reflecting the receipt of insurance proceeds from the prior year DG Americas IT security incident alongside reversals of lease impairments following the successful negotiation of exits and sub-leasing from some of the properties left vacant as part of the US integration following the acquisition of CSS. These credits were partially offset by costs associated with the US integration, expenses incurred in relation to aborted acquisitions and acquisition amortisation.

The Group ended the year with a **profit before tax** at $2.2 million (FY2021: $14.7 million) decreased by $12.5 million year-on-year. Consequently, **diluted loss per share** was 3.3 cents (FY2021: diluted earnings per share of 8.4 cents).

In line with the Group's Trading Update in January 2022, the Board is not recommending a final dividend, and as a result the full-year dividend is 1.25 pence (1.70 cents), comprising only the interim dividend announced at the half-year and paid in January 2022.

## Our strategy

The experiences of the past year have exposed areas in the Group to be addressed and strengthened. Our immediate priorities are building a strong management team, repairing margins and reducing working capital levels, particularly in DG Americas. However, as the global business backdrop remains challenging and uncertain, the Group's medium to long-term strategy is also being revisited by the new Board, with the intention of communicating it alongside the announcement of the FY2023 interim results later in this calendar year.

A key purpose of the new strategy will be to ensure that the Group emerges more resilient in its financial performance to the types of shocks encountered in FY2022, of which some of the impacts will persist into FY2023. This resilience will also provide a more secure platform for continued organic growth.

Therefore, it is expected that the strategy will address the following objectives:

- Reducing complexity and better leveraging expertise and scale, and improving mix: by reviewing the portfolio of categories, products, markets and activities in which the Group participates
- Improving margins: through customer terms, product design, improved mix and more efficient procurement and processes
- A more resilient supply chain: through reviewing our sourcing approach, our supplier and customer terms and our manufacturing footprint
- Lowering working capital levels: through the various initiatives already outlined, as well as improved forecasting and planning processes
- Strong leadership and management teams at all levels of the Group: by revisiting the organisational design and fostering closer alignment that better leverages expertise across the Group as well as the Group's scale

## Regional highlights

Overall, the Group grew revenue 11% with **Adjusted operating profit** down to $3.8 million (FY2021: $37.8 million) following the significant cost headwinds incurred by the Group. The split between our Americas and International divisions is as follows:

| | | | Segmental revenue | | | Adjusted operating (loss)/profit | | | Adjusted operating margin | |
|---|---|---|---|---|---|---|---|---|---|---|
| % Group revenue | | | FY2022 | FY2021 | % growth | FY2022 | FY2021 | % growth | FY2022 % | FY2021 % |
| 68% | DG Americas | $m | 659.0 | 614.0 | 7% | (11.7) | 19.9 | (159%) | (1.8%) | 3.2% |
| 32% | DG International | $m | 307.9 | 265.3 | 16% | 20.8 | 25.0 | (17%) | 6.8% | 9.4% |
| — | Elims/Central costs | $m | (1.8) | (6.1) | | (5.3) | (7.1) | | | |
| 100% | Total | $m | 965.1 | 873.2 | 11% | 3.8 | 37.8 | (90%) | 0.4% | 4.3% |

## Design Group Americas

Our business in the US, which makes up nearly 70% of the Group's total revenues, grew **revenue** by 7% to $659.0 million (FY2021: $614.0 million), driven particularly by Celebrations (up 16%), Stationery and 'Not-for-resale' consumables (up 21%) and Creative play (up 78%). These increases were offset by a decline in Craft sales compared to the previous year which had benefited from the multiple lockdowns, with consumers turning to crafting whilst spending more time at home. Total DG Americas sales in FY2022 were slightly ahead of proforma pre-Covid-19 FY2020 sales (i.e. including CSS FY2020 sales). Despite the sales growth, however, DG Americas finished the year generating an **Adjusted operating loss** of $11.7 million, significantly down compared to the previous year's **Adjusted operating profit** of $19.9 million. This reflects primarily the significant cost headwinds in freight and raw materials alongside labour wage rate inflation which more than offsets the actions taken by the business to mitigate the impact of the costs increases.

Despite the challenges experienced, the consolidation and integration of the DG Americas business post the acquisition of CSS at the end of the 2020 financial year continued to progress, with total synergies in excess of the initial estimates. Significant projects that were undertaken during the year included the consolidation of our pattern printing facilities, leading to the closure of the Manhattan, Kansas site. The Kansas site is fully owned by the Group and at the end of the financial year was in the process of being actively marketed for sale. In April 2022, the Group completed on the sale for net proceeds of approximately $6.7 million, delivering a profit on disposal of $4.5 million.

Furthermore, during the year, we were successful in sub-leasing certain legacy sites that had been exited as part of the CSS consolidation plan. This included the design office at Budd Lake, New Jersey where we have sub-let the majority of the property, with part of the original lease having been cancelled. Additionally, we agreed a sub-lease for the Plymouth Meeting office (the former head office of the CSS business) for a significant proportion of the rental outflows.

The Group also entered an agreement to sub-lease the Midway, Georgia site, which we exited as part of the distribution facilities consolidation project. All of these represent cash savings to the business with regard to rental outflows going forward.

However, certain other projects, which were anticipated to drive additional synergies for the Group in FY2022, had to be delayed because of the operational challenges and are now expected to be delivered in FY2023.

Further operational progress was also made in relation to the expansion of the Byhalia, Mississippi site where we have now combined the DG Americas division's printing, converting and wrap distribution into one site, with the final phase of this project, the move of our printing facilities, completed in March 2022. This project will deliver cost efficiencies and aims to remove completely the need to outsource any of DG Americas' future printing requirements. This year saw record levels of in-house printing volumes, in excess of one billion linear feet of wrap, with even higher volumes of converting achieved.

# EXECUTIVE REVIEW
CONTINUED

## Regional highlights continued

### Design Group Americas continued

DG Americas has won Walmart's 'Supplier of the Year for Seasonal and Celebrations Products' award for the third year, which is the first time this has been achieved by any of Walmart's suppliers. This is a very notable achievement, highlighting our focus on customer delivery in the midst of a very challenging year. This gives us confidence that our strong customer relationships will help support our focus on restoring profitability in DG Americas.

As announced in January 2022, following the poor financial performance of DG Americas during FY2022, the Board decided to undertake a detailed commercial, operational and organisational review of that business. This began with an immediate change of leadership with Lance Burn taking over as Interim CEO of DG Americas whilst a permanent replacement is found, replacing Gideon Schlessinger, the former DG Americas CEO who left the Group in February 2022.

The review has, so far, identified the following three priorities that aim to drive an improvement in the financial performance of the DG Americas business back to an operating margin of c.5-6% by FY2025:

i) Balancing customer pricing to supply chain cost inflation

ii) Driving immediate and longer-term cost savings

iii) Addressing the commercial proposition to align the product offering to the new price/cost environment by simplifying the commercial architecture and reducing inventories

As part of this three-step plan, one of the first actions has been a reorganisation of the commercial and operational teams to simplify our activities in DG Americas. Realigning the commercial and operational organisation will enable the team to focus resources to better navigate the short-term challenges expected over the coming year while also establishing a customer-facing and integrated organisation able to achieve success in the longer term. The reorganisation will deliver significant cost savings in FY2023 but has incurred severance costs in FY2022 which have been treated as Adjusting items. More information on the restructure costs is detailed in the Adjusting items section below.

Following the reorganisation, the business has already been successful in mitigating a significant proportion of the ongoing cost pressures through discussions with customers while at the same time delivering operational cost savings such as reducing external storage and freight-handling expenditure.

Although there is a long way to go to restore the profitability of the DG Americas business, significant progress has already been made in the past four months, with further initiatives already underway, which are set to deliver further value in FY2023 and beyond.

Post the year end, the Group purchased the remaining 49% of Anker Play Products, LLC ('APP'), bringing its total ownership to 100%. This was completed pursuant to the exercise of a put option by Maxwell Summers, Inc., the holder of the 49%, which the Group was legally obliged to purchase under the APP limited liability company agreement dated 30 March 2017.

### Design Group International

The DG International business saw strong growth in **revenues** in FY2022 across all regions, up 16% year-on-year at $307.9 million (FY2021: $265.3 million) and up 12% on FY2020 pre-Covid-19 sales. The most significant improvements were in DG Europe and DG Australia, demonstrating the 'bounce back' post the impact of Covid-19 on the prior year. **Adjusted operating profit** at $20.8 million was down $4.2 million (FY2021: $25.0 million) as inflationary cost headwinds could not be fully mitigated.

DG UK sales, whilst showing growth year-on-year, were still behind pre-Covid-19 levels as consumer demand has yet to fully recover. Freight, raw material and labour costs resulted in the UK's **Adjusted operating margin** halving year-on-year. The focus on sustainable product ranges saw strong sales of the Eco Nature® brand where sales have grown over 200% compared to FY2021 and we continue to have an excellent orderbook into FY2023.

DG Europe delivered another good year with revenue up 26% on the prior year and profit only marginally down despite the cost inflation pressures experienced.

DG Australia, which of all our regions has had the most prolonged set of lockdowns as a result of Covid-19, has still grown sales by 15% over FY2021 and has delivered strong profits despite the decline in margins. It should also be noted that DG Australia benefited from A$3.0 million of government assistance in FY2021 but had no assistance in the FY2022 year.

## Our products, brands and channels

The Group aims to be our retail partners' 'supplier of choice' and our diverse product portfolio is a good demonstration of this in action.

| Revenue by product category | FY2022 | | FY2021 | |
|---|---|---|---|---|
| Celebrations | 63% | $604.1m | 60% | $521.6m |
| Craft & creative play | 16% | $154.3m | 18% | $155.3m |
| Stationery | 4% | $44.8m | 4% | $34.6m |
| Gifting | 10% | $94.4m | 12% | $104.8m |
| 'Not-for-resale' consumables | 7% | $67.5m | 6% | $56.9m |
| **Total** | | $965.1m | | $873.2m |

Despite the supply chain cost challenges experienced during the year, the Group saw growth in the Celebrations category as families and friends came back together to celebrate life's special occasions. This was also highlighted by the growth in the 'Not-for-resale' consumables category, which includes paper retail bags, as the retail market re-opened fully.

During the pandemic, the advantage of our well-diversified product portfolio was evident as our 'stay-at-home' products in the Craft & creative play category kept families and individuals entertained throughout lockdowns. It was therefore not a surprise to see Craft & creative play volumes normalise compared to the higher levels experienced in the prior year. In particular, the Group saw a reduction in Craft revenues being partly offset by growth in Creative play, predominantly through our APP venture. Furthermore, as many families had been spending more time in their homes during the pandemic, sales of home accessories, which are included in the Gifting category, had surged in FY2021, and now normalised in FY2022, post the pandemic.

| Revenue by customer channel | FY2022 | | FY2021 | |
|---|---|---|---|---|
| Value & Mass | 67% | $643.9m | 66% | $576.4m |
| Specialist | 15% | $144.4m | 17% | $153.2m |
| Independents | 16% | $156.5m | 14% | $121.0m |
| Online | 2% | $20.3m | 3% | $22.6m |
| **Total** | | $965.1m | | $873.2m |

The channels through which we sell are broadening. However, the majority of our sales remain through the value and mass channel which includes the world's biggest retailers, positioning us well for any downturn in consumer sentiments. We continue to strengthen our relationship with some of our biggest customers, including Walmart who accounted for over 20% of revenues during the year and once again have awarded us 'Supplier of the Year for Seasonal and Celebrations Products' for a third year. Overall, our top 20 customers account for 68% of the Group's sales (FY2021: 67%).

| Revenue by season | FY2022 | | FY2021 | |
|---|---|---|---|---|
| Christmas | 40% | $390.9m | 43% | $375.4m |
| Minor seasons | 7% | $65.8m | 7% | $59.7m |
| Everyday | 53% | $508.4m | 50% | $438.1m |
| **Total** | | $965.1m | | $873.2m |

The Group has significantly changed the mix of its sales since the CSS acquisition, which introduced a portfolio more based on Everyday. FY2022 has shown a continuation in that trend. This diversified mix of seasons helps alleviate the pressures on seasonal working capital requirements.

| Revenue by brand | FY2022 | | FY2021 | |
|---|---|---|---|---|
| Licensed | 9% | $84.2m | 12% | $104.8m |
| Customer own brand/Bespoke | 48% | $459.8m | 48% | $418.1m |
| Design Group/Generic brand | 43% | $421.1m | 40% | $350.3m |
| **Total** | | $965.1m | | $873.2m |

A review of revenues by brand type highlights a margin-enhancing movement from Licensed products to Design Group/Generic brand products. In part this was due to the reduction in new licenses available during FY2022, but it also reflected our creative teams' focus on the innovative design and development of new and exciting products.

# EXECUTIVE REVIEW CONTINUED

## Sustainability

During FY2021, the Board launched the Group's sustainability framework 'helping design a better future', which defined the Group's approach by identifying three pillars that will deliver a more sustainable future. These three pillars are People, Product and Planet.

The Group's sustainability strategy is underpinned by our overall aim to minimise our impact on the environment by constantly challenging ourselves to find ways in which we can use our scale and people to influence and drive positive, proactive change. 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 continue to believe we have a moral as well as a commercial necessity to strive for the highest standards of ethical behaviour and to innovate to reduce the environmental impact of our operations to protect and preserve our planet, for this and future generations.

Over the past year we have continued to refine the Group's approach to sustainability and the associated key performance indicators (KPIs). During the year, the Board has spent time finalising our sustainability KPIs and is pleased to report our performance against these and the progress the Group has made during the year as seen on pages 28 to 43. We recognise that we are still at the early stages of our sustainability journey but as we move forward, we are focusing on further expanding the number of metrics we monitor whilst also looking to set targets by which to measure our success.

**People** – Our people are key to the business and, in the challenging times we are facing, it is even more important to ensure that we are recognising and investing in the many talented individuals and teams across the Group.

Notable achievements in FY2022 include training opportunities such as our leadership development programmes for emerging leaders in DG UK and DG Americas and a women's development network providing training opportunities for aspiring female leaders in DG Americas. DG UK has trained mental health first aiders across the business and run a monthly health programme with both mental and physical challenges for employees to get involved with.

**Product** – There is no question that the nature of our products requires us to be innovative in our design to create more sustainable collections to promote to our customers and theirs.

Notable achievements in FY2022 include DG UK winning Tesco's Supplier Partner Award for Sustainability for the supply of our Eco Nature® products, with selected lines rolled out in 750 stores nationwide following the successful trial last year. The development of our first-to-market shrink-free wrapping paper, which eliminates plastic waste through the use of recyclable paper labels, is another success story in the UK, with Sainsbury's using only shrink-free gift wrap ranges for Christmas 2021.

**Planet** – This year the Group formally recognised climate change as a principal risk (formerly an emerging risk) as we know we have a responsibility to protect and preserve our planet and its environment.

Notable achievements in FY2022 include DG Europe being awarded a climate neutral status on their gift wrap collections following investment in innovative Smartwrap™ technology. This, coupled with DG UK and DG Europe powering their manufacturing, warehousing and office facilities with 100% renewable electricity, drives us forward on our journey towards net zero emissions.

## Detailed financial review

The Group's financial results summarised below now include the credit/charge associated with share-based payments, both within the reported and the adjusted results. They are no longer treated as an Adjusting item. The prior year has been restated to include the impact of this change in accounting presentation.

| | FY2022 | | | FY2021 | | |
|---|---|---|---|---|---|---|
| | Reported $m | Adjusting items $m | Adjusted $m | Reported $m | Adjusting items $m | Adjusted $m |
| **Revenue** | 965.1 | — | 965.1 | 873.2 | — | 873.2 |
| Gross profit | 122.2 | (2.5) | 119.7 | 153.8 | (1.0) | 152.8 |
| Overheads | (114.5) | (1.4) | (115.9) | (133.9) | 18.9 | (115.0) |
| **Operating profit** | 7.7 | (3.9) | 3.8 | 19.9 | 17.9 | 37.8 |
| Finance charge | (5.5) | 0.4 | (5.1) | (5.2) | 0.2 | (5.0) |
| **Profit/(loss) before tax** | 2.2 | (3.5) | (1.3) | 14.7 | 18.1 | 32.8 |
| Tax | (2.5) | (0.8) | (3.3) | (4.3) | (4.5) | (8.8) |
| **(Loss)/profit after tax** | (0.3) | (4.3) | (4.6) | 10.4 | 13.6 | 24.0 |

**Revenue** for the year ended 31 March 2022 grew 11% to $965.1 million (FY2021: $873.2 million) driven by strong demand from customers post Covid-19, with proforma sales up 7% on FY2020. Constant currency Group revenues grew 10% year-on-year. **Adjusted operating profit** saw a significant decrease year-on-year to $3.8 million (FY2021: $37.8 million), reflecting the impact of significant cost headwinds incurred by the Group which reduced **Adjusted gross margin** to 12.4% (FY2021: 17.5%). **Adjusted overheads** as a percentage of revenue decreased back to pre-pandemic levels at 12.0% (FY2021: 13.2%). **Adjusted operating margin** at 0.4% (FY2021: 4.3%) was down significantly year-on-year, reflecting the lower gross margins. Overall **Adjusted loss before tax** was $1.3 million (FY2021: profit before tax $32.8 million).

The Group finished the year with a reported **profit before tax** of $2.2 million (FY2021: $14.7 million). This is higher than the **Adjusted loss before tax**, reflecting the Adjusting items net credit in the current year of $3.5 million compared to $18.1 million net charge in the prior year. Further details of the Adjusting items are detailed below.

**Adjusted loss after tax** was $4.6 million (FY2021: Adjusted profit after tax of $24.0 million) with **loss after tax** for the year at $0.3 million (FY2021: profit after tax of $10.4 million).

## Finance expenses

Finance costs were marginally higher than the prior year at $5.5 million (FY2021: $5.2 million), resulting from higher underlying finance costs at $2.0 million (FY2021: $1.7 million) which reflected the increase in working capital during the year. The IFRS 16 related lease liability interest was in line with the prior year at $3.5 million, of which $0.4 million (FY2021: $0.2 million) was treated as an Adjusting item as it related to exited properties as part of the DG Americas integration.

## Adjusting items

Adjusting items are material items of an unusual or non-recurring nature which represent gains or losses which are separately presented by virtue of their nature, size and/or incidence. The Group's Adjusting items in the year to 31 March 2022 result in a net credit of $3.5 million compared to a net charge of $18.1 million in the prior year. The main items relate to the receipt of insurance proceeds relating to the FY2021 IT security incident, along with the reversal of asset impairments netted primarily against aborted acquisition costs incurred during the year. The treatment of share-based payment credits/charges has changed in the year such that they no longer form part of Adjusting items, with the comparatives restated. Details of all Adjusting items are included below:

| Adjusting items | FY2022 | FY2021 |
|---|---|---|
| Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses | $3.7m | $0.3m |
| Acquisition integration and restructuring costs | ($1.7m) | $15.4m |
| (Reversal of impairment)/impairment of assets | ($2.6m) | ($5.8m) |
| Incremental Covid-19 costs | — | $1.5m |
| IT security incident (income)/costs | ($5.7m) | $2.2m |
| Amortisation of acquired intangibles | $2.8m | $4.5m |
| **Total (credit)/charge** | ($3.5m) | $18.1m |

# EXECUTIVE REVIEW
CONTINUED

## Adjusting items continued

**Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses – $3.7 million (FY2021: $0.3 million)**
In the year, the final tranche of acquisition related employee payments of $0.3 million which locked-in and incentivised legacy talent relating to the Impact Innovations Inc. acquisition in 2019 were incurred as we passed the three-year anniversary of the transaction. There will be no further costs associated with these incentive payments.

The balance of these costs in the year have been incurred on potential M&A projects before the decision not to proceed was taken. These all related to adviser costs associated with the relevant projects.

**Acquisition integration and restructuring costs – credit $1.7 million (FY2021: charge $15.4 million)**
In order to realise synergies from acquisitions, 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 their successful implementation. As such, the costs associated with projects of this nature are included as Adjusting items. The costs incurred in FY2022 relate to the following DG Americas restructuring initiatives:

**Site closures –** As announced in previous years, CSS was acquired with a large portfolio of owned and leased sites, and part of the integration project included an assessment of the requirement for these sites as the Group consolidated its footprint. As sites were vacated and closed, the lease assets associated with those properties were impaired in the event that no prospective sub-tenants could be found. In addition, there were provisions for costs of moving and consolidating sites. These costs were all treated as Adjusting items in the prior year.

In the current year, however, we have successfully negotiated the return of part of the lease associated with the Budd Lake, New Jersey property as well as sub-let both the Midway, Georgia property and the Plymouth Meeting, Pennsylvania property which were impaired in the acquisition balance sheet of CSS. This has resulted in a write-back of the impairments previously taken in respect of these properties totalling $2.8 million in the year. All sub-lease income is also treated as an Adjusting item.

All costs (including rates and utilities) associated with the continuation of being responsible for a property no longer in the Group's use are taken as an Adjusting item, with a provision made on vacating. In the event of any sub-letting (for example with the Plymouth Meeting site), this provision has been released back to Adjusting items once the responsibility for the costs passes to the new tenants.

In the year costs were incurred in relation to the closure of the Manhattan, Kansas site also inherited as part of the CSS acquisition, and the consolidation of those operations into the Neenah, Wisconsin site. The facility in Kansas was a legacy McCalls facility for which the Group holds the freehold title, and Neenah was a legacy Simplicity facility which is leased and run by a third party (The Outlook Group). The costs include severance costs, incentive payments to critical workforce to remain with the business during transition, inventory write-off and destruction, fixed asset disposal costs and labour and freight costs associated with the move to Neenah.

The Kansas property was being actively marketed since the decision to vacate the site was made. In April 2022, the sale of the site was completed, resulting in an approximate accounting gain of c.$4.5 million, which will be accounted for in the FY2023 Adjusting items.

**Wrap manufacturing consolidation –** Costs have been incurred in the year relating to the project to move wrap manufacturing (both printing and converting) from the Memphis site to Byhalia, consolidating all wrap manufacturing under one roof.

**DG Americas review –** The Group has already started to implement plans in relation to the review of the US business, and therefore costs such as staff severance and incremental costs associated with the travel and accommodation of the Interim DG Americas CEO have been treated as Adjusting items.

**(Reversal of impairment)/impairment of assets – credit $2.6 million (FY2021: credit $5.8 million)**
In light of the impact of Covid-19 on the business, a review of inventory, trade receivables and fixed assets was undertaken as at 31 March 2020 at the onset of the pandemic. Inventories were assessed at 31 March 2020 for their net realisable value, and an impairment of $7.4 million was taken. Similarly, trade receivables were assessed for their expected credit loss in line with IFRS 9 and an impairment of $3.8 million was taken. Finally, the UK's bag line machines were impaired based on expected future cash flows associated with the 'Not-for-resale' consumables business. The assessment has been continued throughout FY2021 and into FY2022.

During the FY2022 year, the $2.6 million credit relates solely to reversal of previous impairments no longer required.

**Incremental Covid-19 costs – $nil (FY2021: $1.5 million)**
As a result of the Covid-19 outbreak, the Group was affected in every region. Certain direct labour costs that related to Covid-19 and were incremental in FY2021, of $1.5 million, were included in Adjusting items. The most significant element of these costs relate to additional 'hazard pay' labour costs across our manufacturing facilities in the USA and Mexico in order to ensure our employees returned to work. No such costs have been incurred in FY2022.

**IT security incident (income)/costs – credit $5.7 million (FY2021: charge $2.2 million)**
The IT security incident which occurred in DG Americas in FY2021 resulted in one-off costs being incurred during FY2021 which were treated as Adjusting items to the value of $2.2 million. This did not include lost profits resulting from downtime in the business. During FY2022, two insurance payouts were received, totalling $5.7 million (net of a small amount relating to adviser costs associated with the claim) which have been recognised as Adjusting items.

**Amortisation of acquired intangibles – $2.8 million (FY2021: $4.5 million)**
Under IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer lists and brands which form part of the intangible value of the acquired business but which are not part of the acquired balance sheet. These intangible assets are then amortised to the income statement over their useful economic lives. These are not considered 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 Impact Innovations Inc. and CSS Industries Inc. in the USA. As such, we include these as Adjusting items. Note that the trade names acquired as part of the acquisition of Biscay Pty Greetings Ltd in Australia were fully amortised in the prior year.

## 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 Group's **Adjusted tax charge** for the year is $3.3 million (FY2021: $8.8 million) despite the losses incurred in the year. A significant element of this charge relates to the derecognition of brought forward deferred tax assets relating to the UK business. The derecognition has occurred as a result of the assessment of future taxable profits, resulting from growing costs in the plc business, against which the asset could unwind. The remainder relates to a tax charge on the profitable businesses offset by a tax credit associated with losses generated in the year in the USA.

Tax paid in the year was $5.2 million (FY2021: $2.2 million). This is $3.0 million higher than the prior year, reflecting higher profits in the Group's tax-paying jurisdictions as well as catch-up payments in both Australia and Europe which were required in relation to FY2021 where taxable profits were better than originally anticipated and associated cash tax payments were estimated.

## (Loss)/earnings per share

**Adjusted loss per share** at 7.7 cents (FY2021: Adjusted earnings per share 22.2 cents) is lower year-on-year driven by the significantly lower Adjusted earnings attributable to equity holders of the Company primarily reflecting the one-time non-cash reversal of deferred tax assets in the year. **Diluted loss per share** at 3.3 cents (FY2021: diluted earnings per share of 8.4 cents) are marginally better than Adjusted, reflecting the Adjusting items credit in the FY2022 year. The reconciliation between **reported** and **Adjusted loss per share** is shown on the next page:

# EXECUTIVE REVIEW
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## (Loss)/earnings per share continued

| (Loss)/earnings per share | FY2022 | FY2021 |
|---|---|---|
| (Loss)/earnings attributable to equity holders of the Company | ($3.3m) | $8.2m |
| Adjustments | | |
| Adjusting items (net of non-controlling interest effect) | ($3.5m) | $18.2m |
| Tax charge/(relief) on adjustments (net of non-controlling interest effect) | ($0.8m) | ($4.6m) |
| **Adjusted (loss)/earnings** | ($7.6m) | $21.8m |
| Weighted average number of shares | | |
| Basic weighted average number of shares outstanding | 98.1m | 97.7m |
| Dilutive effect of employee share option plans | 0.1m | 0.4m |
| **Diluted weighted average ordinary shares** | 98.2m | 98.1m |
| (Loss)/earnings per share | | |
| Basic (loss)/earnings per share | (3.3c) | 8.4c |
| Adjustment | (4.4c) | 13.9c |
| Basic Adjusted (loss)/earnings per share | (7.7c) | 22.3c |
| **Diluted (loss)/earnings per share** | (3.3c) | 8.4c |
| **Diluted Adjusted (loss)/earnings per share** | (7.7c) | 22.2c |

## Dividend

The Board is not recommending a final dividend in light of the Group's second half trading performance. As a result, the full-year dividend is 1.68 cents (1.25 pence) (FY2021: 11.8 cents, 8.75 pence) based on the interim dividend which was paid in January 2022.

## Return on capital employed

Improving the **return on capital employed** continues to be a key target for each of the business units; however, given the challenges faced this year, the Group saw the **return on capital employed** reduce year-on-year to 1.3% (FY2021: 15.8%), reflecting the reduced profitability and increased working capital requirements.

## Cash flow and net cash

The Group ended the year with its net cash balance at $30.2 million (FY2021: $76.5 million). The decrease in cash year-on-year is a direct result of the reduced EBITDA contribution and the increased working capital outflow resulting in **Adjusted cash generated from operations** significantly lower at $5.8 million (FY2021: $68.4 million).

| Cash flow | FY2022 | FY2021 |
|---|---|---|
| Adjusted EBITDA | $38.3m | $73.3m |
| Add back for share-based payment (credit)/charge | ($0.8m) | $4.2m |
| Movements in working capital | ($31.7m) | ($9.1m) |
| **Adjusted cash generated from operations** | $5.8m | $68.4m |
| Adjusting items | ($6.2m) | ($0.7m) |
| **Cash generated from operations** | ($0.4m) | $67.7m |
| Capital expenditure (net of disposals of property, plant and equipment) | ($8.3m) | ($8.1m) |
| Tax received/(paid) | ($5.2m) | ($2.2m) |
| Interest paid (including Adjusting items) | ($4.2m) | ($4.3m) |
| Payments of lease liabilities | ($16.8m) | ($15.9m) |
| Dividends paid | ($12.6m) | ($11.3m) |
| FX and other | $1.2m | ($1.8m) |
| **Movement in net cash** | ($46.3m) | $24.1m |
| Opening net cash | $76.5m | $52.4m |
| **Closing net cash** | $30.2m | $76.5m |

## Working capital

The working capital cash outflow in the year is driven primarily by the inventory-build of $56.9 million as the Group managed the increasing raw material cost, particularly in the last quarter of FY2022, and built volume to ensure availability. As a result, raw materials held at the end of the year were 62% higher in value than the prior year end. Finished goods at the end of the year were 31% higher than the prior year, primarily reflecting the increased cost to purchase or manufacture finished goods.

More than ever, the Group continues to actively track debtors and credit risk profiles of all of our customers 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 (FY2021: 0.5%), reflecting our continued proactive approach to mitigating credit risk exposure.

## Capital expenditure

Capital expenditure in the year remained in line with the prior year at $8.3 million (FY2021: $8.1 million). There were no significant capital projects in the year to 31 March 2022. Capital expenditure in FY2023 is expected to remain in line with the current year.

## Average leverage

**Average leverage** is a key measure for the Group measuring the seasonality of our working capital demands across the business and the need to ensure the Group manages its peak funding requirements within its bank facility limits. As at 31 March 2022 **average leverage** was 1.0 times, up from 0.0 times in the prior year. This reflects the decline in **Adjusted EBITDA** compared to the prior year and an increase in average debt from $2.2 million in FY2021 to $17.2 million in FY2022.

Our measure of **average leverage** excludes lease liabilities from our measurement of debt and we reduce **Adjusted EBITDA** for lease payments. This mirrors the approach taken by our 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

The Group maintains its banking facilities through a club of five banks chosen to reflect and support the geographical spread of the Group. The banks within the club are: HSBC, NatWest, Citigroup (who replaced BNP Paribas), Truist Bank (as successor by merger to SunTrust Bank) and PNC.

As previously announced, on 1 June 2022 the Company extended the term of its existing banking agreement to 31 March 2024. As part of this extension, covenants have been revised for the period to 31 March 2023. The amended facilities comprise:

- a revolving credit facility ('RCF A') which has reduced from $95.0 million to $90.0 million; and
- a further flexible revolving credit facility ('RCF B') with availability varying from month to month of up to a maximum level of £92.0 million (reduced from a maximum level of £130.0 million).

The Group also has access to invoice financing in Hong Kong with a maximum limit of $18.0 million, depending on the level of eligible receivables alongside local overdraft facilities. In total, accessible bank finance facilities are considered sufficient to cover the Group's peak requirements.

The revised covenants (measured on pre-IFRS 16 accounting definitions), which operate for a maximum period to 31 March 2023, are as follows:

- minimum Adjusted earnings before interest, depreciation and amortisation (Adjusted EBITDA), as defined by the banking facility, measured quarterly at the end of June, September, December and March, which requires the Group to be within $10.0 million of its Adjusted EBITDA budget at each quarter end, based on the last twelve-month EBITDA performance at each measurement point; and
- minimum liquidity level, which requires the Group to maintain a minimum of $35.0 million headroom to the maximum available facility on a monthly basis.

The amendment also stipulates that any dividends to be paid by the Group during the remaining term of the agreement will require majority lender approval. Banking and legal fees associated with the amendment and extension of the facility totalled c.$1 million.

From April 2023 the Group will revert to the previous covenants, which are as follows:

- interest cover, being the ratio of Adjusted 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.

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.

The Group intends to complete a more comprehensive refinancing exercise in the second half of FY2023.

# EXECUTIVE REVIEW CONTINUED

## 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 Group's reporting currency is US dollars in light of the fact that a significant proportion of the Group's revenues and profits are in US dollars. There remains a smaller part of the Group whose functional currency is something other than US dollars. However, the overall impact on revenue and profits from currency movements in FY2022 when compared to FY2021 is not significant relative to the balances. **Revenue** in FY2021 would have been $5.0 million higher if translated at FY2022 FX rates, with FY2021 **Adjusted profit before tax** $0.1 million higher.

**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 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.

## Financial position and going concern basis

The Group's net assets decreased by $22.3 million to $369.7 million at 31 March 2022 (FY2021: $392.0 million), primarily reflecting the reduced cash held at the end of the year given the higher working capital requirements in the last quarter resulting from inventory build and ongoing cost pressures.

As at the 31 March 2022 balance sheet date, in light of the FY2022 results and the outlook for FY2023, the Directors have paid particularly close attention to their assessment of going concern in preparation of these financial statements. The Group is appropriately capitalised at the year end with a net cash position of $30.2 million ($50.2 million of cash and $20.4 million of bank overdraft excluding loan arrangement fees).

Going concern forecasts have been produced using the Group's FY2023 and FY2024 budgets and plans. These forecasts, which have been produced and reviewed in detail by the Board and take into account the seasonal working capital cycle of the business, have been sensitised to reflect severe but plausible adverse downturns in the current assumptions including a miss in achieving the DG Americas FY2023 plan as well as increased inflationary pressures in the DG International business, beyond those risks already factored into the budgets and plans. The base forecasts and additional sensitivity analysis have been tested against the amended banking covenants to March 2023 described above as well as beyond this time point as and when the covenants revert back to the original covenants. The 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 and will also be compliant with all covenants within this time frame and beyond. 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 as the Group has sufficient 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 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 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/(loss)** – Profit/(loss) before finance charges, tax and Adjusting items
- **Adjusted profit/(loss) before tax** – Profit/(loss) before tax and Adjusting items
- **Adjusted profit/(loss) after tax** – Profit/(loss) after tax before Adjusting items and associated tax effect
- **Adjusted (loss)/earnings per share** – Fully diluted (loss)/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** – Adjusted operating profit divided by finance charges (excluding IFRS 16 and one-time interest income)

## Adjusting items

Further details of the items categorised as Adjusting items are disclosed in more detail in note 3. Note that all prior year comparatives have been restated to include the share-based payments credit/charge within adjusted metrics.

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

| APM reconciliation | FY2022 | FY2021 |
|---|---|---|
| **Reported operating profit** | **$7.7m** | $19.9m |
| Depreciation and impairment of property, plant and equipment | **$13.4m** | $13.6m |
| Depreciation and impairment of right-of-use assets | **$15.3m** | $24.0m |
| Acquisition amortisation | **$2.8m** | $4.5m |
| Amortisation of software | **$3.0m** | $3.8m |
| **EBITDA** | **$42.2m** | $65.8m |
| | | |
| **Adjusted EBITDA** | **$38.3m** | $73.3m |
| Adjusting items | **$3.9m** | ($7.5m) |
| **EBITDA** | **$42.2m** | $65.8m |
| | | |
| **Adjusted operating profit** | **$3.8m** | $37.8m |
| Adjusting items | **$3.9m** | ($17.9m) |
| **Reported operating profit** | **$7.7m** | $19.9m |
| | | |
| **Adjusted (loss)/profit before tax** | **($1.3m)** | $32.8m |
| Adjusting items | **$3.5m** | ($18.1m) |
| **Reported profit before tax** | **$2.2m** | $14.7m |
| | | |
| **Adjusted (loss)/profit after tax** | **($4.6m)** | $24.0m |
| Adjusting items | **$4.3m** | ($13.6m) |
| **Reported (loss)/profit after tax** | **($0.3m)** | $10.4m |
| | | |
| **Adjusted (loss)/earnings per share** | **(7.7c)** | 22.2c |
| Adjusting items | **4.4c** | (13.8c) |
| **Reported diluted (loss)/earnings per share** | **(3.3c)** | 8.4c |

**Giles Willits**
Director

27 June 2022

SUSTAINABILITY

# Helping design a better future

As a market leader in our industry, we aim to minimise our impact on the environment by constantly challenging ourselves to find ways in which we can use our scale and people to influence and drive positive, proactive change. 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.

It is a moral and commercial necessity that we strive for the highest standards of ethical behaviour and to innovate and improve to reduce the environmental impact of our operations to protect and preserve our planet, for this and future generations.

During 2021, the Board launched our sustainability framework 'helping design a better future', to define the Group's approach to sustainability and enable us to demonstrate, monitor and improve our environmental, social and governance (ESG) performance and to drive our business forward sustainably. The framework is underpinned by the United Nations Sustainable Development Goals (SDGs) which were reviewed to identify the areas which are most relevant to Design Group.


## TCFD

As part of the sustainability journey we are on, we are committed to implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) from FY2024. We have made progress towards embedding climate considerations into the governance of the Group as well as our reporting. We intend to advance our reporting over the coming months to drive Group targets and incentivisation as well as further embed sustainability into the Group's decision-making in the long term.

The areas we have identified fall into three key themes which allow us to focus on a number of priority areas where we believe and are committed to making a positive difference.

### People

People are at the heart of our success

- Employee engagement, talent and skills
- Health, safety and wellbeing
- Diversity, equality and fairness
- Giving back to our communities

### Product

Environmentally conscious product and packaging

- Sustainable sourcing
- Sustainable product and packaging

### Planet

Innovating to lower our negative impact

- Reducing our environmental footprint
- Design with the environment in mind

Over the past year we have continued to refine the Group's approach to sustainability, the framework and associated key performance indicators (KPIs). During the year, the Board has spent time reviewing the proposed KPIs as detailed in last year's annual report and discussing the Group's ESG strategy. We have started to track our performance in each of the three pillars which are reported on the next few pages and are focusing on our ability to monitor and report on more KPIs as we move forward. We are pleased with our progress in recent years, however we recognise that we are still early on in our sustainability journey and there is further work required. We will endeavour to continue developing our sustainability framework, in particular to further refine our KPIs, targets and goals in order to drive positive change and strive to be the most sustainable we can be.

## Governance structure

### Board

The Board has overall accountability and oversight over how the Group responds to climate change and its associated risks and opportunities.

The Board reviews climate change risks in line with the risk management framework.

In addition to this, ESG is an agenda item of the Board and other sub-committees.

### Operating Board

The Operating Board (previously the Executive Committee) is responsible for the oversight and management of climate change and its associated risks and opportunities.

### Sustainability Forum

The Sustainability Forum is a cross-Group committee made up of representatives from each territory.

It is a working group with the aim of formulating a commercially-led response to climate change and its associated risks and opportunities.

The aim is to educate and create a holistic, business-wide, sustainable mindset, whilst sharing best practice across territories.

### Business units

Business units are responsible for the identification, assessment and mitigation of sustainability associated risks and opportunities.

Day-to-day management of business and decisions relating to our people, product and planet.

## Risk management

The risks associated with climate change are considered within our existing risk management framework; in the bottom-up assessment carried out in each territory, and then as part of the Board review of the Group's established principal risks and emerging risks. This year climate change has transitioned from an emerging risk to a principal risk, which means the risk was also discussed at the Audit Committee. Further information on our principal risks can be found on pages 46 to 51. Going forward, we will continue to enhance how risks around sustainability are identified, assessed and managed across the Group.

## Link to strategy

Design Group's sustainability framework, 'helping design a better future', will work alongside our strategic drivers: working with the winners; design & innovation and efficiency & scale. Adopting a holistic business-wide approach to sustainability is a significant driver of commercial advantage.

### Working with the winners

We pride ourselves on working with the winning retailers of now and the future. We aim to promote our sustainability principles to all our customers and there are many who are already calling for sustainable solutions as climate change and sustainability is becoming a more pertinent matter. To uphold the highest standards attainable as a Group, it is our aim to foster the relationships we have with all of our stakeholders to continue building a considerate and sustainable Group. This principle also extends to our suppliers, where we endeavour to source the most responsible materials that we can.

### Design & innovation

In order to be our customers' partner of choice, our design teams are focused on providing fresh, new and on-trend ideas for our product ranges. This innovation is critical in designing and producing sustainable products and packaging. Increasing our sustainable product offering and continuing to develop and create new ranges are key in our efforts to promote sustainability. The packaging around our product is just as vital to focus on. We endeavour to reduce the amount of plastic used, particularly non-recyclable plastic packaging, to reduce the waste contributing to landfills, as well as the pollution of our ecosystems and marine life.

### Efficiency & scale

Capital investment and people investment help to drive efficiencies to strengthen our performance. This principle extends to sustainability whereby product design right through to operations and logistics are continually being improved, to reduce the impact we are having on the environment through reduced carbon emissions, as well as the amount of waste which is sent to landfill. Adapting our habits will drive positive change in relation to global warming, the pollution of our ecosystems as well as biodiversity.

## Link to business model

Environment is one of our key stakeholders which we see as an integral part of our agenda going forward.

Read more on page 08

SUSTAINABILITY
CONTINUED

# People are at the heart of our success

## People

**At Design Group we employ almost 4,000 people across four continents in a variety of roles and operations. We value the hard work of all our teams and recognise that Design Group would not be who we are without their talent and dedication. We wish to create a working environment where our employees feel supported and valued, with their achievements recognised and rewarded. Though our Group operations are varied in many ways, each part of Design Group globally is committed to operating in a responsible and sustainable manner, with a focus on having a positive impact in every interaction we have.**

United Nations Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

**SUSTAINABILITY**
CONTINUED

# People continued

## Employee engagement, talent and skills

### Why it's important to us:

We want to create an engaged and motivated workforce, giving everyone the chance to enhance their skills to realise their full potential. We want to create a group with a talented workforce capable of meeting our challenging business needs. We understand the value and importance of creating an open, comfortable and progressive working environment and to continue to invest in the people who give us so much.

### Our key performance indicators:

Employee turnover

**24%**

**Definition:** The voluntary turnover of permanent employees in the year (%)

**Why chosen:** It is important to us that we create an environment where our employees enjoy coming to work

We employ a great team with the attitude and aptitude to succeed and deliver within an environment where progression and development is encouraged and facilitated. In the UK, a leadership development programme for all new and emerging leaders in the business is underway, with a cohort made up of 70% females, focused on improving leadership capability and developing a consistent approach to our management programme in the business, as well as providing employees with key skills for career progression. Employee surveys are being rolled out across many of our locations in order to understand our people better and understand how we can improve as an employer to create a more positive work environment, where employees are engaged and motivated.

Fundraising appeal for Ukraine across UK locations

# Health, safety and wellbeing

**Why it's important to us:**
We are committed to providing our employees with a safe and healthy working environment.

**Our key performance indicators:**

Number of accidents

**116** 2021: 72

**Definition:** The number of accidents in the year across our global manufacturing, warehouse and office facilities

**Why chosen:** Keeping people safe and healthy is a moral and a business imperative that applies to all who work for Design Group

As a manufacturing business, the health and safety of our employees is paramount across our facilities. In the year, 116 accidents were recorded across our locations, mainly manufacturing sites. Unfortunately this has increased in the year as operations return to normal post the pandemic. We hope to improve this through further training and collaborative meetings at manufacturing locations to encourage open dialogue and address any suggested improvements.

Employee wellbeing remains a key focus for our local teams and is becoming more embedded into Group practices. The UK division wellbeing calendar initiative, with a different wellbeing campaign for each month of the year, continued this year with 'walk this May', encouraging individuals to walk and enter into the associated photography competition, and a virtual, free eight-week yoga programme available to all employees to aid both mental and physical health. Across the Group we offer a free Employee Assistance Programme to our employees to provide mental health support.


Support for an employee battling cancer in Berwick, Pennsylvania

**SUSTAINABILITY**
CONTINUED

# **People** continued

## Diversity, equality and fairness

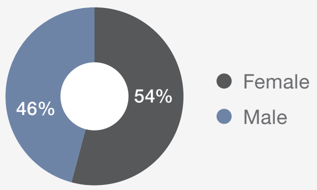
### Why it’s important to us:

Our international culture promotes diversity, equality and fairness and in line with our Group values, we strive to treat everybody with dignity and respect. We strive for a workplace that has integrity, is fair and inclusive and upholds the highest standards of human rights.

### Our key performance indicators:

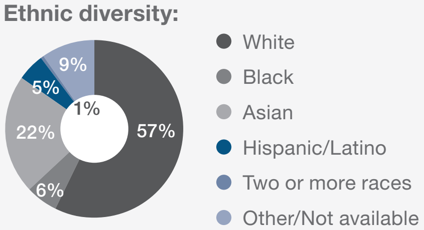
#### All employees

**Gender diversity:**



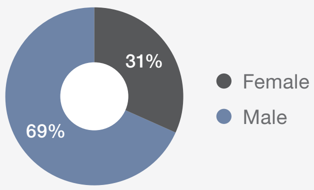

**Age diversity:**


**Ethnic diversity:**

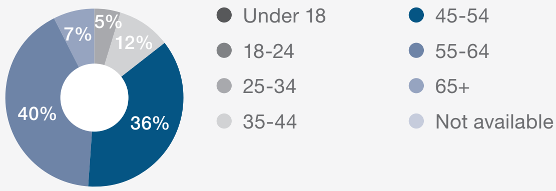



#### Senior management team

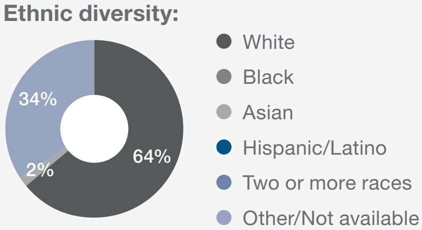
**Gender diversity:**




**Age diversity:**




**Ethnic diversity:**




Note that senior management team (SMT) is as defined locally across the Group. These figures also include the Board as at 31 March 2022. For more detail on the latest Board diversity, please see page 54.

**Why chosen:** Our aim is to create equal opportunities for all. At Design Group we recognise that having a diverse workforce enables us to innovate and make better decisions and helps us meet the needs of our employees, customers, communities and shareholders.

## Diversity, equality and fairness continued

We make employment decisions in a non-discriminatory manner; on the basis of job-related skills, achievements and performance, using clearly defined and fair criteria. The Group's Code of Business Conduct lays out our expectations which every employee must agree to.
We take human rights seriously and continuously strive to strengthen and protect the systems and management in this area. The Modern Slavery Act came into force in 2015 and we have taken steps to promote and improve our commitment to removing abuse and exploitation in the workplace. The Group is also an active Sedex member in all major territories in which we operate, and we operate a Group-wide multi-lingual whistleblowing hotline with access for all our employees via the telephone as well as online reporting and during FY2022 there have been no reports of human rights violations in our operations via this or any other reporting mechanism.

In total across the Group, the annualised full-time equivalent salary of women is 4% lower than men.
We recognise that this relatively small gap is largely due to 55% of our workforce being hourly paid employees who get paid the same rate within a location. A low gender pay gap is generally driven by high female representation at senior levels. There is also a geographical effect driven by the global nature of the Group. We have a strong female representation in senior management teams in the USA and UK in particular. The Board shows commitment to gender equality and wishes to maintain an open approach to pay management across the Group going forward.

## Giving back to our communities

### Why it's important to us:

In line with one of our key values, we endeavour to be good citizens and aspire to give back to the communities around us with the aim of building a more considerate and sustainable business.

### Our key performance indicators:

Charitable donations

**$735,000**

**Definition:** The total value of cash and inventory donated to charity over the year

**Why chosen:** 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 back in all of the communities where Design Group is present, continuously taking actions and promoting initiatives that create a positive impact.

Across the Group, each of our regions support local charities and events to give back where they can and encourage the mindset of being a good citizen. The UK business has enjoyed another year of partnership with the Trussell Trust, with an increased contribution in the year of £48,000, by raising funds through the sale of our Tom Smith® crackers. The Trussell Trust support a nationwide network of food banks and together they provide emergency food and support to people locked in poverty, and campaign for change to end the need for food banks in the UK.

Australia, for another year, have donated over A$120,000 to two key charities chosen by their employees: the Kmart Wishing Tree appeal, Australia's largest and longest running gift giving appeal, and the Salvation Army, who do significant work in the area of homelessness and drug and alcohol support.

Our operational facilities in the US participate in a Stuff the Bus programme which partners with businesses to collect essential school supplies for those in need of assistance. Barrels are placed within our facilities to be filled with stationery and 'stuffed' into backpacks and delivered into the local communities.

**SUSTAINABILITY**
CONTINUED

# Sustainable by design

## Product

**We recognise that the nature of many of our products makes it even more important that we leverage our innovation to create sustainable collections to promote to our customers and beyond. As the world develops, populations are consuming more, which becomes an issue when a large proportion of goods are not only single-use but also not recycled. This leads to more waste going to landfill and being burned, contributing to global warming and contamination of our oceans. Design Group are committed to promote positive change; to use sustainable sources, to design sustainable ranges and reduce the use of single-use plastics across both our products and their packaging.**

**United Nations Sustainable Development Goals**

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

15 LIFE ON LAND

# SUSTAINABILITY
CONTINUED

# Product continued

## Sustainable product and packaging

### Why it's important to us:

Successfully designing, promoting and selling our sustainable greetings collections means we are encouraging a circular economy which reduces waste and the impacts of production, consumption and disposal on the environment.

We are in a position where we can offer sustainable product ranges at a time where popularity and demand are only going to increase. Now is a key time for us to support the transition to a circular economy whereby not only are our products made from recycled raw materials, but they are also either reused, recycled or composted at the end of their lifecycle.

### Our key performance indicators:

Fully recyclable product ranges

**44%**

**Definition:** The proportion of Design Group single-use[a] products which are fully recyclable

(a) Single-use products make up 54% of Group sales.

Fully recyclable packaging

**66%**

**Definition:** The proportion of Design Group consumer sales packaging which is fully recyclable

**Why chosen:** We aim to leverage our design and innovation skills to continue to develop new, sustainable ideas to promote to our customers

Around the Group we are championing the reduction in unsustainable packaging. We are actively researching and designing ways to reduce the single-use plastic content of our products to reduce the waste and pollution that our business is responsible for. As part of the world's collective mission to become more sustainable, it is key that people are better informed so that they can consciously make better decisions. Communication and transparency of the sustainability and recyclability of products is becoming increasingly important to our customers and so we are striving to increase the simplicity and clarity of this messaging around this.

The sustainability journey we are on is already making a difference. We are increasingly delivering great sustainable solutions to customers and will continue to further extend this in the future.

Our gift wrap ranges across the Group have transitioned from 'core' tubes within the rolls to cardboard 'stiffener' which removes the use of glue. This makes it fully recyclable, streamlines the manufacturing process and optimises the volume consumed by the product during shipping, resulting in less carbon emissions.

We strive to advance our product, packaging and processes wherever we can by leveraging our innovation skills to develop new and sustainable ideas and methods. In the USA, our ribbon business still relies on plastic as a key material. Until alternatives for this are successfully launched and adopted, all scrap plastic from the ribbon and bow manufacturing process is reground and recoloured and recycled in-house to produce the curling ribbon spools. Manufacturing the ribbon spools from in-house recycled plastic significantly reduces plastic waste each year, as well as reduces carbon emissions from transportation from suppliers. The USA also have a Renew Ribbon™ range which is made entirely from recycled bottles and woven locally in the USA, with each spool of ribbon made from approximately seven recycled water bottles, therefore supporting a circular economy and reducing waste by promoting creative solutions.

We continue to work with the leading retailers of the world, such as Walmart on Project Gigaton, to deliver more sustainable solutions with reduced packaging and to achieve reduced carbon footprint.

The roll out of our Eco Nature® range in the UK's largest retailer, Tesco, was successful this year with growth in sales since the launch last year of over 200%, with selected lines reaching 750 stores nationwide. To enhance the range further, a mini range of stationery lines have also been launched.

Another success story is the development of our first-to-market shrink-free gift wrap solution in Design Group UK. After extensive testing, our gift wrap rolls are now available with minimal packaging using recyclable paper labels, eliminating plastic from the process. Following a successful trial of this last year, Sainsbury's, another UK leading retailer, used shrink-free wrapping paper across their full range for Christmas 2021. Other retailers are also following suit and going shrink-free on selected lines.

## Sustainable sourcing

### Why it's important to us:

The integrity of our product starts with responsible sourcing from both an environmental context as well as a social one. As a business where paper is one of our largest raw materials, we are committed to ensuring that only sustainable sources of paper are used, to go beyond compliance and certify high standards of forest management. Further to this, our values extend to the fair working conditions and human rights at all stages in our supply chain.

### Our key performance indicators:

Supplier audits

**678**

**across 439 suppliers**

**Definition:** The number of ethical audits carried out across our supplier base in the year

**Why chosen:** We recognise that having a wide global supplier base requires a detailed level of engagement to ensure our suppliers fundamentally comply with regulations and guidelines and respect human rights. Ethical audits allow us to gain insight into supplier conduct and fair working conditions across our supplier bases.

Design Group are FSC accredited and the transition to the sole use of FSC paper in our products continues. The FSC ensures that our timber and timber products are legally harvested and sourced, and wherever possible, certified or recycled material is purchased.

**SUSTAINABILITY**
CONTINUED

# Innovating to reduce our footprint

## Planet

**We believe we have a responsibility to protect and preserve our planet and its environment and that our success as a Group significantly depends on it. The global climate change threat is a result of many years of unsustainable activity by the world's growing population. We have the ambition to reduce our impact on our surroundings to promote the longevity of the planet for future generations. This will be a journey for the Group as we learn of new methods to improve our operations to reduce greenhouse gas emissions, as well as less waste sent to landfills.**

United Nations Sustainable Development Goals

**SUSTAINABILITY**
CONTINUED

# **Planet** continued

## Reducing our environmental footprint

**Why it's important to us:**
A large part of Group operations are manufacturing based and our operational excellence continually drives efficiency improvements. We consider climate change in all our activities and strive to reduce our environmental footprint with carbon footprint continually under review.

**Our key performance indicators:**

### Waste sent to landfill

**29%**

**Definition:** The proportion of waste sent to landfill at our operational facilities

**Why chosen:** It is important that we employ the most sustainable practices where we can and reducing the waste sent to landfill directly reduces our carbon footprint.

As we continue our journey to net zero emissions, this year Design Group Europe have been awarded climate neutral status on all of their gift wrap collections, which is a great step forward for the Group. These ranges, stamped with the Smartwrap™ and climate neutral certified logos, have been rolled out across stores in Europe. In order to achieve this, not only was design and innovation key, but also capital investment.

The Group has also made further progress on optimising our packaging and processes to improve operations and drive efficiencies, such as product re-engineering to fit more products onto every truck which reduces the number of journeys required and therefore reduces carbon emissions and our carbon footprint. The re-engineering of our Tom Smith® and Giftmaker® crackers and packaging this year has resulted in a 24% freight efficiency improvement.

Capital investment in brand new, high speed, energy-efficient technology will also improve operations and help to achieve our sustainability goals. The UK manufacturing facility has continued to invest this year in shrink-free labelling units and paper-based ribbon and bow cells. In addition, investment into our metallising process to offer metallised paper that is recyclable all help to deliver innovative sustainable ranges.

The UK have funded the planting of 29,250m² of new native woodland in the UK to ensure that the $CO_2$ emissions we create from our sea freight are absorbed from the atmosphere and stored by trees as they grow.

The UK have mitigated 300 tonnes of emissions resulting from the production of all Eco Nature® products.

The UK and Europe continued to power their manufacturing, warehousing and office facilities with 100% renewable electricity.

One of our European facilities has 6,300 solar panels which power 600 households each year.

## UK environmental reporting

The UK businesses' total energy use and associated greenhouse gas emissions have been reviewed in accordance with the government's guidance on Streamlined Energy and Carbon Reporting. The results of this review, focusing on the combustion of gas, the consumption of fuel for transport, and electricity use were:

### Fiscal year (April 2021-March 2022)

### $CO_2$ emissions by source

| | 2022 | | 2021 (restated)[a] | |
|---|---|---|---|---|
| Source | Consumption | Tonnes $CO_2e$ | Consumption | Tonnes $CO_2e$ |
| Electricity | **7,944,417 kWh** | **2,030.59** | 7,074,330 kWh | 1,624.16 |
| Gas | **9,549,107 kWh** | **1,755.60** | 7,835,237 kWh | 1,354.22 |
| Diesel oil | **65,058 litres** | **174.87** | 52,928 litres | 142.45 |
| LPG | **3,128 kg** | **9.19** | 28,812 kg | 84.67 |
| Company vehicles | **234,510 miles** | **50.99** | 91,904 miles | 18.21 |
| **Total** | | **4,021.24** | | 3,335.31 |

(a) The prior year numbers have been restated to include UK sites associated with the CSS acquisition.

Energy emissions ratio:

| | 2022 | 2021 |
|---|---|---|
| $\frac{\text{Total tonnes } CO_2e}{\text{(1) million (£) annual turnover}}$ | **38.11** | 33.73 |

**Methodology:** The $CO_2e$ (carbon dioxide equivalent) Scope 1 and 2 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. It is not practical to split emissions between Scope 1 and 2 at this stage.

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

- Procuring more energy-efficient machinery when required
- Changing light fittings to low energy use LED types throughout the business
- ESOS (Energy Savings Opportunities Scheme) activities
- Moving over to electric/hybrid company vehicles where possible
- Reducing waste to landfill activities
- General internal waste reduction activities
- ISO 14001 internal objectives

# STAKEHOLDERS

## We value strong and open relationships.

Effective engagement with key stakeholders is vital to Design Group achieving its strategy. There is always room for improvement, but through ongoing, constructive dialogue with our stakeholders we are committed to ensuring that we all experience the benefits of Design Group's success.

### 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.

Below we highlight our key stakeholders, what they expect from us and how we benefit from them.

The following are some of the discussions and decisions taken by either the Board or its Committees during the year and the considerations given to stakeholder interests:

## Employees

### How we engage

- Structured onboarding and induction programmes
- Ongoing training and development, including wellbeing initiatives
- Regular employee briefings including 'town hall' briefings through to team briefings and one-to-ones

### Outcomes of engagement/key decisions this year

Recognising the difficulties faced internally and externally by our employees, the Remuneration Committee invited the HR directors from DG Americas and DG International to present an overview of both the specific challenges and the positive stories in their regions. This will now form part of regular updates which both the Committee and the Board will receive to ensure that the welfare and motivation of our employees is paramount. The Board also reviewed the content of the quarterly Health and Safety report and that is now being improved to add greater detail and transparency.

One of the outputs following the overviews from the HR directors was a review of the employee share incentive schemes which were in place. It was clear that the existing 2019-2022 LTIP would not vest this year and highly likely that the VCS would not vest next year and so the Board took the decision to consider the cancellation of the VCS (following consultation with participants) and putting in place a new LTIP scheme for senior management. The aim is to ensure their incentivisation, retention and broader alignment to shareholder experience in what will be a crucial period for the Company and its business.

## Communities

### How we engage

With a Group of businesses spread across the globe and across regions within specific countries, it is important that community initiatives are led by each business and focused on the specific needs of the communities in which they are based.

### Outcomes of engagement/key decisions this year

Our employees were supported to engage with local community projects and initiatives that had a positive impact on the areas we work in. Examples of some of these initiatives can be found on page 35.

## Customers and Suppliers

### How we engage

Each business is structured to ensure strong, dedicated engagement with customers and suppliers via key account managers and strong supporting teams.

Regular meetings with customers and suppliers both in-person and online.

Comprehensive assessment and onboarding process for all new suppliers including external, independent audits where appropriate.

### Outcomes of engagement/key decisions this year

Significant cost headwinds and supply chain limitations have meant that our businesses have had to rely on their close relationships with both customers and suppliers over the past year to try and navigate the challenges together, ensuring a good continuity of supply and a 'no surprises' mentality.
The Board has been regularly briefed on the success and occasional failures in this area.

## Shareholders

### How we engage

Individual meetings with large institutional shareholders throughout the year and particularly following interim and full-year results.

Investor information, regular trading updates and reports are posted on our website.

Shareholders are invited to attend the Annual General Meeting and submit questions.

### Outcomes of engagement/key decisions this year

In a year of significant challenge and change, the Board has remained committed to its shareholders. In addition to the usual trading updates and one-to-one meetings with the Group CEO and CFO, our Chair has increased his visibility, responding to shareholder queries and engaging on specific areas of concern. In addition, our new Remuneration Committee Chair wrote to a number of large shareholders giving an overview of remuneration matters and highlighting her intention for greater transparency moving forward.

Across Design Group there are many examples of stakeholder engagement:


- Employees – see pages 20 and 30 to 35
- Shareholders – see page 58
- Customers – see pages 11 to 13 and 49
- Communities – see page 35
- Suppliers – see pages 36 to 39 and 48

# RISK MANAGEMENT

Risk is an inherent part of business, especially as Design Group navigates additional operational challenges and seeks to emerge more resilient in its performance going forward.

## 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
- Evaluates the most significant strategic risks and sets risk objectives
- Determines overall risk appetite for the Group

**Audit Committee**
- Responsible for advising the Board on risk exposures
- Risk analysis both top down and bottom up
- Review of internal controls that help manage risks

**Operating Board (formerly Executive Committee)**
- Responsible for the overview of management of key risks at business unit level
- Assessment of materiality of key risks

**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

**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

### 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 strategy.

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.

Design Group's risk appetite has been set for each risk category at a Board level and ranges from minimal to open.

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 appetite is revisited on an annual basis by the Board alongside the executive team.

### 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.

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 the Group's risk tolerance level alongside their own tolerances.

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. 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 Group's risk management framework operates within a 'three lines of defence' assurances model. The first line of defence lies with the operational owners and are the teams within the business managing and mitigating risks as part of their operational model. The second line of defence is internal and is corporate oversight, whereby individuals who are independent to the day-to-day operations perform a second layer review or verification of the mitigations and controls in place. The third line of defence is outsourced, providing the Audit Committee with independent assurance over the management of risks around the Group.
The business assurance programme has progressed over the year (refer to the Audit Committee report on pages 59 to 62) and will continue during FY2023.

The Group actively monitors the risk related to its business and the environment in which it operates.

## Emerging risks

Each year we review emerging risk areas to determine whether they should be considered as principal risks and be actively monitored as part of the risk management process going forward.

In previous years climate change has been identified as an emerging risk, as well as a pervasive risk which was an integral part of several of our other principal risks. However, this year we have included climate change as a standalone principal risk given the importance and prominence of sustainability increasing across the globe for governments, businesses and citizens, in addition to Design Group key stakeholders (investors, banks, customers and employees) alongside the ever-growing legislative requirements around climate change.

There are no new identified emerging risks.

## Principal risks

### Strategy

A lack of appropriate corporate strategy (organic and M&A) could affect attainment of the Group's growth ambitions, leading to shareholder dissatisfaction

Pre-mitigation: **High** → Post-mitigation: **High**

**MITIGATION**

- Ongoing review of market opportunities and trends including M&A pipeline
- Regular Operating Board meetings to discuss business updates along with operational and strategic decisions
- Review and monitor long-term key performance indicators
- Maintaining regular open dialogue with major shareholders

**Change:**

↑

**Increased**

The operational challenges faced by our business, particularly in DG Americas, is partly grounded in the failure in the execution of the existing strategy.

The go-forward position of the business is reliant on our DG Americas turnaround plan.

Link to strategy:

### Macroeconomic uncertainty

Global economic developments including political and social change may result in a significant impact on our business trading and operations which could affect our main cost areas of raw materials, freight and people

Pre-mitigation: **High** → Post-mitigation: **High**

**MITIGATION**

- Diversification strategy in terms of regions and products
- Regular monitoring of the economic conditions in which we operate and impact analysis and response plans for significant changes to trade agreements utilising external specialists where necessary
- Innovation and product design to mitigate any increased costs of raw materials

**Change:**

↑

**Increased**

The impact of the pandemic, coupled with increased cost of living as well as the Russia/Ukraine conflict on rising prices is impacting consumer discretionary spend.

Link to strategy:

**Key**

Working with the winners

Design & innovation

Efficiency & scale

# RISK MANAGEMENT CONTINUED

## Principal risks continued

### Financing capacity

A loss of support from our principal banking partners restricting our ability to deliver on our strategy

Pre-mitigation: High → Post-mitigation: Medium

**MITIGATION**

- Continued ongoing communication with active shareholders
- Maintaining strong relationships and communication with existing banks
- Facility with multiple lending partners to enhance borrowing capabilities with a range of maturities sufficient to cover funding requirements
- Regular cash budgeting, forecasting and monitoring across the Group and senior management

**Change:**

↑

**Increased**

The Group has reduced ability to raise incremental finance as well as an increase in working capital finance needs. The banking facility has been successfully extended to March 2024 (with a change of covenants to March 2023) whilst we navigate this period of uncertainty.

Link to strategy:

### Supply chain and sourcing

An inability to access the right terms, quality and compliance from our suppliers alongside a lack of a resilient supply chain could lead to a loss of revenue and margin

Pre-mitigation: High → Post-mitigation: Medium

**MITIGATION**

- Working closely with suppliers to maintain good relationships and limit cost impact
- Expansion of supplier base
- Regular supplier evaluation, audits and vendor due diligence, including commercial and legal risk review for new contracts
- Leveraging our sourcing offices in Asia to manage and maintain supply relationships

**Change:**

↑

**Increased**

Increased risk as raw material, freight and labour availability reduces as well as costs continuing to rise substantially.

Link to strategy:

### People

Inappropriate organisational design and talent strategy that cannot keep pace with the demands of the business leading to a failure to deliver business objectives

Pre-mitigation: High → Post-mitigation: Medium

**MITIGATION**

- A focus on succession planning and building strong teams around key individuals in each business unit
- Appropriate review of executive and senior management remuneration packages
- 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 staff surveys, feedback and review meetings
- Implementation of cross-learning programmes to ensure all the senior management team understand other roles

**Change:**

↑

**Increased**

Increased challenges in recruiting and retaining in a market with rising labour costs.

Link to strategy:

**Key**

Working with the winners · Design & innovation · Efficiency & scale

## Information security

Risk of a cyber attack resulting in significant business downtime, data loss or reputational damage

Pre-mitigation: **High** → Post-mitigation: **Medium**

**MITIGATION**

- Policies, procedures and regular training for employees
- IT directors in each territory to ensure global best practice sharing
- Enhanced physical and logical security controls, in addition to appropriate network design and segregation
- SOC service and SIEM software

**Change:**

**Unchanged**

Link to strategy: Working with the winners, Design & innovation, Efficiency & scale

## Climate change

An inability to effectively transition to a low-carbon economy by failing to adapt to changing consumer behaviours as a result of sustainability market trends and climate-related legislation. In addition, an inability to anticipate the physical effects of climate change which could lead to a disruption to business, reduced revenues and increased operating costs

Pre-mitigation: **High** → Post-mitigation: **Medium**

**MITIGATION**

- Development of sustainable product ranges
- Investment in improvement to carbon footprint of operations
- Strategic plans to address climate change risk
- Engagement with key stakeholders

\+

**New risk**

Link to strategy: Working with the winners, Design & innovation, Efficiency & scale

## Consumers

Inability to identify and adapt to changing consumer behaviours and demand, resulting in reduction of revenue and margins

Pre-mitigation: **High** → Post-mitigation: **Medium**

**MITIGATION**

- Continued focus on design, innovation, product quality and exceptional service including ongoing new product development to grow and improve sustainable product ranges
- Maintain a blended and diversified portfolio of products and customers, both by market segment and geography
- Close working relationships with key customers to be 'ahead of the curve' on trends they are implementing, as well as leveraging Group understanding of trends to share knowledge and ideas
- Annual budget and business review process including market developments

**Change:**

**Unchanged**

Link to strategy: Working with the winners, Design & innovation

**Key**

Working with the winners | Design & innovation | Efficiency & scale

# RISK MANAGEMENT CONTINUED

**Principal risks** continued

## Financial control and insight

A failure in adherence with the Group's financial control framework and insight into performance may result in financial under/over performance

Pre-mitigation: **High** → Post-mitigation: **Medium**

### MITIGATION

- Group policy to hire qualified individuals into key financial roles
- Group financial policies in place in addition to minimum controls framework and bi-annual self certification of adherence to Group controls
- Regular communications with finance teams around the Group
- Business assurance third party review of key financial controls
- Regular forecasts and projections for the business

**Change:**

↑

**Increased**

Insight into our financial performance is critical to restore profitability following two trading updates during FY2022.

There has been a failure of insightful forecasting resulting in a slower response which has led to the poor FY2022 performance.

Link to strategy:

## Manufacturing operations

An inability to deliver lowest cost manufacturing could restrict our competitive advantage

Pre-mitigation: **High** → Post-mitigation: **Medium**

### MITIGATION

- Monitor key operations performance indicators to give early indication of any disruption to plan
- Monitor and research to ensure best manufacturing or supply methods maintained
- Retaining high skilled staff with experience to manage any disruption
- Appropriate and regular maintenance/site risk assessments performed
- Group insurance policy for a range of operational risks

**Change:**

↑

**Increased**

Our ability to deliver lowest cost manufacturing has been challenged this year.

Link to strategy:

## Acquisition investment

Poorly executed M&A and a lack of post-acquisition integration management could affect the success of the Group's M&A strategy

Pre-mitigation: **High** → Post-mitigation: **Medium**

### MITIGATION

- Harmonisation plans for all acquisitions with regular reporting to a focused steering committee consisting of Executives alongside regular Board updates
- Investment in people and capital expenditure to realise synergies and harmonisation
- Reduced M&A agenda

**Change:**

↔

**Unchanged**

Link to strategy:

**Key**

Working with the winners   Design & innovation   Efficiency & scale

## Governance and compliance

Increased legal and regulatory exposure across the numerous territories in which we operate with a heightened risk as a result of the decentralised nature of the business

Pre-mitigation: **High** → Post-mitigation: **Medium**

### MITIGATION

- Policies and procedures for main risk areas, including a Code of Conduct signed by all employees and a whistleblowing hotline
- Group General Counsel and legal team in the US to aid with managing the Group's compliance globally, working with external legal advisers in regions as required
- 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)

**Change:**

↑

**Increased**

Link to strategy:

## Service and quality

Loss of revenue and margin from key customers due to poor quality or performance having a bigger impact due to customer concentration

Post-mitigation: **Medium** → Post-mitigation: **Low**

### MITIGATION

- Maintain strong relationships with customers alongside review and adherence to Service Level Agreements
- Ongoing rigour and tight controls in relation to product testing and compliance
- Maintain a diversified portfolio of products and customers with an additional focus on product innovation

**Change:**

↔

**Unchanged**

Link to strategy:

**Key**

Working with the winners   Design & innovation   Efficiency & scale

# 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.

## Stewart Gilliland
**Interim Executive Chair**

**Date of appointment:** Stewart joined the Board as a Non-Executive Director on 5 July 2021 and became Non-Executive Chair on 20 September 2021. The search for a new Group CEO is underway and in the interim Stewart has agreed to step into the role of Interim Executive Chair from 1 June 2022 to December 2022.

**Experience:** Stewart has a wealth of experience in senior and board roles at fast-moving consumer goods businesses, both listed and private. Both as an executive and non-executive, he established a strong track record in supporting businesses to achieve their growth ambitions and encouraging engagement with stakeholders.

**External appointments:** Stewart is currently Chair of C&C Group plc until 7 July 2022, as well as a Non-Executive Director at Chapel Down Group plc, Tesco plc and Natures Way Foods Limited.

**Skills:** Stewart has over 30 years' experience and knowledge in international marketing, logistics and general management.

**Committees:**

N* A R

## Paul Bal
**Chief Financial Officer**

**Date of appointment:** Paul joined the Board on 1 May 2022.

**Experience:** Paul joined the Board from Stock Spirits plc, where he was CFO since 2017. Paul was instrumental in the turnaround of the then LSE-listed group, leveraging his experience in the management of a complex portfolio of over 70 brands selling across 50 markets.

**Skills:** Qualifying as a Chartered Accountant in England and Wales in 1993 and a Fellow since 2005, Paul has had an international career. He held global and regional management roles within British American Tobacco plc, Rothmans International Limited and the Tupperware Brands Corporation, Inc. before joining Stock Spirits plc.

## Lance Burn
**Interim Chief Operating Officer**

**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. In 2020 Lance took on the newly created role of CEO DG International and in 2022 took on the role of Group Interim COO. 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 Director**

**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
### Senior Independent Director

**Date of appointment:** Mark joined the Board as a Non-Executive Director on 1 January 2016. He was appointed Senior Independent Director on 4 January 2021.

**Experience:** Mark has held a number of senior positions, mainly as CFO or COO, in public and private companies operating in a wide range of sectors and geographies.

**External appointments:** Mark sits on a number of committees for the Duchy of Lancaster.

**Skills:** Extensive experience in business strategy and finance, M&A and operational excellence. Mark is also a Chartered Accountant.

**Committees:**

A* R N

## Clare Askem
### Non-Executive Director

**Date of appointment:** Clare joined the Board as a Non-Executive Director on 5 July 2021.

**Experience:** Clare was managing director of Habitat at Sainsbury's plc. Prior to her role at Habitat, Clare was Director of Strategic Development at Home Retail Group plc and previously held a number of executive positions at Dixons Plc.

**External appointments:** Clare is a Non-Executive Director on the Board of Portmeirion Group plc and The Law Debenture Corporation plc.

**Skills:** Strategy and leadership, digital transformation and change management.

**Committees:**

R* N

## Claire Binyon
### Non-Executive Director

**Date of appointment:** Claire joined the Board as a Non-Executive Director on 1 June 2022.

**Experience:** Claire has held senior corporate development and strategic planning roles with multinational, manufacturing and consumer goods businesses, including GE Capital, InBev SA, Cadbury plc, DS Smith plc and Fenner plc (a Michelin company).

**External appointments:** Claire is the Chair of Audit and Risk Committee for Murray International Trust plc, Chair of the Audit Committee for JP Morgan American Investment Trust plc and is also a Non-Executive Director of NHBS Ltd.

**Skills:** Corporate development, strategic planning, corporate finance and transactions and listed company governance. Claire is also a Chartered Accountant.

**Committees:**

A R

**Giles Willits**
Executive Director

**Date of appointment:** Giles joined the Board in January 2018 and resigned effective from 30 June 2022.

A Audit Committee

R Remuneration Committee

N Nomination Committee

* Chair

# CORPORATE GOVERNANCE REVIEW

**Stewart Gilliland**
Interim Executive Chair

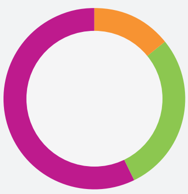
Dear Shareholder,

This past year has been one of significant change, particularly at Board level, with a change in membership of a number of Executive and Non-Executive Directors. I see change as a positive step forward, bringing with it fresh insights and a new mix of skills and experience which will only benefit the Group moving forward and strengthen our commitment to good corporate governance. I am therefore pleased to introduce the Group's corporate governance statement.

**Stewart Gilliland**
Interim Executive Chair
27 June 2022

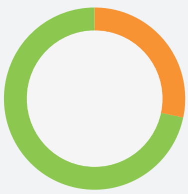
## Current Board demographics

### Role



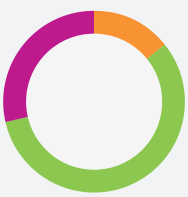
Chair | 1
Executive Directors | 2
Non-Executive Directors | 4
(with an additional vacancy for CEO)

### Gender



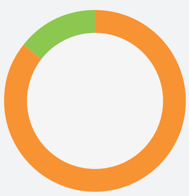
Female | 2
Male | 5

### Board age



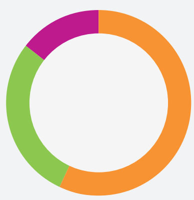
45-54 years | 1
55-64 years | 4
65+ years | 2

### Diversity



White | 6
Asian | 1

### Length of tenure



0-2 years | 4
5-10 years | 2
10+ years | 1

## Our governance framework

In order to ensure that the Board makes the right decisions for the Company and its stakeholders, it is vital that we have good corporate governance in place. In 2019 the Board adopted the QCA Corporate Governance Code and strives to follow its guidance and principles, many of which flow throughout our business via our strategy, our business model and our stakeholder engagement. The table below signposts you to the various sections of this annual report containing the detail.

| | The QCA ten principles of corporate governance: | Read more |
|---|---|---|
| 1. | Establish a strategy and business model which promote long-term value for shareholders. | See page 08 |
| 2. | Seek to understand and meet shareholder needs and expectations. | See pages 44 and 45 and 58 |
| 3. | Take into account wider stakeholder and social responsibilities and their implications for long-term success. | See pages 28 to 43 |
| 4. | Embed effective risk management, considering both opportunities and threats, throughout the organisation. | See pages 46 to 51 |
| 5. | Maintain the Board as a well-functioning, balanced team led by the Chair. | See pages 52 to 58 |
| 6. | Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities. | See pages 52 and 53 and 64 |
| 7. | Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement. | See page 58 |
| 8. | Promote a corporate culture that is based on ethical values and behaviours. | See pages 08 and 30 to 35 |
| 9. | Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board. | See pages 46 and 56 and 57 |
| 10. | Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders. | See pages 44 and 45 and 58 |

# CORPORATE GOVERNANCE REVIEW
CONTINUED

## Board governance

Ordinarily, there is a distinct division of responsibilities between the Chair and the CEO. The Chair 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.

Since 1 March 2022 we have been without a CEO and as of June 2022 Stewart Gilliland stepped into the role of Interim Executive Chair for a temporary period. Stewart is overseeing the recruitment process for a new CEO and will revert to his role as Non-Executive Chair once that appointment is in place.

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.

## Independence

Anders Hedlund, who founded our Group, is a Nominee Non-Executive Director. Anders 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, the other Non-Executive Directors (other than Stewart Gilliland whilst he is in the role of Interim Executive Chair) are considered to be independent.

## Committees

The Board has three committees – Remuneration, Audit and Nomination. Other than Stewart Gilliland (as referenced above), each of these committees is comprised solely of independent Non-Executive Directors, with Executive Directors being invited to meetings as appropriate. For the membership of each committee, including its Chair, see pages 52 and 53.

The Nomination Committee is responsible for regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and other senior executives, and making recommendations to the Board with regard to any changes. It also keeps under review the leadership needs of the organisation, to ensure succession plans are in place, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The Audit Committee satisfies itself on the integrity of financial information and ensures the 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 auditors. Its role is to review the interim and final financial statements for approval by the Board, to ensure that operational and financial controls are functioning properly, and to provide the forum through which the Group's external auditors report to the Board. Further details about the activities undertaken by the Audit Committee this year can be found on pages 59 to 61.

The Remuneration Committee assists the Board in fulfilling its responsibilities to shareholders to ensure that: (i) the remuneration policies and practices of the Company are designed to promote the long-term success of the Company, and are aligned with the Company's strategy and values, having regard to all statutory and regulatory requirements and to the views of stakeholders; and (ii) senior executives are provided with fair and sustainable remuneration which is linked to the delivery of strong personal and corporate performance. Further details about the activities undertaken by the Remuneration Committee this year can be found on pages 65 to 73.

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.

The Board is kept regularly updated by the Company Secretary and the NOMAD of their legal duties and any changes 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. This year, FIT Remuneration Consultants LLP were appointed as consultants to the Remuneration Committee on a retained basis and BDO LLP ('BDO') continued to provide business assurance support to the Audit Committee.

## Key Board activities

During FY2022, 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 acquisitions, capital expenditure 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 auditors;
- approval of the strategy, plans and budget;
- review of the Group's principal risks including re-assessing the Board's risk appetite;
- approval of changes to key personnel including their remuneration;
- approval of the cancellation of the Value Creation Scheme; and
- approval of annual bonus targets for the following financial year.

## Time commitments

The Board is satisfied that the Directors can devote sufficient time to meet their Board responsibilities and carry out the Company's business.

## Memberships and attendance

| Member | Member since | No. of meetings attended | Maximum possible meetings |
|---|---|---|---|
| Stewart Gilliland | 5 July 2021 | ●●●●●●●●●●● | ●●●●●●●●●●● |
| Mark Tentori | 1 January 2016 | ●●●●●●●●●●●●● | ●●●●●●●●●●●●● |
| Clare Askem | 5 July 2021 | ●●●●●●●●●●● | ●●●●●●●●●●● |
| John Charlton | 28 April 2010 – 20 September 2021 | ●●● | ●●● |
| Elaine Bond | 31 January 2012 – 31 December 2021 | ●●●●●●● | ●●●●●●● |
| Anders Hedlund | 23 October 1995 | ●●●●●●●●●●●●● | ●●●●●●●●●●●●● |
| Lance Burn | 17 October 2012 | ●●●●●●●●●●●●● | ●●●●●●●●●●●●● |
| Giles Willits | 1 January 2018 – 30 June 2022 | ●●●●●●●●●●●●● | ●●●●●●●●●●●●● |
| Paul Fineman | 27 February 2005 – 1 March 2022 | ●●●●●●●●● | ●●●●●●●●● |

# CORPORATE GOVERNANCE REVIEW
CONTINUED

## Board performance

In March 2022 the Board conducted a self-assessment of its performance. As in previous years, the Directors were asked to complete a questionnaire based on the ten principles of the QCA Corporate Governance Code and answer additional questions allowing Directors to give their views on the main achievements of the Board over the past twelve months, and the Board's main strengths and weaknesses. The results were initially reviewed by the Chair and Company Secretary and then shared and discussed with the full Board.

In November 2021 the Remuneration Committee and the Audit Committee conducted a self-assessment of their performance. The Remuneration Committee used the same questionnaire as last year which incorporated the guidance contained in the QCA Remuneration Committee Guide. Similarly, the Audit Committee used the same questionnaire as its previous self-assessment. Members were asked to rate the performance of each 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 the previous year's results. Noticeable improvements for the Audit Committee were in three areas:

i) overseeing financial reporting;
ii) overseeing risk management and internal control; and
iii) overseeing business assurance.

All three of these areas received Committee focus this year, including input from PricewaterhouseCoopers LLP ('PwC') and BDO LLP ('BDO').

It is worth noting that all three evaluations covered a time period in which the Board went through quite a significant change in membership (including changes in Chairs of the Board and the Remuneration Committee) meaning like-for-like comparisons with previous years are difficult to make.

## Evaluation of the Chair and Non-Executive Directors

Mark Tentori, Senior Independent Director, met with the Board members (excluding Stewart Gilliland) to obtain feedback on Stewart's performance in his first year as Chair. The feedback was extremely positive, with each member confirming their full support for the Chair.

Stewart met with each Director individually to discuss their individual contributions to the Board, assessing their effectiveness and highlighting any areas of improvement.

It has been good to see the widening of the overall skill set and experience on the Board with the addition of the new Directors. The Board is in a strong position to drive the Group forward and bring about improvements in its performance.

## Shareholder engagement calendar FY2022

| | |
|---|---|
| **20 April 2021** | Trading update |
| **15 June 2021 – 21 June 2021** | Full-year results announcement followed by investor meetings and calls |
| **24 August 2021** | Trading update |
| **20 September 2021** | Annual General Meeting |
| **26 October 2021** | Trading update |
| **26 October 2021 – 29 October 2021** | Various investor meetings |
| **23 November 2021 – 1 December 2021** | Interim results announcement followed by investor calls |
| **26 January 2022** | Trading update |
| **26 January 2022 – 28 January 2022** | Various investor meetings |

# AUDIT COMMITTEE REPORT

**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 2022. This report provides an overview of the Committee's activities in the year and looks ahead to our anticipated activities in the coming year.

## Year in review

The Committee throughout the year continued 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 provided 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 works to a structured agenda which is closely linked to the Group's reporting cycle, and over the year the Committee met on seven occasions either virtually or in person. After each Committee meeting I provided an update to the Board on the key topics discussed during our meetings. I also met separately with the audit partner and senior management on a number of occasions during the year.

The Committee is supported by the Group's established financial controls framework and the finance functions across the business. Covid-19 has continued to present challenges in terms of ensuring that businesses are operating effectively within our financial controls framework, with finance functions working remotely once more for a lot of the financial year; however, the Group's learnings and adaptations over the last 24 months have ensured that this continues to run smoothly. The Committee was also pleased to see this year the reinstatement of on-site visits during the interim review and year-end audit which aided an even smoother audit process.

During the year, both John Charlton and Elaine Bond stepped down from the Committee and Stewart Gilliland joined the Committee from September 2021. I would like to thank my colleagues and fellow Board members for their contribution and counsel over the past twelve months which enabled the Committee to fulfil its role in providing effective challenge and scrutiny.

This year has seen the Group dealing with the significant cost headwinds and supply chain challenges and their corresponding impact on the Group's financial results. In addition to ongoing commercial and operational initiatives to mitigate margin and supply chain challenges, there has been a review of the priorities and plans in the US to ensure the business is adopting the best route moving forward.

The Committee's primary focus as always is on the integrity of the financial reporting process and particularly, as a result of these challenges, on areas including liquidity and covenant testing, going concern, asset impairment testing and deferred tax asset recognition. In addition, the Committee concentrated on the accounting judgements and disclosures with regard to Adjusting items.

## The year ahead

The Group will continue to focus its efforts on mitigating the impacts of the headwinds faced in the financial year, including the turnaround of the Americas business. In addition, the gathering momentum of the Group's sustainability framework 'helping design a better future' will lead to a shift in focus in respect of the Group's reporting in this area.

The Committee plays a key role in assisting the Board in ensuring the integrity of the financial statements and the effectiveness of the Group's internal financial controls and risk management are maintained. I am comfortable that the Committee is well placed to meet these challenges and to fulfil its duties over the coming year.

On behalf of the Board.

**Mark Tentori**
Chair of the Audit Committee

27 June 2022

# AUDIT COMMITTEE REPORT
CONTINUED

## Role and responsibilities of the Committee

The core duties of the Committee include:

- monitoring the integrity of the annual and interim financial statements, with a focus on reviewing the significant financial reporting policies and judgements within them;
- assessing whether the financial statements, taken as a whole, are fair, balanced and understandable;
- 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, anti-bribery and corruption 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 auditors, 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.

## Membership and attendance

All members of the Committee are, and were considered by the Board to be, independent throughout the year in review. As a qualified Chartered Accountant, I am considered by the Board to have recent and relevant financial experience.

The Committee has access to the Group's finance team, to its internal audit function and to its external auditors and can seek further training and advice, at the Group's cost, as appropriate.

The Committee met on seven occasions during the financial year. The quorum necessary for the transaction of business by the Committee is two, each of whom must be a Non-Executive Director. Only members of the Committee have the right to attend Committee meetings, however during the year, the Group CEO and the Group CFO, along with members of the Group finance team, were invited to attend the meetings. In addition, our external auditors, PricewaterhouseCoopers LLP ('PwC'), our internal auditors, BDO LLP ('BDO'), and our outgoing internal auditors Mazars LLP have also attended Committee meetings at our invitation.

The Company Secretary and Group General Counsel is Secretary to the Committee.

## 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 2021 and the full-year audited statements for the year ending 31 March 2022. In reviewing the financial statements, the Committee considered reports from the Group finance function as well as the external auditors.

The key matters reviewed and evaluated by the Committee are set out below:

### Significant accounting matters

The main areas of judgement within the financial statements that have been considered by the Committee are outlined below. The Committee has discussed these to ensure that appropriate rigour has been applied as well as assessing whether management has made appropriate judgements and estimates in line with the Group's accounting policies.

Throughout the year, finance teams around the Group, along with the Group finance function, have worked to ensure that the business provides the required level of disclosure on significant issues to the Committee in relation to the financial statements. All accounting policies can be found in note 1 to the financial statements. Each of the areas of judgement has been identified as an area of focus and therefore the Committee has also received detailed reporting on these matters from PwC.

## Memberships and attendance

| Member | Member since | No. of meetings attended | Maximum possible meetings |
|---|---|---|---|
| Mark Tentori | 1 January 2016 | ●●●●●●● | ●●●●●●● |
| John Charlton | 28 April 2010 – 20 September 2021 | ●● | ●● |
| Elaine Bond | 31 January 2012 – 31 December 2021 | ●●●●● | ●●●●● |
| Stewart Gilliland | 5 July 2021 | ●●●●● | ●●●●● |

1. The Committee and the Board reviewed and challenged the evidence and assumptions supporting the adoption of the going concern basis for the financial statements for the year ended 31 March 2022. With specific focus on the Group's underperformance in the current financial year, the Committee paid particular attention to the forecasts prepared by management, assessing cash forecasts for the period ending 30 June 2023, the 'going concern assessment period', along with profitability and revenue assumptions and a quantitative assumption for the period beyond 30 June 2023. The Committee and Board also approved the request agreed by our banking partners to amend our banking covenants for the financial year ended 31 March 2023 and extension to the banking facilities to 31 March 2024.
2. The carrying values of the Group's intangibles and goodwill have been assessed to determine whether there is any impairment. The Committee has concluded that, based on information and analysis prepared by executive management including assumptions on future cash flows (which were the same as those used for the going concern assessment), discount rates used and long-term growth rates, 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 was reviewed. This involved the exclusion of costs and abnormal income items referred to throughout as 'Adjusting items' that are considered by the Board to help the reader of the financial accounts obtain an accurate appreciation of the underlying performance of the business. Adjusting items are reviewed and approved by the Board on a monthly basis. These include costs that are considered by the Directors to be material and one-time in nature, or the amortisation of acquisition intangibles. This year the Committee, alongside the Board, took the decision to no longer treat share-based payment credits/costs as Adjusting items. The Committee is satisfied that this approach, together with the accompanying narrative, gives a clearer and more balanced view of the Group's underlying performance consistent with prior years. In addition, the Committee is satisfied that the rationale and explanations behind the use of APMs is clearly disclosed and reconciled.
4. The recognition of deferred tax assets around the Group were assessed in detail in light of the decline in profitability of some of the businesses. Using the same forecasts that were used for the going concern and asset impairment testing, the Committee reviewed the recognition criteria and agreed with the final position adopted, being the derecognition of certain deferred tax assets in the Group.
5. The level of inventory provisioning around the Group in respect of aged inventory, or anything deemed to be obsolete, has been reviewed by the Committee at the year end. In addition, the release or utilisation of any brought forward provisions from the prior year end has been reviewed and deemed appropriate.

## Other areas of focus

The Committee also during the year:

- approved the internal audit plan and agreed the external auditors' work plans for the Group;
- considered regular reports from our outsourced internal audit function on their findings;
- reviewed the Group's risk register; and
- reviewed the external auditors' independence and objectivity, the re-appointment of the external auditors and approval of the external auditors' remuneration.

## Internal controls and risk management

The Committee oversees the Group's risk management framework, monitoring and reviewing the risk assessment process and advising the Board on risk exposures.

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee, which includes financial, operational and compliance controls. The Committee gains assurance via a number of sources both internally and externally.

# AUDIT COMMITTEE REPORT
CONTINUED

## Other areas of focus continued

### Internal controls and risk management continued

### Financial controls

The Committee continually reviews the effectiveness of the Group's internal financial 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. 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. In light of the challenges faced by the Group in respect of cost headwinds, the Committee also spent some time understanding whether there was any breakdown in financial controls which could be attributed to the issues faced. The Committee concluded that the appropriate financial controls were, and are still, in place, however, have also had confirmation from the Americas business that enhanced controls around pricing agreements have been put in place as an additional mitigating action.

The Committee also noted the internal control findings highlighted in the external auditors' report and confirmed that it is satisfied that there is no material misstatement and that relevant action is being taken to resolve the control matters that were raised.

### Internal Audit/Business Assurance

The Group's risk management framework operates within a 'three lines of defence' assurance model. The first line of defence lies with the operational owners and are the teams within the business managing and mitigating risks as part of their operational model. The second line of defence is internal and is corporate oversight, whereby individuals who are independent to the day-to-day operations perform a second layer review or verification of the mitigations and controls in place.

To gain further comfort, the Group operates an outsourced internal audit function as a third line of defence, which was performed by BDO during the financial year ended 31 March 2022.

Following the detailed review of principal risks and associated risk appetite by the Board in FY2021, this year BDO have performed a Group-wide risk assurance mapping assessment. This resulted in the identification of gaps in the Group's established risk mitigations and controls, a cyber security review and a governance and compliance framework assessment.

## External audit

The Committee monitors the Company's relationship with the external auditors to ensure that external independence and objectivity are maintained. In January 2022, the Committee met with PwC to agree the audit plan for the year, highlighting the key financial statements and audit risks, to ensure the audit was appropriately focused. In June 2022, the Committee received a report from PwC with their key audit findings including the significant accounting matters discussed above, and also considered the Letter of Representation that PwC requires from the Board. The Committee met with PwC privately on a number of occasions during the year to discuss any matters necessary without management present.

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

## Non-audit services

The Group has a policy in place governing the provision of non-audit services by the external auditors in order to ensure the external auditors' objectivity and independence is safeguarded. Under this policy, a 'white list' of permitted services is outlined, which includes the interim review undertaken by the external auditors during the financial year. No non-audit service can be provided to the Group without the express approval of the Committee.

## Evaluation of the Committee

The evaluation of the Committee was completed during the financial year as part of the FY2022 Board evaluation programme. An explanation of the process and conclusions arising from it are set out on page 58.

This report was approved by the Board of Directors on 27 June 2022.

# NOMINATION COMMITTEE REPORT

**Stewart Gilliland**
Chair of the Nomination Committee

On behalf of the Board I am pleased to present the Nomination Committee report for the year ended 31 March 2022.

## Duties

The primary duties of the Committee are to:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- keep under review the leadership needs of the organisation, and to ensure succession plans are in place, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment and the time commitment expected; and
- work and liaise as necessary with other Board committees, ensuring the interaction between committees and with the Board is reviewed regularly.

## Terms of Reference

The full Terms of Reference, which are reviewed and approved annually, can be found on our website.

## Activities during the year

This year the Committee oversaw several changes in our Board and senior leadership teams:

### Non-Executive Directors

John Charlton stepped down as Chair and Non-Executive Director at the AGM on 20 September 2021 and Elaine Bond stepped down as Chair of the Remuneration Committee and Non-Executive Director on 31 December 2021. They were succeeded by Stewart Gilliland and Clare Askem respectively, who both joined the Board on 5 July 2021.

On 1 June 2022 Claire Binyon joined the Board as a Non-Executive Director.

Also on 1 June 2022, Stewart Gilliland agreed to take on additional responsibilities on a temporary basis in the role of Interim Executive Chair.

### Executive Directors

Giles Willits was an Executive Director and employee of the Company until 30 June 2022. Giles worked his full notice period and then agreed to extend it to assist with the preparation of the accounts and the transition of responsibilities to the new CFO. As announced on 30 March 2022, Paul Bal succeeded Giles as Group CFO, joining the Board on 1 May 2022.

Paul Fineman stepped down as Group CEO and Executive Director on 1 March 2022. The Committee has engaged a recruitment agency to undertake the search for his successor and an announcement will be made in due course.

Lance Burn was appointed to the role of Interim Group Chief Operating Officer (COO) on 7 February 2022 and at the same time took on the role of Interim CEO of the Americas business following the departure of Gideon Schlessinger.

The Committee took an active role in overseeing the above moves, taking into consideration the needs of the business and aligning those with the skills, knowledge and experience of both the existing and new Directors. The Board was kept fully informed at each step with the ultimate decisions being made by the full Board.

# NOMINATION COMMITTEE REPORT
CONTINUED

## Board skills matrix

In light of the Board changes and as part of the Board annual self-evaluation, the Directors were asked to complete a skills matrix to help understand where the strengths lie and also to identify any gaps.

The skills matrix was comprised of four 'core' skills and a number of sector-specific skills. The results are set out below:

### Board skills matrix

| Skill | Number of Directors | Skill | Number of Directors |
|---|---|---|---|
| M&A/Capital Markets | 3 3 | Environmental/Social | 2 4 |
| International Markets | 2 4 | Senior Executive | 6 |
| Cyber Security/IT | 5 1 | Legal/Public Policy | 6 |
| Manufacturing/Supply Chain | 2 4 | Financial/Audit & Risk | 2 2 2 |
| Health & Safety | 2 4 | Core Industry | 4 2 |

(a) pages 52 and 53

Not skilled | Partially skilled | Highly skilled

### Memberships and attendance

| Member | Member since | No. of meetings attended | Maximum possible meetings |
|---|---|---|---|
| Stewart Gilliland | 5 July 2021 | ●●●●● | ●●●●● |
| Mark Tentori | 1 January 2016 | ●●●●●●● | ●●●●●●● |
| Clare Askem | 5 July 2021 | ●●●●● | ●●●●● |
| John Charlton | 28 April 2010 – 20 September 2021 | ●●● | ●●● |
| Elaine Bond | 31 January 2012 – 31 December 2021 | ●●●● | ●●●● |

Executive Directors attend by invitation when appropriate.

**Stewart Gilliland**
Chair of the Nomination Committee

# DIRECTORS' REMUNERATION REPORT

**Clare Askem**
Chair of the 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 2022.

I joined the Board in July 2021 and attended my first Remuneration Committee meeting on 18 November 2021, taking over from Elaine Bond as Chair of the Committee on 1 January 2022. The other members are Mark Tentori and Stewart Gilliland. We met six times formally during the year, with full attendance by the members. The full Terms of Reference for the Committee, which are reviewed and approved annually, are available on our website. These were last updated in November 2021.

The last year has continued to be challenging as we have navigated the various implications of a post-Covid world and the ongoing headwinds. During this time our colleagues have demonstrated strong resilience, determination, support and commitment. On behalf of the Board, I wish to thank them for this and their ongoing support to their teams and the wider Group.

## Part 1: Chair statement

This year has been one of significant change, both in terms of Board membership and that of the wider senior management teams. As a result, the Committee has reviewed the remuneration for new appointments, people exiting the business and considered the wider impact of long-term incentive schemes on employee retention and attraction.

Importantly, we have focused on what we believe shareholders are saying to us regarding our remuneration practices, particularly as highlighted in the ISS proxy analysis report and the resulting proportion of votes which were cast against our Directors' report and financial statements at our last AGM. Throughout this report my aim is to demonstrate how we have listened and responded to those concerns and put shareholder views at the forefront of our decision-making.

The following key decisions have been taken, which are explained in more detail below:

- appointment of remuneration consultants;
- executive pension alignment;
- key management changes and implications on remuneration;
- salaries and annual bonus; and
- share schemes moving forward.

### Appointment of remuneration consultants

Historically, the Committee received remuneration advice as and when needed. We recognised that the ad hoc nature of that advice resulted in decisions being taken in isolation rather than a broader analysis being undertaken. To remedy this, the Committee appointed FIT Remuneration Consultants LLP in January 2022 as its retained advisers. They provide ongoing review and insight to the Committee, attending meetings and working closely with the Chair and the Company Secretary.

### Consideration of shareholders' views

The Committee is committed to shareholder dialogue: shareholders can ask questions at the AGM, engage via the Company Secretary throughout the year and the Remuneration Committee Chair is happy to attend additional meetings with shareholders when requested.

The Committee has also agreed to introduce an advisory vote on the Directors' remuneration report (DRR) at the AGM in September.

# DIRECTORS' REMUNERATION REPORT
CONTINUED

## Part 1: Chair statement
continued

### Executive pension alignment

In last year's report we highlighted the decision that the Director-level percentages would not be increased going forward and any new hires at any level in the Group should have a pension percentage in line with the wider workforce within that geography. In November 2021 we reviewed that decision and decided it had not gone far enough in balancing the experiences of the executives with those of the wider workforce. As a result, we took the decision to reduce the Executive Directors' pension levels to 7.5% from 1 January 2022 and to 5% from the end of December 2022. In practice this was a drop from 15% for Paul Fineman and 10% for Lance Burn. Giles Willits was unaffected as he was already working out his notice period.

### Key management changes

This year we have announced the following Board changes:

### Executive Directors

- Giles Willits resigned as Group CFO in August 2021. He worked his six months' notice period and agreed to stay a further four months to ensure a smooth transition for his replacement. He left the business on 30 June 2022
- Paul Fineman stepped down as Group CEO on 1 March 2022. The payments he received are set out later in this report
- Lance Burn was appointed Interim Group COO and as part of that he moved to the US to be the Interim CEO of DG Americas. The changes to his remuneration can be seen below and on page 71
- Paul Bal joined the Group as Group CFO on 1 May 2022

### Non-Executive Directors

- John Charlton retired as Chair on 20 September 2021
- Stewart Gilliland joined the Board on 5 July 2021 and took over as Chair on 20 September 2021
- Clare Askem joined the Board on 5 July 2021 and took over as Chair of the Remuneration Committee on 1 January 2022
- Elaine Bond stepped down from the Board on 31 December 2021
- Claire Binyon joined the Board on 1 June 2022

In addition to the Board changes, the Committee also reviewed the remuneration arrangements for the DG Americas CFO role, the Interim DG UK managing director, the new DG Americas Chief Transformation Officer and the severance payments for the DG Americas CEO, as well as the senior management teams across the Group.

### Memberships and attendance

| Member | Member since | No. of meetings attended | Maximum possible meetings |
|---|---|---|---|
| Stewart Gilliland | 5 July 2021 | ●●●●● | ●●●●● |
| Mark Tentori | 1 January 2016 | ●●●●●● | ●●●●●● |
| Clare Askem | 5 July 2021 | ●●●●● | ●●●●● |
| John Charlton | 28 April 2010 – 20 September 2021 | ● | ● |
| Elaine Bond | 31 January 2012 – 31 December 2021 | ●●● | ●●● |

Executive Directors attend by invitation when appropriate.

Further, as announced in our post close trading update of 27 April 2022, Stewart Gilliland will take up the role of Interim Executive Chair from 1 June 2022 (with this role envisaged to apply for six months during the search for a new Group CEO, after which time Stewart will revert to Non-Executive Chair). During that period Stewart's fees will be increased by an increment for undertaking the Interim Executive Chair role which will see his fees increase to the equivalent of £420,000 p.a. paid for the period in which he holds the Interim Executive Chair role. Stewart will not participate in incentive plans or receive any benefits.

## Salaries and annual bonus

In March 2021, following a review and benchmarking exercise, the following salary increases were awarded:

- Paul Fineman to £500,000
- Giles Willits to £375,000
- Lance Burn to £300,000
- The Non-Executive Directors' fees were increased to £45,000 per year, with an additional £10,000 for those chairing a committee
- The Chair of the Board's fee was increased to £140,000 per year
- Mark Tentori was given the position of Senior Independent Director and received an additional £5,000 for this role

The Executive Director salary levels were materially ahead of normal salary wage inflation but were considered appropriate at the time due to the doubling in size and complexity of the Group following the CSS acquisition and, in the case of the CEO of DG International division, a material increase in the scope of his responsibilities.

Lance Burn's salary was increased to £425,000 in February 2022 to reflect his new Interim Group COO role and increased responsibilities for the US business. Paul Bal, Group CFO, will receive an annual salary of £365,000.

The Non-Executive Directors will not receive fee increases in FY2023.

As in FY2020 and FY2021, the Executive Directors did not hit the performance targets to trigger a bonus payment for the year ended 31 March 2022.

## Share incentive schemes

### LTIP 2019-2022

The performance criteria for this scheme were not met and therefore the awards will not vest.

### VCS 2020-2023

Considering the FY2022 performance of the Group, and the significant challenges and cost headwinds experienced, and will continue to be faced over the coming financial year, the Committee considered whether the VCS was appropriate in light of the required change of strategy of the Group. It concluded that the VCS no longer incentivised nor inspired the behaviours required to drive the Group forward and as such decided to cancel the scheme. This was effective as of 28 June 2022.

## Payments made to former Directors and payments for loss of office

As announced on 21 February 2022, Paul Fineman stepped down from the Board with effect from 1 March 2022. His severance package was in accordance with good practice and included:

- a payment in lieu of notice in relation to salary, pension and benefits, in respect of his twelve-month notice period; and
- compensation for accrued holiday.

With regard to long-term incentives, the terms of these plans were applied as required so that:

- any vested awards held by Paul were retained; and
- unvested awards held by Paul were retained but subject to (1) strict time pro-rating, and (2) the continued application of performance conditions over the original performance periods.

No other payments were made to former Directors for loss of office.

## 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 58 for further detail
- Approved the remuneration section of the Company's annual report and financial statements
- Reviewed and updated the Executive shareholding policy and the Head Office expenses policy
- Received presentations from the DG Americas and DG International HR directors and held a round table discussion to review broader colleagues' perspectives on remuneration across all territories
- Wrote to institutional shareholders to update them on recent remuneration decisions and future plans

## Assistance to the Committee

During the year the Committee received input from the CEO, the CFO and the Company Secretary. In addition, it engaged FIT Remuneration Consultants LLP to provide remuneration advice as described above.

# DIRECTORS' REMUNERATION REPORT
CONTINUED

## Part 1: Chair statement
continued

### Implementation of policy in FY2023

#### Salary/fees review

As a Committee, we are focused on the actions necessary to restore profitable growth and recover shareholder value and this has fed into our remuneration decisions for FY2023.

The annual salary review process for Executive Directors took into account Lance Burn's increase in February 2022 for the Interim COO role and Paul Bal's joining remuneration. Therefore, only Giles Willits received an inflationary increase of 4%, in line with that received by the wider workforce. For Non-Executive Directors, Stewart Gilliland took on the role of Interim Executive Chair and received an uplift to his fees to reflect that. The remaining Non-Executive Directors did not receive any increase to their fees.

#### FY2023 incentive plans

The Committee believes that it is in shareholders' best interests that modest incentive plans are operated in FY2023 to support our recovery programme. We propose to do so by:

- operating an annual bonus plan in FY2023; and
- making an LTIP award in summer FY2023 ('2022-2025 LTIP').

The proposed 2022-2025 LTIP is intended to be a 'market normal' LTIP award to be awarded to a population of senior executives in order to ensure their incentivisation, retention and broader alignment to shareholder experience in what will be a crucial period for the Company and its business.

The Committee recognised a number of sensitivities around issuing an LTIP at this time and has addressed them as follows:

- existing VCS: following a review by the Committee and consultation with the participants, this was cancelled on 28 June 2022;
- risk of windfall gains: an 'underpin' will be applied that allows the Committee to reduce vesting levels if it determines that vesting outcomes reflect 'windfall gains' arising from the share prices used to calculate the number of shares subject to awards. For example, this may be considered appropriate if vesting values seemed disconnected from the leadership team's performance; and
- overall share plans dilution: we are aware that making share awards at current share prices will use a significant part of our existing share plans dilution authority (which under our LTIP rules allows for up to 15% of issued share capital to be used for share plans in any ten-year period). We are continuing to work through the detail of our proposed usage against this limit and will provide updates to shareholders in future at appropriate times.

The table on the next page sets out further detail of how the remuneration policy will be applied for FY2023.

### Conclusion

I hope that you have found my introductory statement useful and the accompanying report informative and clear. We hope that shareholders will give their support to the DRR resolution at the AGM in September 2022.

**Clare Askem**
Chair of Remuneration Committee

27 June 2022

## 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.

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:

| Element (and purpose) | Link to business model and strategy | Operation and performance | Maximum opportunity | Operation in FY2023 |
|---|---|---|---|---|
| **Base salary**<br>To attract and retain individuals of the required calibre to successfully deliver the business strategy. | '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:<br>• the skills and experience of the individual;<br>• the size, responsibilities and complexity of the role;<br>• external market data; and<br>• inter-Group comparisons. | Not applicable. | Interim Executive Chair – £420,000 p.a. (paid pro-rata while holding this role)<br>CFO – £365,000 p.a.<br>Interim COO – £425,000 p.a. paid pro-rata for the period in which he holds the Interim COO role |
| **Annual bonus**<br>To align the interests of Executive Directors with shareholders. | The annual bonus encourages individuals to actively support and engage with the delivery of the Group strategy, with payout 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 for the CFO and 120% for the Interim COO. | Maximum bonuses at 120% of base salary<br>Metrics: 80% Group Adjusted EBITDA; 20% Net cash |
| **LTIP schemes**<br>To align the interests of Executive Directors with shareholders and support retention. | The primary purpose of the long-term incentive schemes is to reward the individual for delivering the Group strategy and, in turn, increasing shareholder value. | Awards under the schemes are in the form of shares and are subject to performance conditions. | Not applicable | 2022-2025 LTIP<br>CFO and Interim COO awards 125% of base salary<br>Three-year vesting period and two-year holding period<br>Metrics – two-thirds relative TSR vs FTSE SmallCap (ex IT) constituents; one-third EPS |
| **Pension**<br>To provide market normal pensions. | To enable Directors to make long-term provisions for their future retirement at market competitive rates. | Pensions are provided in line with market practice and relevant statutory requirements. | Currently up to 7.5% of base salary for the Interim COO and up to 5% for other Executive Directors. | The Interim COO's pension entitlement will be reduced to 5% at the end of December 2022, ensuring all Executive Directors receive 5%. |
| **Other benefits**<br>To provide market normal 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. | No changes |

# 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 subject to cash position and banking approvals.

### Malus and clawback

The LTIP schemes are subject to malus and clawback provisions which may be applied in the following circumstances:

- a material misstatement of the Company's audited results;
- a material failure of risk management, in any Group Member or a relevant business unit;
- serious reputational damage to the Company, any other Group Member or a relevant business unit; or
- any other circumstances which the Board in its discretion considers are disadvantageous to the shareholders and are similarly serious in nature to those above.

### Holding periods

Under the LTIP, the Executive Directors are subject to a two-year holding period, during which time they are prevented from exercising any shares which have vested under the scheme.

### Shareholding guidelines

The Company operates a shareholding policy which requires Executive Directors to build up a holding of shares equal in value to 100% of their salary before any shares are sold. LTIP awards that have vested and been exercised count towards the requirement.

### 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 is recommended by the Chair and approved by the Executive Directors. The Chair's remuneration is approved by the Remuneration Committee. No Director is 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 six months' 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.

### FY2023

No additional significant changes to the remuneration policy are envisaged for FY2023; however, the Remuneration Committee will continue to regularly review the policy to ensure it remains appropriate to the business.

## Part 3: Annual report on remuneration

### Directors' remuneration

The summary of Directors' remuneration is as follows (audited):

| | Aggregate for all Directors | | Highest paid Director | |
|---|---|---|---|---|
| | FY2022 £000 | FY2021 £000 | FY2022 £000 | FY2021 £000 |
| Salary and bonus | 1,611 | 1,231 | 500 | 400 |
| Benefits | 79 | 77 | 39 | 31 |
| Pension contribution | 142 | 117 | 75 | 60 |
| LTIP | — | 1,309 | — | 607 |
| **Total remuneration[a]** | **1,832** | 2,734 | **614** | 1,098 |

(a) Total remuneration for FY2022 does not include Paul Fineman's payment for severance of £612,900 and compensation for accrued holiday of £39,692.

The remuneration in respect of the year ended 31 March 2022 to the Directors, by individual, was as follows (audited):

| Year ended 31 March 2022 | Salary/fees[a] £ | Bonus £ | Benefits[b] £ | Pension £ | LTIP £ | Total £ |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Lance Burn | 318,910 | — | 15,163 | 29,543 | — | 363,616 |
| Paul Fineman | 500,000 | — | 38,504 | 75,000 | — | 613,504 |
| Giles Willits | 375,000 | — | 14,799 | 37,500 | — | 427,299 |
| **Total Executive** | 1,193,910 | — | 68,466 | 142,043 | — | 1,404,419 |
| **Non-Executive Directors** | | | | | | |
| Clare Askem[c] | 36,250 | — | — | — | — | 36,250 |
| Elaine Bond[d] | 41,250 | — | 1,607 | — | — | 42,857 |
| John Charlton[e] | 70,000 | — | 4,395 | — | — | 74,395 |
| Stewart Gilliland[f] | 105,000 | — | — | — | — | 105,000 |
| Anders Hedlund[g] | 101,837 | — | 4,249 | — | — | 106,086 |
| Mark Tentori | 60,000 | — | — | — | — | 60,000 |
| Greg Hodder[h] | 3,000 | — | — | — | — | 3,000 |
| **Total Non-Executive** | 417,337 | — | 10,251 | — | — | 427,588 |
| **Total Directors** | 1,611,247 | — | 78,717 | 142,043 | — | 1,832,007 |

(a) Salary/fees for Paul Fineman does not include a payment for severance of £612,900 and compensation for accrued holiday of £39,692.
(b) The benefits relate primarily to private health and car benefits.
(c) Appointed 5 July 2021.
(d) Resigned 31 December 2021.
(e) Resigned 20 September 2021.
(f) Appointed 5 July 2021.
(g) Salary/fees for Anders Hedlund include £45,000 for his Non-Executive Director role with the balance relating to his consultancy role with the UK business.
(h) Resigned 30 April 2021.

The highest paid Director is Paul Fineman (2021: Paul Fineman).

The Group provides death in service life assurance to the value of four times pensionable salary.

The remuneration in respect of the year ended 31 March 2021 to the Directors, by individual, was as follows (audited):

| Year ended 31 March 2021 | Salary/fees £ | Bonus £ | Benefits[a] £ | Pension £ | LTIP[b] £ | Total £ |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Lance Burn | 240,000 | — | 15,258 | 24,000 | 320,952 | 600,210 |
| Paul Fineman | 400,000 | — | 31,163 | 60,000 | 606,764 | 1,097,927 |
| Giles Willits | 325,000 | — | 14,909 | 32,500 | 381,406 | 753,815 |
| **Total Executive** | 965,000 | — | 61,330 | 116,500 | 1,309,122 | 2,451,952 |
| **Non-Executive Directors** | | | | | | |
| Elaine Bond | 40,996 | — | 2,395 | — | — | 43,391 |
| John Charlton | 77,766 | — | 8,981 | — | — | 86,747 |
| Anders Hedlund | 95,665 | — | 4,331 | — | — | 99,996 |
| Mark Tentori | 43,285 | — | — | — | — | 43,285 |
| Greg Hodder[c] | 9,000 | — | — | — | — | 9,000 |
| **Total Non-Executive** | 266,712 | — | 15,707 | — | — | 282,419 |
| **Total Directors** | 1,231,712 | — | 77,037 | 116,500 | 1,309,122 | 2,734,371 |

(a) The benefits relate primarily to private health and car benefits.
(b) The value of the LTIP above is calculated by multiplying the number of shares in respect of which the award vested (being 105,708, 66,447 and 55,915 for Paul Fineman, Giles Willits and Lance Burn respectively) by £5.74 (being the three-month volume weighted average share price up to 1 June 2021).
(c) Resigned 30 April 2021.

# DIRECTORS' REMUNERATION REPORT
CONTINUED

## Part 3: Annual report on remuneration continued

### 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 2017-2020 | LTIP vested 2018-2021 |
|---|---|---|---|---|
| Lance Burn | — | — | 48,025 | 55,915 |
| Paul Fineman | 312,916 | 226,791 | 102,101 | 105,708 |
| Giles Willits | — | — | 53,179 | 66,447 |

(a) Audited.

The performance criteria for the 2019-2022 scheme were not met and therefore the awards will not vest following the Remuneration Committee and Audit Committee's approval of the results for the year ended 31 March 2022.

### Value Creation Scheme[a]

Awards under the VCS to Executive Directors who served during the year are set out below. However, as previously stated, the VCS was cancelled post year end with effect from 28 June 2022.

| | VCS not vested |
|---|---|
| Lance Burn | 7.5% |
| Paul Fineman | 17.5% |
| Giles Willits | 12.5% |

(a) Audited.

### 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 (or date of retirement from the Board if earlier) | FY2022 | FY2021 |
|---|---|---|
| Elaine Bond | **4,301*** | 4,301 |
| John Charlton[a] | **99,616*** | 99,616 |
| Paul Fineman[b] | **—** | — |
| Stewart Gilliland | **7,500** | — |
| Anders Hedlund[c] | **448** | 448 |
| Mark Tentori | **11,111** | 11,111 |

* At date of retirement.

In addition to the above holdings:

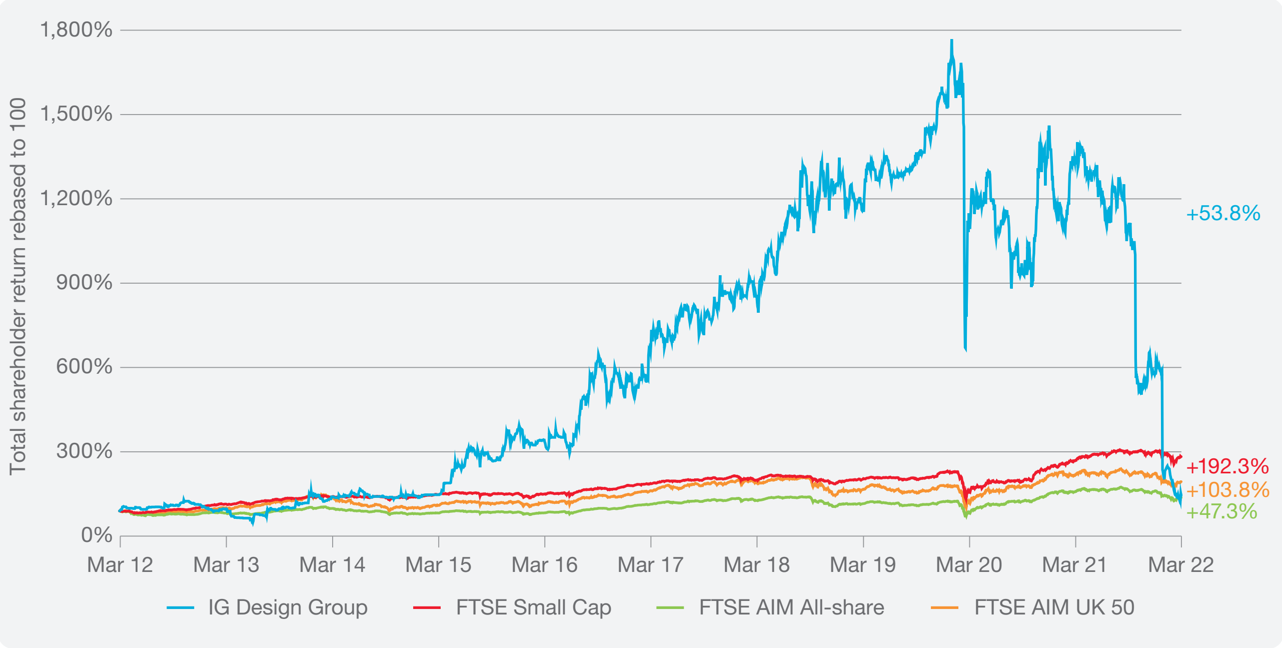
(a) 2,300 (2021: 2,300) shares were held by the wife of John Charlton at the date of his retirement from the Board.

(b) Paul Fineman owns a non-beneficial interest in 87,304 (2021: 87,304) ordinary shares of 5p each as at 1 March 2022.

(c) 16,642,640 (2021: 16,642,640) and 5,275,116 (2021: 5,275,116) ordinary shares of 5p each are respectively registered in the name of AC Artistic Limited ('Artistic') and Malios Limited, companies incorporated in the British Virgin Islands, and under the ultimate control of the Hedlund family. In addition to the Hedlund family's beneficial interest set out above, the Hedlund family is also interested in a further 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 23.51% of the current issued share capital of Company.

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

The graph below shows the percentage change in total shareholder return for the last ten 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 audited financial statements and independent auditors' report for the year ended 31 March 2022.

## Directors

The Directors who were in office during the year and up to the date of signing the financial statements were:

- Clare Askem (appointed on 5 July 2021)
- Paul Bal (appointed on 1 May 2022)
- Claire Binyon (appointed on 1 June 2022)
- Elaine Bond (resigned on 31 December 2021)
- Lance Burn
- John Charlton (resigned on 20 September 2021)
- Paul Fineman (resigned on 1 March 2022)
- Stewart Gilliland (appointed on 5 July 2021)
- Anders Hedlund
- Greg Hodder (resigned on 30 April 2021)
- Mark Tentori
- Giles Willits (resigned with effect from 30 June 2022)

## Results and dividends

Results for the year ended 31 March 2022 are set out in the consolidated income statement on page 86. The Directors are not recommending a final dividend for FY2022.

## Articles of association

A copy of the full articles of association is available on request from the Company Secretary and is 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 2022, the Company has been notified of the following substantial shareholders of the issued ordinary share capital of the Company:

| Largest shareholders[a] | % of issued share capital |
|---|---|
| Hedlund family[b] | 22.58% |
| Octopus Investments | 11.72% |
| Kabouter Investments | 9.22% |
| Canaccord Genuity Wealth Management | 7.19% |
| Tellworth Investments | 5.19% |

(a) Information taken from Equiniti Share Register Analysis 31 March 2022.

(b) 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 0.9% 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 23.51% of the current issued share capital of the Company.

## Acquisition of the Company's own shares

At the AGM held on 20 September 2021, 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 9,696,963 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 51 along with financial risk in note 24 to the consolidated financial statements. 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.

## 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 26 of the strategic report.

## Post balance sheet events
See note 28 for details.

## Political donations
No political donations were made during the year 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 44 and 45.

## Health and safety
The Group is committed to maintaining high standards of health and safety in every area of the business.

Following the end of each quarter, the Board receives a report setting out the number and type of accidents which have occurred in the quarter. The quantitative data is tracked in order to provide a comparison against prior years; to identify trends in types of accidents; and to ensure corrective actions can be implemented and best practice identified. 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.

## Disclosure of information to the auditors
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 auditors for the purpose of their audit report, of which the auditors are 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 auditors are aware of it.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors 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 June 2021.

## Environmental reporting
During FY2022 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, is set out in the strategic report on page 43.

## Future developments
The Board aims to pursue its corporate strategies as detailed in the strategic report on pages 01 to 51.

By order of the Board

**Joy Laws**
Company Secretary

27 June 2022

# 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 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 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 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.

## Directors' confirmations

The Directors consider that the annual report and the financial statements and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 102, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the executive review includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

On behalf of the Board.

**Stewart Gilliland**
Interim Executive Chair

27 June 2022

# INDEPENDENT AUDITORS' 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 2022 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 balance sheet and the company balance sheet as at 31 March 2022; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and the company statement 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 other listed entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 3 to the consolidated financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

## Our audit approach

### Overview

#### Audit scope

- We conducted an audit of the complete financial information of one financially significant component as well as five other reporting components.
- Four of the other reporting components were audited by the group engagement team with the financially significant component and one other reporting component audited by PwC network firms.
- Specified audit procedures were performed over specific balance sheet line items in two non-significant components.
- The group engagement team audited the group consolidation and related areas of judgement (including the recoverability of goodwill and assessment going concern).
- Our scoping resulted in audit coverage of 87% of revenue.

### Key audit matters

- Going concern (group and parent)
- Valuation of DG Americas inventory provisions (group)
- Recoverability of goodwill (group)
- Recoverability of investments and intercompany receivables (parent)

### Materiality

- Overall group materiality: US$3,000,000 (2021: US$3,000,000) based on auditor judgement with reference to key financial metrics.
- Overall company materiality: £2,300,000 (2021: £2,300,000) based on 1% of net assets.
- Performance materiality: US$2,250,000 (2021: US$2,250,000) (group) and £1,725,000 (2021: £1,725,000) (company).

### 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.

# INDEPENDENT AUDITORS' 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

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.

Going concern (group and parent), valuation of DG Americas inventory provisions (group), recoverability of goodwill (group) and recoverability of investments and intercompany receivables (parent) are new key audit matters this year. Valuation of assets and liabilities recorded through the acquisition of CSS Industries (group), classification and presentation of adjusting items (group) and the impact of Covid-19 (group and company), which were key audit matters last year, are no longer included because the hindsight window associated with the acquisition of CSS is now completed, adjusting items do not have a significant impact on the reported results in the current year and the impact of Covid-19 is considered to be embedded in other key audit matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Going concern (group and parent)**<br>Refer to the Audit Committee Report and note 1 (Accounting policies) to the consolidated and company financial statements.<br><br>The Directors' have performed a going concern assessment which assesses the ability of the Group and the company to continue trading for a period of at least 12 months from the date of the Annual Report. This assessment considered the level of liquidity available and the ability to meet covenant requirements in a severe but plausible downside scenario.<br><br>The Directors conclusion was that it was appropriate to prepare the financial statements on a going concern basis and that there was no material uncertainty with regards to going concern.<br><br>We focused on going concern given the significant decrease in profits compared to last year and the fact that the amended bank agreement included updated financial covenants. | At the planning stage of the audit, we assessed the design and implementation of controls supporting management's going concern assessment.<br><br>We obtained and reviewed the renewed bank facilities agreement dated 1 June 2022 and ensured the facility limits and covenants were consistent with management's going concern assessment.<br><br>We obtained the Directors' going concern assessment and agreed that the risk with regards to going concern was a potential covenant breach rather than insufficient liquidity.<br><br>We recalculated the forecast covenant calculations based on management's severe but plausible downside scenario within the going concern assessment.<br><br>We assessed management's forecasting accuracy and identified DG Americas as a component which had significantly underperformed compared to their budget in the year to 31 March 2022.<br><br>We evaluated management's assessment of underperformance in the year to 31 March 2022 and challenged whether this had been sufficiently factored into management's severe but plausible scenario. Further, we sensitised management's overall severe but plausible downside with specific considerations given to:<br>• whether cost assumptions with regards to freight, raw materials and labour were sufficiently severe given increased costs in the prior year and latest economic data; and<br>• what value and percentage of uncontracted sales would be required to not be achieved to result in a covenant breach.<br>We evaluated management's disclosure regarding their going concern assessment to ensure this was consistent with the severe but plausible downsides considered and the available mitigations within their control.<br><br>We found that management's conclusion that there is no material uncertainty in relation to going concern consistent with the evidence obtained. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of DG Americas inventory provisions (group)**<br>Refer to the Audit Committee Report, note 1 (Accounting policies) and note 12 (Inventory) of the consolidated financial statements.<br>Inventory represents a significant asset of the group and is carried at the lower of cost and net realisable value ("NRV"), with the year-end value being \$230.9m (March-21: \$176.2m).<br>Management's approach to estimating the inventory NRV provision is to apply a standard methodology using provision percentages based on stock ageing. Additional provisions are made where this standard provisioning basis is not considered to be appropriate. Any adjustment to the standard methodology is particularly judgemental and has scope for deliberate manipulation and management bias.<br>A significant proportion of the group's inventory and the judgemental NRV provision is recorded within the DG Americas segment which is the focus of this key audit matter. | At the planning stage of the audit, we assessed the design and implementation of controls over the inventory provisioning process.<br>We tested the key inputs to the provision calculation being the value and ageing of inventory.<br>We performed test counts to verify the existence of inventory and tested the cost of inventory by agreeing to purchase invoices and recalculating the labour, freight and overhead elements of standard cost where relevant. The ageing of inventory was tested by agreeing to purchase invoices or evidence of production date.<br>We tested the integrity of the NRV provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately.<br>Overlays to the provision were tested either by way of forming an independent expectation based on sales data or by corroborating management's explanation as to why an incremental provision was required.<br>We assessed the overall levels of stock provision on a "stand-back" basis by considering whether the provision was consistent with the overall value and ageing of the inventory, as well as the value of any utilisation and release of the prior year provision in the current year.<br>We found that the overall valuation of the inventory provision was consistent with the evidence obtained. |

# INDEPENDENT AUDITORS' 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 |
| --- | --- |
| **Recoverability of goodwill (group)**<br>Refer to the Audit Committee Report, Note 1 (Accounting policies) and Note 9 (Intangible assets) of the consolidated financial statements.<br>The group has goodwill of $87 million. In accordance with IAS 36 (Impairment of assets), goodwill must be tested for impairment on at least an annual basis. The determination of recoverable amount, being the higher of value-in-use and fair value less costs of disposal, requires estimations on the part of management in both identifying and then valuing the relevant cash-generating unit groups ("CGU groups").<br>We focused on the risk of impairment as the impairment test involves a number of subjective judgements and estimates by management, many of which are forward-looking. These estimates include key assumptions in relation to the future cash flows of the business including considering the impact of climate change, the long and short term growth rates and appropriate discount rates. | At the planning stage of the audit, we assessed the design and implementation of controls over the impairment review process.<br>As part of our audit of management's impairment assessment and underlying discounted cash flow model:<br>• We obtained the impairment model prepared by management which calculates the value in use based on three year board approved forecasts cash flows. These cash flows are then extrapolated for a further two years using the long-term growth rate to determine estimated cash flows for the next five years, together with a terminal value. We have tested the mathematical accuracy to ensure that it had been prepared in line with the guidance provided in IAS 36;<br>• We identified key cash flow forecast assumptions to which the model was sensitive and focused our work on these assumptions. We challenged the basis of the short-term forecasts which align to the cash flows assessed in the 'Going concern' key audit matter;<br>• We used internal valuation experts to determine whether management's discount rate was within an acceptable range; we noted our range was higher than management's discount rate but concluded the utilisation of our expert's discount rate would not result in an impairment; and<br>• We used internal valuation experts to determine if long-term growth rates used in the impairment model were consistent with external sources of evidence. We determined management's rates to be appropriate and in the case of one specific CGU group, prudent compared to our independent expectation.<br>• We reperformed management's sensitivity analysis by reducing cash inflows through lower growth, and separately sensitised the discount rate and long-term growth rates to understand the impact that possible changes could have on headroom. In making this assessment we also challenged management on the potential impact of climate change in the calculation of value in use and the underlying assumptions included within the base case.<br>• We noted the excess of the calculated value in use over the market capitalisation of the group and assessed management's conclusion that the market capitalisation was not a representative valuation.<br>We evaluated the disclosures included in the Financial Statements to ensure these were in compliance with IAS 36 (Impairment of assets).<br>We concluded that no impairment charge is required and, based on the testing and sensitivities applied, the disclosures included in the financial statements are appropriate. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Recoverability of investments and intercompany receivables (parent)**<br>Refer to Note 4 (Investments), Note 6 (Debtors – due within one year), Note 7 (Debtors – due after more than one year) and Note 16 (Accounting estimates and judgements) of the Company Financial Statements.<br>The Company has Investments in subsidiaries of £214.4m which reflects the Company's interest (directly and indirectly) in all of the group's trading businesses. The company also has amounts owed by group undertakings of £27.6m.<br>In the year there has been a specific impairment trigger, the market capitalisation of the group has fallen significantly below the carrying value of the investments in subsidiaries. | At the planning stage of the audit, we assessed the design and implementation of controls over the impairment review process.<br>We obtained a schedule of investments and intercompany balances which we reconciled to the financial statements.<br>Using the work performed in the assessment of Goodwill above, we have compared the underlying CGU group cash flows with the investments and intercompany receivables. In the case of UK & Asia where there are separate investments held in each entity, we have also compared the value in use based on discounted cash flows for the investments with the cost of each investment and intercompany receivables on an individual legal entity basis.<br>We assessed the excess in carrying value of the investment in subsidiaries compared to the current market capitalisation.<br>We concluded that no impairment charge is required based on the testing performed and that the disclosures included in the financial statements are appropriate. |

# INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE MEMBERS OF IG DESIGN GROUP PLC

## Report on the audit of the financial statements continued
### Our audit approach continued
#### 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 and the parent company together with consolidation entities. We defined a component to be an individual reporting entity for which management prepares financial information.

We identified one financially significant component, being DG Americas, based on its contribution to the group's revenue. A full scope audit was performed over this component, as well as over the Company and four larger trading components, giving a total of six components subject to full scope audits of their financial information.

Four of these components were audited by the group engagement team with the financially significant component and one other reporting component audited by other PwC network firms. 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 through video calls. In addition, the group engagement team performed an on-site review with the component auditors of the financially significant component and reviewed the workpapers of both overseas components.

Specified audit procedures were performed over specific balance sheet line items in two additional non-significant components by the group engagement team.

The group engagement team audited the group consolidation and related areas of judgement (including the recoverability of goodwill and assessment of going concern). Analytical procedures were also performed by the group engagement team on all components not subject to full scope audit.

The approach outlined above provides audit coverage over 87% of revenue.

The Company is comprised of one reporting unit which was subject to a full scope audit by the group engagement team for the purpose of the Company financial statements.

#### 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:

| | Financial statements – group | Financial statements - company |
|---|---|---|
| Overall materiality | US$3,000,000 (2021: US$3,000,000). | £2,300,000 (2021: £2,300,000). |
| How we determined it | Auditor judgement with reference to key financial metrics | 1% of net assets |
| Rationale for benchmark applied | We considered a range of benchmarks in assessing materiality. Using our professional judgement and with reference to key financial metrics including revenue, profit before tax and net assets, we concluded that the overall materiality level was appropriate. | 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. |

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 $1,200,000 and $2,850,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to US$2,250,000 (2021: US$2,250,000) for the group financial statements and £1,725,000 (2021: £1,725,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above $150,000 (group audit) (2021: $150,000) and £115,000 (company audit) (2021: £115,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included the procedures as set out in our Key Audit Matter above.

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

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

# INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE MEMBERS OF IG DESIGN GROUP PLC

## Report on the audit of the financial statements continued

### Reporting on other information continued

#### 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 2022 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulation and breaches of health and safety, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, tax legislation and the AIM Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate revenue and/or profits and management bias in significant accounting estimates and judgements. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, the Company Secretary and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation or fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the valuation of inventory provisions, recoverability of goodwill and recoverability of investments (see related Key Audit Matters above).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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
Watford

27 June 2022

# CONSOLIDATED INCOME STATEMENT
## YEAR ENDED 31 MARCH 2022

| | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Revenue** | 2 | **965,093** | 873,216 |
| Cost of sales | | **(842,926)** | (719,396) |
| **Gross profit** | | **122,167** | 153,820 |
| Selling expenses | | **(48,305)** | (43,909) |
| Administration expenses | | **(66,604)** | (93,659) |
| Other operating income | 5 | **870** | 4,066 |
| Loss on disposal of property, plant and equipment | | **(436)** | (256) |
| Loss on disposal of subsidiary | | **—** | (208) |
| **Operating profit** | 3 | **7,692** | 19,854 |
| Finance expenses | 6 | **(5,491)** | (5,179) |
| **Profit before tax** | | **2,201** | 14,675 |
| Income tax charge | 7 | **(2,517)** | (4,234) |
| **(Loss)/profit for the year** | | **(316)** | 10,441 |
| Attributable to: | | | |
| Owners of the Parent Company | | **(3,277)** | 8,207 |
| Non-controlling interests | | **2,961** | 2,234 |

### (Loss)/earnings per ordinary share

| | Note | 2022 | 2021 |
|---|---|---|---|
| Basic | 21 | **(3.3c)** | 8.4c |
| Diluted | 21 | **(3.3c)** | 8.4c |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## YEAR ENDED 31 MARCH 2022

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **(Loss)/profit for the year** | **(316)** | 10,441 |
| Other comprehensive (expense)/income: | | |
| **Items that will not be reclassified to profit or loss** | | |
| Re-measurement of defined benefit pension and health benefit schemes | **(715)** | (32) |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange difference on translation of foreign operations (net of tax) | **8,686** | (15,769) |
| Transfer to profit and loss on maturing cash flow hedges (net of tax) | **(301)** | 863 |
| Net unrealised gain/(loss) on cash flow hedges (net of tax) | **686** | (1,269) |
| | **9,071** | (16,175) |
| Other comprehensive income/(expense) for the year, net of tax | **8,356** | (16,207) |
| **Total comprehensive income/(expense) for the year, net of tax** | **8,040** | (5,766) |
| Attributable to: | | |
| Owners of the Parent Company | **5,173** | (9,081) |
| Non-controlling interests | **2,867** | 3,315 |
| | **8,040** | (5,766) |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED 31 MARCH 2022

| | 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 2020 | 5,974 | 215,417 | 40,175 | 320 | (4,389) | 113,703 | 371,200 | 4,643 | 375,843 |
| Profit for the year | — | — | — | — | — | 8,207 | 8,207 | 2,234 | 10,441 |
| Other comprehensive (expense)/income | — | — | — | (406) | (16,850) | (32) | (17,288) | 1,081 | (16,207) |
| **Total comprehensive (expense)/income for the year** | — | — | — | (406) | (16,850) | 8,175 | (9,081) | 3,315 | (5,766) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Equity-settled share-based payments (note 23) | — | — | — | — | — | 3,668 | 3,668 | — | 3,668 |
| Tax on equity-settled share-based payments (note 11) | — | — | — | — | — | 214 | 214 | — | 214 |
| Recognition of non-controlling interests (note 27) | — | — | — | — | — | — | — | 539 | 539 |
| Options exercised (note 20) | 34 | — | — | — | — | (34) | — | — | — |
| Equity dividends paid (note 22) | — | — | — | — | — | (11,288) | (11,288) | — | (11,288) |
| Exchange differences on opening balances | 659 | 23,725 | 4,425 | — | — | — | 28,809 | — | 28,809 |
| **At 31 March 2021** | 6,667 | 239,142 | 44,600 | (86) | (21,239) | 114,438 | 383,522 | 8,497 | 392,019 |

| | 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 2021 | 6,667 | 239,142 | 44,600 | (86) | (21,239) | 114,438 | 383,522 | 8,497 | 392,019 |
| (Loss)/profit for the year | – | – | – | – | – | (3,277) | (3,277) | 2,961 | (316) |
| Other comprehensive income/(expense) | – | – | – | 385 | 8,780 | (715) | 8,450 | (94) | 8,356 |
| **Total comprehensive income/(expense) for the year** | – | – | – | 385 | 8,780 | (3,992) | 5,173 | 2,867 | 8,040 |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Equity-settled share-based payments (note 23) | – | – | – | – | – | 241 | 241 | – | 241 |
| Derecognition of deferred tax asset – share-based payments (note 11) | – | – | – | – | – | (1,179) | (1,179) | – | (1,179) |
| Derecognition of deferred tax asset – IFRS 16 (note 11) | – | – | – | – | – | (346) | (346) | – | (346) |
| Options exercised (note 20) | 13 | – | – | – | – | (13) | – | – | – |
| Equity dividends paid (note 22) | – | – | – | – | – | (9,274) | (9,274) | (3,365) | (12,639) |
| Option over non-controlling interest (note 18) | – | – | – | – | – | (3,069) | (3,069) | – | (3,069) |
| Exchange differences on opening balances | (307) | (10,999) | (2,051) | – | – | – | (13,357) | – | (13,357) |
| **At 31 March 2022** | 6,373 | 228,143 | 42,549 | 299 | (12,459) | 96,806 | 361,711 | 7,999 | 369,710 |

## 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 $1.8 million relating to the capital redemption reserve has been included within the column of share premium and capital redemption reserve in the balances at the end of the year (2021: $1.8 million). The only movement in this balance relates to foreign exchange.

## 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. Share capital, share premium, capital redemption reserve, merger reserve and hedging reserve are translated into US dollars at the rates of exchange at each balance sheet date and the resulting cumulative exchange differences are included in other reserves.

# CONSOLIDATED BALANCE SHEET
## AS AT 31 MARCH 2022

| | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **78,911** | 88,203 |
| Intangible assets | 9 | **107,398** | 114,874 |
| Right-of-use assets | 10 | **86,731** | 95,380 |
| Long-term assets | 13 | **5,105** | 5,721 |
| Deferred tax assets | 11 | **16,317** | 18,357 |
| **Total non-current assets** | | **294,462** | 322,535 |
| **Current assets** | | | |
| Asset held for sale | 8 | **2,150** | — |
| Inventory | 12 | **230,885** | 176,165 |
| Trade and other receivables | 13 | **127,850** | 129,219 |
| Income tax receivable | | **1,234** | 2,368 |
| Derivative financial assets | 24 | **316** | 207 |
| Cash and cash equivalents | 14 | **50,179** | 132,760 |
| **Total current assets** | | **412,614** | 440,719 |
| **Total assets** | 2 | **707,076** | 763,254 |
| **Equity** | | | |
| Share capital | 20 | **6,373** | 6,667 |
| Share premium | | **226,382** | 237,296 |
| Capital redemption reserve | | **1,761** | 1,846 |
| Merger reserve | | **42,549** | 44,600 |
| Hedging reserve | | **299** | (86) |
| Translation reserve | | **(12,459)** | (21,239) |
| Retained earnings | | **96,806** | 114,438 |
| **Equity attributable to owners of the Parent Company** | | **361,711** | 383,522 |
| Non-controlling interests | | **7,999** | 8,497 |
| **Total equity** | | **369,710** | 392,019 |

| | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Loans and borrowings | 15 | **(20)** | (103) |
| Lease liabilities | 10 | **80,215** | 94,582 |
| Deferred income | 16 | **523** | 486 |
| Provisions | 17 | **5,016** | 5,742 |
| Other financial liabilities | 18 | **21,557** | 15,526 |
| Deferred tax liabilities | 11 | **381** | 2,115 |
| **Total non-current liabilities** | | **107,672** | 118,348 |
| **Current liabilities** | | | |
| Bank overdraft | 14 | **20,380** | 57,033 |
| Loans and borrowings | 15 | **(340)** | (620) |
| Lease liabilities | 10 | **19,628** | 19,340 |
| Deferred income | 16 | **465** | 424 |
| Provisions | 17 | **1,342** | 1,617 |
| Income tax payable | | **7,359** | 10,061 |
| Trade and other payables | 19 | **143,318** | 120,763 |
| Other financial liabilities | 18 | **37,542** | 44,269 |
| **Total current liabilities** | | **229,694** | 252,887 |
| **Total liabilities** | 2 | **337,366** | 371,235 |
| **Total equity and liabilities** | | **707,076** | 763,254 |

The consolidated financial statements on pages 86 to 134 were approved by the Board of Directors on 27 June 2022 and were signed on its behalf by:

**Giles Willits**
Director

# CONSOLIDATED CASH FLOW STATEMENT
## YEAR ENDED 31 MARCH 2022

| | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the year | | (316) | 10,441 |
| Adjustments for: | | | |
| Depreciation and (reversal of impairment)/impairment of property, plant and equipment | 8 | 13,378 | 13,535 |
| Depreciation and (reversal of impairment)/impairment of right-of-use assets | 10 | 15,284 | 24,047 |
| Amortisation of intangible assets | 9 | 5,817 | 6,918 |
| Finance expenses | 6 | 5,491 | 5,179 |
| Income tax charge | 7 | 2,517 | 4,234 |
| Loss on disposal of a business | | — | 208 |
| Loss on disposal of property, plant and equipment | | 436 | 165 |
| Loss on disposal of intangible fixed assets | | — | 106 |
| Equity-settled share-based payments – (income)/expense | 23 | (848) | 4,192 |
| **Operating profit after adjustments for non-cash items** | | 41,759 | 69,025 |
| Change in trade and other receivables | | (994) | (11,914) |
| Change in inventory | | (58,096) | 1,772 |
| Change in trade and other payables, provisions and deferred income | | 21,237 | (4,504) |
| **Cash generated from operations** | | 3,906 | 54,379 |
| Tax (paid)/received | | (5,205) | 14,353 |
| Interest and similar charges paid | | (4,626) | (4,082) |
| **Net cash (outflow)/inflow from operating activities** | | (5,925) | 64,650 |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 131 | 147 |
| Acquisition of intangible assets | 9 | (381) | (1,000) |
| Acquisition of property, plant and equipment | 8 | (8,140) | (7,390) |
| **Net cash outflow from investing activities** | | (8,390) | (8,243) |
| **Cash flows from financing activities** | | | |
| Repayment of secured borrowings | 14 | — | (1,158) |
| Lease liabilities principal repayments | 10 | (20,717) | (19,184) |
| Loan arrangement fees | 14 | (494) | — |
| Equity dividends paid | 22 | (9,274) | (11,288) |
| Dividends paid to non-controlling interests | | (3,365) | — |
| **Net cash outflow from financing activities** | | (33,850) | (31,630) |
| **Net (decrease)/increase in cash and cash equivalents** | | (48,165) | 24,777 |
| Cash and cash equivalents at beginning of the year | 14 | 75,727 | 52,197 |
| Effect of exchange rate fluctuations on cash held | | 2,237 | (1,247) |
| **Cash and cash equivalents at end of the year** | 14 | 29,799 | 75,727 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies

### a. Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards ('UK IFRS'), with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK IFRS in its consolidated financial statements on 1 April 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The consolidated financial statements have been prepared in accordance with UK IFRS and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The preparation of financial statements that conform with adopted UK 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. The estimates and underlying assumptions are reviewed on an ongoing basis (see Critical accounting judgements and estimates section below). Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if relevant.

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

### Re-presentation of Adjusting items

#### Share-based payments

The treatment of share-based payment credits/charges has changed in the year such that they no longer form part of Adjusting items in line with best practice guidance. The comparative figures relating to Adjusting items have been restated to exclude share-based payments where necessary in these financial statements.

### Restatement of comparative amounts

#### Financial instruments

There has been a restatement between gross trade receivables and provision for doubtful debts of $6.6 million in note 24, Financial instruments, due to misclassification in the prior year's data.

### Presentation currency

The presentation currency of the Group is US dollars.

The functional currency of the Parent Company remains as pound sterling as it is located in the United Kingdom and substantially all of its cash flows, assets and liabilities are denominated in pound sterling, as well as its share capital. As such, the Parent Company's functional and presentational currency differs to that of the Group's reporting currency.

### Seasonality of the business

The business of the Group is seasonal and although revenues accrue relatively evenly in both halves of the year, working capital requirements including inventory levels increase steadily in the first half from July and peak in October as manufacturing and distribution of Christmas products builds ahead of shipping. The second half of the year sees the borrowing of the Group decline and move to typically a cash positive position as the Group collects its receivables through January to March.

### Going concern

Information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the executive review on pages 25 and 26. 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, Citigroup (who replaced BNP Paribas), Truist Bank (as successor by merger to SunTrust Bank) 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. ('CSS'). The facilities were then further extended in May 2021.

In June 2022, the facilities were amended and extended through to March 2024. The amendment to the terms of the banking agreement comprise of a revolving credit facility (RCF) of $90.0 million (reduced from $95.0 million) and a further flexible RCF of up to £92.0 million (reduced from a maximum level of £130.0 million) to meet the Group's working capital requirements during peak manufacturing and selling season. The financial covenants were also amended – see note 14 for more details on these.

We also have access to supplier financing arrangements from certain customers which we utilise at certain times of the year. The largest of these supplier financing arrangements are subject to the continuing support of the customers' banking partners and therefore could be withdrawn at short notice.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies continued

### a. Basis of preparation continued

#### Going concern continued

The Group financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue trading for a period of at least twelve months from the date of this report based on an assessment of the overall position and future forecasts for the going concern period. This assessment has also considered the overall level of Group borrowings and covenant requirements, the flexibility of the Group to react to changing market conditions and ability to appropriately manage any business risks.

The Directors have prepared detailed plans and forecasts from the date of signing these financial statements up to 30 June 2023. These forecasts reflect the fact that the Group continued to generate strong sales growth this year, albeit there were significant cost pressures in the supply chain impacting profitability that are assumed to continue in the going concern period. They also reflect the seasonal operating cycle of the business and a recovery associated with the DG Americas plan.

These forecasts have been sensitised to reflect severe but plausible adverse downturns in the current assumptions. Specifically, the severe but plausible downside scenario has taken account of the following risks:

- a range of pressures which could affect the attainment of the DG Americas plan, including inflation in various parts of the business, sales shortfalls, sales timing and a disruption event such as a short-term manufacturing disruption leading to increased temporary labour costs; and
- additional inflationary pressure in the DG International business, noting that the potential risks in a severe but plausible downside scenario are not considered to be as significant as in the DG Americas business.

In the severe but plausible scenario modelled, there remains significant headroom in our forecast liquidity and sufficient headroom under the covenant requirements for both the amended covenants to March 2023 and the reverted covenants from June 2023 onwards.

Based on this assessment, the Directors have formed a judgement that there is a reasonable expectation the Group will have adequate resources to continue in operational existence for the foreseeable future.

#### Changes in accounting policies

There have been no changes to accounting policies during the year.

#### Other standards and interpretations

The Group also adopted the following new pronouncements at the start of the year, which did not have any material impact on the Group's financial statements:

- Amendments to IFRS 16 Leases – Covid-19-Related rent concessions
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
- Amendments to IFRS 7, IFRS 4 and IFRS 16 interest rate benchmark reform – phase 2

Certain new accounting standards and interpretations have been published that are not yet effective and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### b. Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the 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.

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 presented in US dollars.

### (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 the functional currency of the entity 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 US dollars 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.

### (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 and put options over non-controlling interests) 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.

### (iii) Unhedged derivatives

The movements in the fair value of unhedged derivatives are charged/credited to the income statement.

The potential cash payments relating to put options issued by the Group over the non-controlling interest of subsidiary companies acquired are measured at estimated fair value and accounted for as financial liabilities. Subsequent to initial recognition, any changes to the carrying amount of non-controlling interest put option liabilities are recognised through equity.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies continued

### 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 |
| – 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.

Where the Group identifies assets held for sale, they are held at the lower of current value and fair value less costs to sell.

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

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.

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.

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 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.

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.

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.

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.

Right-of-use assets are impaired in line with the impairment accounting policy below.

## 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 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 |
| Computer software | 3-5 years |
| Trade names | 3-5 years |
| Customer relationships | 3-15 years |
| Other intangibles | 3-5 years |

Customer relationships are wide ranging in useful economic lives, from shorter relationships derived from smaller acquisitions to the long relationship with Walmart acquired as part of the acquisition of Impact Innovations, Inc. (‘Impact’).

## 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 (CGU) 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 are 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.

The reversal of an impairment loss should be recognised if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment test was carried out. Impairment losses relating to goodwill are not permitted to be reversed.

## 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. For acquisitions, inventory acquired will be assessed for fair value in accordance with IFRS 3 and if applicable an uplift applied to stock on hand relating to sales orders already attached to the acquired stock. The unwind of the uplift in value is treated as an Adjusting item.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies continued

### 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 date.

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 impaired 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.

### 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 Celebrations, Craft & creative play, Stationery, Gifting and 'Not-for-resale' consumable products across two reporting 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. 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 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 based on sales made in the 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 a '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. In this situation, 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, interest on lease liabilities, 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, 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.

In the event that any scheme is cancelled, the Group recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The Group calculates this charge based on the number of the awards expected to achieve the performance conditions immediately before the award was cancelled.

Employer 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 those already vested.

Deferred tax assets are recognised in respect of share-based payment schemes.

## u. Investment in own shares

The shares held in the Group's Employee Benefit Trust (IG Employee Share Trustee Limited) 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) is 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, other than those associated with Covid-19, are credited to the income statement so as to match them with the expenditure to which they relate. Covid-19 related grants are recognised gross in either other operating income or cost of sales.

## 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies continued

### 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.

### 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/(loss), Adjusted profit/(loss) before tax, Adjusted profit/(loss) after tax and Adjusted earnings/(loss) per share.

Adjusting items are items that are material and/or, 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) including fair value adjustments to acquisitions.

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 prior year figures at the current year 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.

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

### 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.

### Accounting estimates

#### (i) Intangible assets

Goodwill is not amortised but is tested annually for impairment, along with the finite-lived intangible assets and other assets of the Group's CGUs. Tests for impairment are based on discounted cash flows and assumptions (including discount rates 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 CGU or groups of CGUs. 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 that they are recoverable based on profit projections for future years. Management make a judgement in respect of the length of future cash flows against which to assess the future taxable profits and this aligns to other assessments that use similar forecasts including impairment. 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 certain tax assets within the Group and has adequate provision to cover all tax risks across all business operations. See note 11 for more details.

### (iii) Lease asset impairments

The Group has impaired the right-of-use assets in respect of several properties that the Group has exited as part of the ongoing integration following the CSS acquisition. This is based on the properties themselves being a CGU in line with IAS 36 as they are being actively marketed for sub-tenants. The impairments are assessed at each reporting date and if necessary reversed should there be available sub-tenants for the properties, or an early termination had been agreed with the landlord.

As at 31 March 2022, the Group had offers agreed with sub-tenants on two of the seven properties that had been impaired and a portion of another property which terminated the lease earlier than the expiry date. This resulted in $2.5 million of impairment reversal in the year. For the remaining properties the Group had no offers from potential sub-tenants and given that this position is expected to continue for the foreseeable future, these leased properties remain impaired in full. As at 31 March 2022, if there was a reversal of the remaining impaired right-of-use assets, the right-of-use assets would increase by $6.5 million (2021: $13.1 million).

### (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.

The 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. This is not a precise estimate and is based on best data at the time of recognition. Regular monitoring of stock levels, the ageing of stock and the level of the provision is carried out by the Directors to reassess this estimate. The assumptions made in relation to the current period are consistent with those in the prior year. As at 31 March 2022, inventory provisions were $38.4 million against a gross inventory value of $269.3 million (2021: $46.3 million provision, $222.5 million gross inventory value). This provision estimate is subject to potential material change, for example if market conditions change because expected customer demand fluctuates, or shipping delays reduce our ability to deliver on time and in full. A 10% change in the provision would create a difference of approximately $4.0 million (2021: $4.0 million).

## 2 Segmental information

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

The business operates under two reporting segments which are reported to, and evaluated by, the Chief Operating Decision Makers for the Group. The DG Americas segment includes overseas operations in Asia, Australia, UK, India and Mexico, being the overseas entities of US companies. The DG International segment comprises the consolidation of the separately owned UK, European and Australian businesses.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 2 Segmental information continued

| | DG Americas[a] $000 | DG International $000 | Central and eliminations $000 | Group $000 |
|---|---|---|---|---|
| **Year ended 31 March 2022** | | | | |
| Revenue – external | 658,953 | 306,140 | — | 965,093 |
| – inter-segment | 16 | 1,725 | (1,741) | — |
| **Total segment revenue** | 658,969 | 307,865 | (1,741) | 965,093 |
| **Segment (loss)/profit before Adjusting items and management recharge** | (11,738) | 20,836 | (5,290) | 3,808 |
| Adjusting items (note 3) | 5,667 | 1,570 | (3,353) | 3,884 |
| **Operating (loss)/profit** | (6,071) | 22,406 | (8,643) | 7,692 |
| Finance expenses | | | | (5,105) |
| Finance expenses treated as an Adjusting item (note 3) | | | | (386) |
| Income tax | | | | (2,517) |
| **Loss for the year ended 31 March 2022** | | | | (316) |
| **Balances at 31 March 2022** | | | | |
| **Segment assets** | 451,270 | 237,625 | 18,181 | 707,076 |
| **Segment liabilities** | (212,083) | (100,500) | (24,783) | (337,366) |
| Capital expenditure additions | | | | |
| – property, plant and equipment | 5,237 | 2,860 | 43 | 8,140 |
| – intangible assets | 223 | 158 | — | 381 |
| – right-of-use assets | 4,331 | 4,850 | — | 9,181 |
| Depreciation – property, plant and equipment | 7,803 | 5,891 | 11 | 13,705 |
| Reversal of impairment – property, plant and equipment | — | (327) | — | (327) |
| Amortisation – intangible assets | 5,634 | 183 | — | 5,817 |
| Depreciation – right-of-use assets | 12,406 | 5,352 | 18 | 17,776 |
| Impairment – right-of-use assets | — | — | 22 | 22 |
| Reversal of impairment – right-of-use assets | (2,514) | — | — | (2,514) |

(a) Including overseas entities for the Americas operating segment.

| | DG Americas[a] $000 | DG International $000 | Central and eliminations $000 | Group $000 |
|---|---|---|---|---|
| Year ended 31 March 2021 | | | | |
| Revenue – external | 613,909 | 259,307 | — | 873,216 |
| – inter-segment | 66 | 5,995 | (6,061) | — |
| Total segment revenue | 613,975 | 265,302 | (6,061) | 873,216 |
| Segment profit/(loss) before Adjusting items and management recharge[b] | 19,934 | 24,968 | (7,072) | 37,830 |
| Adjusting items[b] (note 3) | (18,599) | 628 | (5) | (17,976) |
| Operating profit | 1,335 | 25,596 | (7,077) | 19,854 |
| Finance expenses | | | | (5,016) |
| Finance expenses treated as an Adjusting item (note 3) | | | | (163) |
| Income tax | | | | (4,234) |
| Profit for the year ended 31 March 2021 | | | | 10,441 |
| Balances at 31 March 2021 | | | | |
| Segment assets | 469,192 | 230,590 | 63,472 | 763,254 |
| Segment liabilities | (216,940) | (86,553) | (67,742) | (371,235) |
| Capital expenditure additions | | | | |
| – property, plant and equipment | 4,589 | 2,711 | 90 | 7,390 |
| – intangible assets | 963 | 37 | — | 1,000 |
| – right-of-use assets | 30,207 | 2,733 | — | 32,940 |
| Depreciation – property, plant and equipment | 7,760 | 5,774 | 1 | 13,535 |
| Amortisation – intangible assets | 6,510 | 408 | — | 6,918 |
| Depreciation – right-of-use assets | 12,739 | 5,265 | 74 | 18,078 |
| Impairment – right-of-use assets | 5,969 | — | — | 5,969 |

(a) Including overseas entities for the Americas operating segment.
(b) The prior year comparatives above have been re-presented. For more detail please refer to note 1.

- The Group has one customer that accounts for 23% (2021: 24%) of the total Group revenues. In the year ended 31 March 2022 total sales to that customer were $223.9 million (2021: $211.9 million). This customer falls solely within the DG Americas 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 include deferred tax assets of $16.3 million (2021: $18.4 million), income tax receivable of $1.2 million (2021: $2.4 million), income tax payable of $7.4 million (2021: $10.1 million) and deferred tax liabilities of $381,000 (2021: $2.1 million).

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 | |
|---|---|---|
| | **2022 $000** | 2021 $000 |
| DG Americas | **166,823** | 184,331 |
| DG International | **106,217** | 114,126 |
| | **273,040** | 298,457 |

## Revenue by customer destination

| | **2022 $000** | 2021 $000 | **2022 %** | 2021 % |
|---|---|---|---|---|
| Americas | **665,059** | 621,734 | **69** | 71 |
| UK | **112,539** | 97,383 | **12** | 11 |
| Rest of the world | **187,495** | 154,099 | **19** | 18 |
| | **965,093** | 873,216 | **100** | 100 |

All revenue arose from the sale of goods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 3 Operating expenses and Adjusting items

Included in the income statement are the following charges/(credits):

| | Note | 2022 $000 | 2021[a] $000 |
|---|---|---|---|
| Depreciation of tangible fixed assets | 8 | 13,705 | 13,535 |
| Reversal of impairment of tangible fixed assets | 8 | (327) | — |
| Depreciation of right-of-use assets | 10 | 17,776 | 18,078 |
| (Reversal of impairment)/impairment of right-of-use assets | 10 | (2,492) | 5,969 |
| (Profit)/loss on sales of property, plant and equipment and intangible assets | | (436) | 256 |
| Release of deferred grant income | 5 | 17 | (130) |
| Amortisation of intangible assets – software | 9 | 2,980 | 3,840 |
| Sub-lease rental income | 5 | (752) | (559) |
| Write down of inventories to net realisable value | 12 | 18,285 | 19,623 |
| Reversal of previous write downs of inventory | 12 | (6,219) | (4,472) |
| Loss/(income) on foreign exchange | | 602 | (483) |

(a) The prior year comparatives above have been re-presented to include Adjusting items in the various categories.

| | 2022 $000 | 2021[a] $000 |
|---|---|---|
| Operating profit analysed as: | | |
| Adjusted operating profit | 3,808 | 37,830 |
| Adjusting items | 3,884 | (17,976) |
| **Operating profit** | 7,692 | 19,854 |

(a) The prior year comparatives above have been re-presented. For more detail please refer to note 1.

### Adjusting items

| Year ended 31 March 2022 | Cost of sales $000 | Selling expenses $000 | Admin expenses $000 | Income operating income $000 | Loss on disposal of plant $000 | Other finance expenses $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1] | — | — | 3,710 | — | — | (15) | 3,695 |
| Acquisition integration and restructuring costs/(income)[2] | (980) | — | (1,336) | (124) | 348 | 401 | (1,691) |
| (Reversal of impairment)/impairment of assets[3] | (1,544) | (1,112) | — | — | — | — | (2,656) |
| Incremental Covid-19 costs[4] | — | — | — | — | — | — | — |
| IT security incident (income)/costs[5] | — | — | (5,683) | — | — | — | (5,683) |
| Amortisation of acquired intangibles[6] | — | — | 2,837 | — | — | — | 2,837 |
| **Adjusting items** | (2,524) | (1,112) | (472) | (124) | 348 | 386 | (3,498) |

| Year ended 31 March 2021 | Cost of sales $000 | Selling expenses $000 | Admin expenses $000 | Loss on disposal $000 | Other finance expenses $000 | Total $000 |
|---|---|---|---|---|---|---|
| Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1] | — | — | 74 | 208 | — | 282 |
| Acquisition integration and restructuring costs/(income)[2] | 993 | (162) | 14,402 | 91 | 163 | 15,487 |
| (Reversal of impairment)/impairment of assets[3] | (3,709) | (2,100) | — | — | — | (5,809) |
| Incremental Covid-19 costs[4] | 603 | — | 913 | — | — | 1,516 |
| IT security incident costs[5] | 1,107 | — | 1,093 | — | — | 2,200 |
| Amortisation of acquired intangibles[6] | — | — | 4,463 | — | — | 4,463 |
| **Adjusting items[a]** | (1,006) | (2,262) | 20,945 | 299 | 163 | 18,139 |

(a) The prior year comparatives above have been re-presented. For more detail please refer to note 1.

Adjusting items are separately presented by virtue of their nature, size and incidence. 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) including fair value adjustments to acquisitions.

These losses/(gains) relating to the year ended 31 March 2022 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 Long Term Incentive Plans) 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.

In the year, the Group has incurred expenditure relating to acquisitions totalling $3.7 million, of which $113,000 related to previous acquisitions and the balance relates to aborted acquisitions. In addition, the final tranche of acquisition related employee payments which lock in and incentivise legacy talent relating to the Impact Innovations Inc. transaction in 2019 have been incurred ($278,000) as we celebrate our third anniversary of the acquisition.

In the year to 31 March 2021, an additional $208,000 of transaction costs associated with the disposal on 24 February 2020 of Zhejiang Shaoxing Royal Arts and Crafts Co. Ltd ('Shaoxing') were incurred along with expenditure in relation to other potential acquisitions reviewed in that year.

**(2) Acquisition integration and restructuring costs/(income)**

In order to realise synergies from acquisitions, 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. As such, the Board considers it is appropriate that costs associated with projects of this nature be included as Adjusting items.

The main activity in the year related to the integration of CSS into the enlarged DG Americas business.

The CSS business includes a large portfolio of owned and leased sites, and part of the integration project includes the consolidation of these locations. As certain sites were closed and exited since acquisition, in the absence of being able to sub-lease or break leases, this resulted in impairments of lease assets in the prior financial year. In the year we were able to partially exit some of the property we lease in Budd Lake, New Jersey as well as sub-lease our sites in Plymouth Meeting, Philadelphia and Midway, Georgia. This has resulted in a reversal of the lease asset impairments and associated provisions for costs to run the exited sites of $2.8 million going through Adjusting items. Ongoing costs including associated right-of-use asset depreciation and lease liability interest relating to all of the properties we have exited continue to be treated as Adjusting items.

In respect of the remaining vacant leased properties, marketing for sub-tenancy is ongoing. As at 31 March 2022, the Group has had no offers from potential sub-tenants and given that in the Directors' opinion there is no realistic prospect of sub-leasing in the foreseeable future, these leased properties remain impaired in full. As at 31 March 2022, if there was a reversal of the remaining right-of-use assets, the right-of-use assets would increase by $6.5 million (2021: $13.1 million).

Other costs associated with the ongoing consolidation of operations around the Group have been incurred, including the enlarged printing and converting business moving from Memphis to a larger facility in Byhalia, Mississippi that also houses distribution. In addition, costs associated with the exit of the owned property in Manhattan, Kansas to consolidate our pattern printing facilities into one site have been incurred. The total costs associated with this integration were $1.1 million.

The remaining costs incurred in the year relate to severance costs associated with the wider DG Americas restructure programme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 3 Operating expenses and Adjusting items continued

### Adjusting items continued

**(2) Acquisition integration and restructuring costs/(income)** continued

The main costs in the year to 31 March 2021 also related to the integration of CSS into the enlarged DG Americas business. These included integration consultancy expenditure, severance and temporary labour costs, as the newly integrated team structures following the acquisition were established, and the impact of the impairment of the lease assets and costs associated with the closure of excess sites.

The tax refund as a result of the US Covid-19 Coronavirus Aid, Relief and Economic Security ('CARES') Act attracted interest income which was recognised in Adjusting items in the prior year.

Furthermore, in the UK and Australia, as a result of Covid-19, workforce restructuring costs were treated as Adjusting items in the year to 31 March 2021.

**(3) (Reversal of impairment)/impairment of assets**

In light of the impact of Covid-19 on the business, a review of inventory, trade receivables and fixed assets was undertaken as at 31 March 2020 at the onset of the pandemic. Inventories were assessed at 31 March 2020 for the net realisable value and an impairment of $7.4 million was taken. Similarly, trade receivables were assessed for their expected credit loss in line with IFRS 9 and an impairment of $3.8 million was taken. Finally, the UK's bag line machines were impaired based on expected future cash flows associated with the 'Not-for-resale' consumables business.

During the year, the $2.7 million credit relates solely to reversal of impairments no longer required.

As at 31 March 2022, for inventory, $1.6 million of the impairment brought forward has been utilised (based on sell-through of the impaired products), with $1.2 million being reversed through Adjusting items as the inventory has been sold or committed to sale at a higher than expected price. As at 31 March 2022, $362,000 remains reserved for inventory that will be scrapped post year end.

Similarly for trade receivables, $332,000 in total has been utilised, and $1.1 million reversed as it is no longer required as the reserved customers have been able to pay. As at 31 March 2022, a very small amount remains ($43,000) relating to specific debtors that have been put into administration.

The UK bag line machines were reassessed in accordance with IAS 36 to determine whether the impairment has decreased or no longer exists. In light of the expected future sales increases in the 'Not-for-resale' consumables business in the UK, a reversal of the impairment has been put through Adjusting items as at 31 March 2022. The reversed amount of $327,000 is based on the net book value of the assets as at the reversal date.

As at 31 March 2021, $2.4 million of the trade receivables impairment was reversed as it was no longer required and following a review of sell-through rates in respect of inventory, $4.0 million was released. These releases were partially offset by $599,000 of additional Covid-19 related impairment charges taken during the year.

**(4) Incremental Covid-19 costs**

The Covid-19 outbreak developed rapidly in 2020 and continued into 2021, with measures taken around the world to contain the virus affecting economic activity. The Group was 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 incremental costs relating to the pandemic equal to $1.5 million were included in Adjusting items in the year to 31 March 2021. The most significant element of these costs relate to additional 'hazard pay' labour costs across our manufacturing facilities in the USA and Mexico in order to ensure our employees returned to work. In addition to this the business incurred direct incremental costs of $0.6 million.

In addition, laws were passed in India and Mexico that meant no workforce reductions were allowed during closed/lockdown periods which meant higher employee costs were being incurred than ordinarily would have in that situation. This resulted in the business incurring direct incremental costs of labour whilst not producing anything and incurring periods of significant downtime. When employees returned to work post lockdown labour costs were paid again once production started, effectively doubling the costs to produce.

**(5) IT security incident (income)/costs**

The IT security incident which occurred in DG Americas in October/November 2020 resulted in one-off costs being incurred during the year ended 31 March 2021 which were treated as Adjusting items at the time to the value of $2.2 million. This did not include the lost profits incurred as a result of downtime in the business for which an insurance claim was made. During the year insurance payouts were received from two different insurers, totalling $5.7 million. This has been taken to Adjusting items net of a small amount relating to adviser costs associated with the claim.

**(6) Amortisation of acquired intangibles**

Under IFRS, as part of the acquisition of a company, it is necessary to identify intangible assets such as customer lists and trade names 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 their useful economic lives. 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 Impact and CSS in the USA. As such, we include these as Adjusting items. Note that the trade names acquired as part of the acquisition of Biscay Pty Greetings Ltd in Australia were fully amortised in the prior year.

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 ($1.4 million) associated with the CSS acquisition was included as an Adjusting item, consistent with the treatment adopted with the Impact acquisition. This fully unwound as at 31 March 2021.

### The cash flow effect of Adjusting items

There was $6.2 million net outflow in the current year cash flow (2021: $666,000 restated) relating to Adjusting items. $3.3 million of the current year's outflow was deferred from the prior year. In the prior year the net outflow included an inflow relating to the US tax NOL refunds received in the year, as well as an outflow of $6.4 million deferred from the year before.

### Auditors' remuneration:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Amounts receivable by auditor and its associates in respect of: | | |
| Audit of these financial statements | 1,021 | 947 |
| Audit of financial statements of subsidiaries pursuant to legislation | | |
| – Overseas subsidiaries | 87 | 182 |
| – UK subsidiaries | 103 | 88 |
| Other audit related services | 80 | 65 |
| Taxation compliance services | — | 498 |
| All other taxation advisory services | — | 114 |

## 4 Staff numbers and costs

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

| | Number of employees | |
|---|---|---|
| | 2022 | 2021(a) |
| Selling and administration | 1,264 | 1,244 |
| Production and distribution | 2,051 | 2,349 |
| Temporary and agency staff | 747 | 574 |
| | 4,062 | 4,167 |

(a) Production and distribution numbers in the prior year have been re-presented for 500 temporary employees included within them relating to our Huizhou manufacturing site. The prior year has also been re-presented to show temporary and agency employees across the Group.

The aggregate payroll costs of these persons were as follows:

| | Note | 2022 $000 | 2021(a) $000 |
|---|---|---|---|
| Wages and salaries | | 159,197 | 149,732 |
| Share-based payments | 23 | (848) | 4,192 |
| Social security costs | | 14,123 | 13,114 |
| Other pension costs | | 3,300 | 2,835 |
| Temporary employee costs | | 20,057 | 10,311 |
| | | 195,829 | 180,184 |

(a) Wages and salaries in the prior year have been re-presented to exclude temporary employee costs included within them ($2.7 million) relating to our Huizhou manufacturing site. The prior year has also been re-presented to show the total costs associated with all temporary and agency employees across the Group.

For information on Directors' remuneration please refer to the section titled 'Directors' remuneration' within the Directors' remuneration report (pages 65 to 73), which forms part of these audited financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 5 Other operating income

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Grant income | (17) | 130 |
| Sub-lease rental income | 628 | 559 |
| Government assistance | 125 | 3,263 |
| Other | 10 | 114 |
| Other operating income before Adjusting items | 746 | 4,066 |
| Adjusting items (note 3) | 124 | — |
| | 870 | 4,066 |

## 6 Finance expenses

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | 598 | 569 |
| Other similar charges | 1,352 | 1,036 |
| Lease liability interest | 3,078 | 3,334 |
| Unwinding of fair value discounts | 80 | 79 |
| Interest payable under the effective interest method | 5,108 | 5,018 |
| Derivative financial instruments at fair value through the income statement | (3) | (2) |
| Finance expenses before Adjusting items | 5,105 | 5,016 |
| Adjusting items (note 3) | 386 | 163 |
| | 5,491 | 5,179 |

## 7 Taxation

### Recognised in the income statement

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Current tax charge/(credit)** | | |
| Current year | 3,898 | 6,077 |
| Adjustments in respect of previous years | (12) | (73) |
| | 3,886 | 6,004 |
| **Deferred tax charge/(credit)** | | |
| Derecognition of deferred tax assets | 2,308 | — |
| Origination and reversal of temporary differences | (3,664) | (1,724) |
| Adjustments in respect of previous periods | (13) | (46) |
| | (1,369) | (1,770) |
| **Total tax in income statement** | 2,517 | 4,234 |
| **Total tax charge/(credit) on Adjusting items** | | |
| Total tax on profit before Adjusting items[(a)] | 3,333 | 8,830 |
| Total tax on Adjusting items[(a)] | (816) | (4,596) |
| **Total tax charge in income statement** | 2,517 | 4,234 |

(a) The prior year comparatives above have been re-presented. For more detail please refer to note 1.

### Reconciliation of effective tax rate

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Profit before tax | 2,201 | 14,675 |
| Profit before tax multiplied by the standard rate of corporation tax of 19% in the UK (2021: 19%) | 418 | 2,788 |
| Effects of: | | |
| Income not taxable | (320) | (184) |
| Expenses not deductible for tax purposes | 94 | 568 |
| Derecognition of deferred tax assets | 2,308 | — |
| Effect of tax rate changes | (170) | — |
| Differences between UK and overseas tax rates | 946 | 1,290 |
| Movement in uncertain tax provisions | (1,531) | 175 |
| Other items | (182) | (284) |
| Adjustments in respect of previous periods | (25) | (119) |
| Current year losses for which no deferred tax asset is recognised | 979 | — |
| **Total tax charge in income statement** | 2,517 | 4,234 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
## YEAR ENDED 31 MARCH 2022

### 8 Property, plant and equipment

| | Land and buildings Freehold $000 | Land and buildings Leasehold $000 | Plant and equipment $000 | Fixtures and fittings $000 | Motor vehicles $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 April 2020 | 46,189 | 4,331 | 102,989 | 9,332 | 2,199 | 165,040 |
| Additions | 146 | 1,118 | 3,200 | 2,797 | 129 | 7,390 |
| Transfer between categories | — | — | 2,279 | (2,279) | — | — |
| Disposals | — | (61) | (203) | (528) | (195) | (987) |
| Effect of movements in foreign exchange | 2,179 | 183 | 5,928 | 567 | 262 | 9,119 |
| Balance at 1 April 2021 | 48,514 | 5,571 | 114,193 | 9,889 | 2,395 | 180,562 |
| Additions | **625** | **842** | **5,719** | **844** | **110** | **8,140** |
| Transfer to assets held for sale | **(2,150)** | **—** | **(664)** | **—** | **—** | **(2,814)** |
| Transfer to intangible fixed assets | **—** | **—** | **—** | **(156)** | **—** | **(156)** |
| Disposals | **(54)** | **(764)** | **(3,878)** | **(3,097)** | **(53)** | **(7,846)** |
| Effect of movements in foreign exchange | **(1,357)** | **43** | **(2,544)** | **(134)** | **(61)** | **(4,053)** |
| **Balance at 31 March 2022** | **45,578** | **5,692** | **112,826** | **7,346** | **2,391** | **173,833** |
| **Depreciation and impairment** | | | | | | |
| Balance at 1 April 2020 | (14,937) | (2,802) | (47,538) | (6,731) | (1,288) | (73,296) |
| Depreciation charge for the year | (1,874) | (773) | (8,353) | (2,231) | (304) | (13,535) |
| Transfers between fixed asset categories | — | — | (1,806) | 1,806 | — | — |
| Disposals | — | 30 | 96 | 376 | 173 | 675 |
| Effect of movements in foreign exchange | (1,378) | (167) | (4,065) | (426) | (167) | (6,203) |
| Balance at 1 April 2021 | (18,189) | (3,712) | (61,666) | (7,206) | (1,586) | (92,359) |
| Depreciation charge for the year | **(2,027)** | **(990)** | **(9,068)** | **(1,377)** | **(243)** | **(13,705)** |
| Reversal of impairment in the year | **—** | **—** | **327** | **—** | **—** | **327** |
| Reclassification between categories | **(327)** | **—** | **136** | **265** | **(74)** | **—** |
| Transfers from intangible fixed assets | **—** | **—** | **—** | **(30)** | **—** | **(30)** |
| Disposals | **53** | **739** | **3,411** | **3,182** | **20** | **7,405** |
| Transfer to assets held for sale | **—** | **—** | **664** | **—** | **—** | **664** |
| Effect of movements in foreign exchange | **818** | **(57)** | **1,785** | **188** | **42** | **2,776** |
| **Balance at 31 March 2022** | **(19,672)** | **(4,020)** | **(64,411)** | **(4,978)** | **(1,841)** | **(94,922)** |
| **Net book value** | | | | | | |
| **At 31 March 2022** | **25,906** | **1,672** | **48,415** | **2,368** | **550** | **78,911** |
| At 31 March 2021 | 30,325 | 1,859 | 52,527 | 2,683 | 809 | 88,203 |

During the year a property in Manhattan, Kansas with a net book value of $2.2 million has been reclassified to assets held for sale. The sale completed on 28 April 2022 (see note 28 for further details).

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.

#### Security

Certain freehold properties with a cost of $13.9 million in the UK 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 2020 | 97,374 | 13,378 | 5,212 | 23,921 | 164 | 140,049 |
| Additions | — | 1,000 | — | — | — | 1,000 |
| Disposals | — | (153) | — | — | — | (153) |
| Effect of movements in foreign exchange | 4,910 | 316 | 50 | 180 | 14 | 5,470 |
| Balance at 1 April 2021 | 102,284 | 14,541 | 5,262 | 24,101 | 178 | 146,366 |
| Additions | — | 381 | — | — | — | 381 |
| Transfer from fixed assets | — | 156 | — | — | — | 156 |
| Disposals | — | (484) | — | — | — | (484) |
| Effect of movements in foreign exchange | (2,216) | (101) | (4) | (15) | (7) | (2,343) |
| **Balance at 31 March 2022** | **100,068** | **14,493** | **5,258** | **24,086** | **171** | **144,076** |
| **Amortisation and impairment** | | | | | | |
| Balance at 1 April 2020 | (13,008) | (4,232) | (2,177) | (4,277) | (141) | (23,835) |
| Amortisation charge for the year | — | (3,840) | (1,057) | (2,021) | — | (6,918) |
| Disposals | — | 47 | — | — | — | 47 |
| Effect of movements in foreign exchange | (311) | (265) | (47) | (155) | (8) | (786) |
| Balance at 1 April 2021 | (13,319) | (8,290) | (3,281) | (6,453) | (149) | (31,492) |
| Amortisation charge for the year | — | (2,980) | (1,034) | (1,803) | — | (5,817) |
| Transfer to fixed assets | — | 30 | — | — | — | 30 |
| Disposals | — | 317 | — | — | — | 317 |
| Effect of movements in foreign exchange | 168 | 89 | 5 | 15 | 7 | 284 |
| **Balance at 31 March 2022** | **(13,151)** | **(10,834)** | **(4,310)** | **(8,241)** | **(142)** | **(36,678)** |
| **Net book value** | | | | | | |
| **At 31 March 2022** | **86,917** | **3,659** | **948** | **15,845** | **29** | **107,398** |
| At 31 March 2021 | 88,965 | 6,251 | 1,981 | 17,648 | 29 | 114,874 |

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

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

| | 2022 $000 | 2021 $000 |
|---|---|---|
| UK and Asia | **33,618** | 35,240 |
| Europe | **6,688** | 7,056 |
| USA | **42,872** | 42,872 |
| Australia | **3,739** | 3,797 |
| | **86,917** | 88,965 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 9 Intangible assets continued

### 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 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 CGU. The recoverable amounts of CGUs are determined from the higher of value in use and fair value less costs to sell.

The Group has prepared budgets and forecasts for each CGU for the next three 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, more recent performance and future expectations. The potential impacts of climate change are not currently considered a key assumption within the relevant future cash flows as the Group is at a relatively early stage of its climate change journey. Therefore, there are no material risks or opportunities which should be included in the relevant future cash flows and any future impacts of climate change are not expected to have a material impact on the carrying value of goodwill.

The Group then extrapolates cash flows for the following two years based on the long-term growth rates applicable to the relevant territories (shown below) to determine the discounted cash flows for five years plus a terminal value for each CGU.

The Group's post-tax weighted average cost of capital (WACC) is 7.6% (2021: 6.8%). This has been compared to other similar companies and is believed to be appropriate by the Directors.

The CGUs use the following pre-tax discount rates which are derived from an estimate of the Group's post-tax WACC adjusted for the relevant tax rate for each CGU.

Pre-tax discount rates used were:

| | 2022 | 2021 |
|---|---|---|
| UK and Asia | 9.5% | 9.1% |
| Europe | 10.0% | 9.5% |
| USA | 10.1% | 9.5% |
| Australia | 10.8% | 10.2% |

Long-term growth rates used were:

| | 2022 | 2021 |
|---|---|---|
| UK and Asia | 2.0% | 1.0% |
| Europe | 1.5% | 1.0% |
| USA | 1.6% | 1.0% |
| Australia | 2.2% | 1.0% |

In all businesses, the carrying value of the goodwill was supported by the recoverable amount. 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, a forecast including cash flow contingencies and a 0% growth rate assumption (for years four, five and the terminal value). With these changes in assumptions there is still comfortable headroom and no indication of impairment.

The base case valuation for UK and Asia shows a recoverable amount of $103.7 million, on an asset base of $71.8 million (of which goodwill is $33.6 million), resulting in headroom of $31.9 million available. This is the lowest headroom of all the CGUs. The cash flows in this base case forecast would need to be 23% lower throughout the forecasted period to trigger an impairment, with all other assumptions being the same.

## 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 2020 | 80,128 | 1,554 | 530 | 530 | 82,742 |
| Additions | 32,016 | 298 | 223 | 403 | 32,940 |
| Disposals | — | — | (17) | — | (17) |
| Depreciation charge | (16,754) | (629) | (379) | (316) | (18,078) |
| Impairment | (5,969) | — | — | — | (5,969) |
| Effect of movements in foreign exchange | 3,467 | 73 | 23 | 199 | 3,762 |
| Net book value at 1 April 2021 | 92,888 | 1,296 | 380 | 816 | 95,380 |
| Additions | **8,510** | **256** | **284** | **131** | **9,181** |
| Disposals | **(1,231)** | **—** | **—** | **—** | **(1,231)** |
| Transfers between categories | **(109)** | **1** | **(11)** | **119** | **—** |
| Depreciation charge | **(16,718)** | **(498)** | **(290)** | **(270)** | **(17,776)** |
| Reversal of impairment | **2,492** | **—** | **—** | **—** | **2,492** |
| Effect of movements in foreign exchange | **(1,263)** | **(63)** | **25** | **(14)** | **(1,315)** |
| **Net book value at 31 March 2022** | **84,569** | **992** | **388** | **782** | **86,731** |

Additions include lease modifications and extensions of $5.4 million (2021: $2.4 million).

### Income statement

The income statement shows the following charges/(credits) relating to leases:

| | **2022 $000** | 2021 $000 |
|---|---|---|
| Interest expense (included in finance expenses) | **3,479** | 3,685 |
| Depreciation charge | **17,776** | 18,078 |
| (Reversal of impairment)/impairment | **(2,492)** | 5,969 |
| Expense relating to short-term leases | **126** | 153 |

Of the interest expense detailed above, $401,000 (2021: $351,000) has been treated as an Adjusting item as it relates to exited properties from the DG Americas integration.

Low-value lease costs were negligible in the year.

At 31 March 2022, the Group had estimated lease commitments for leases not yet commenced of $nil (2021: $1.4 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 10 Right-of-use assets and lease liabilities continued

### Movement in lease liabilities

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Balance at 1 April | **(113,922)** | (95,413) |
| Cash flow – financing activities | **20,717** | 19,184 |
| Additions | **(9,353)** | (33,200) |
| Disposals | **1,280** | 17 |
| Effect of movements in foreign exchange | **1,435** | (4,510) |
| **Balance at 31 March** | **(99,843)** | (113,922) |

Total cash outflow in relation to leases is as follows:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Included in financing activities – payment of lease liabilities | **20,717** | 19,184 |
| Included in interest and similar charges paid | **3,479** | 3,685 |
| Short-term leases | **126** | 130 |
| | **24,322** | 22,999 |

Commitments for minimum lease payments in relation to non-cancellable low-value or short-term leases are payable as follows:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Less than one year | **126** | 153 |
| Between one and five years | **—** | — |
| More than five years | **—** | — |
| | **126** | 153 |

### Income from sub-leasing right-of-use assets

During the year sub-lease income from right-of-use assets was as follows:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Sub-lease income in the year from sub-leasing right-of-use assets | **752** | 559 |

Of the sub-lease income detailed above, $124,000 (2021: $nil) has been treated as an Adjusting item as relates to exited properties from the DG Americas integration.

Non-cancellable operating lease rentals are receivable as follows:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Less than one year | **422** | 466 |
| Between one and five years | **1,542** | 348 |
| | **1,964** | 814 |

## 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 2020 | 5,413 | 4,694 | 1,496 | 3,957 | (2,051) | 13,509 |
| Credit/(charge) to income statement | 96 | 3,146 | 33 | (2,611) | 1,106 | 1,770 |
| (Charge)/credit to equity | (134) | 551 | 155 | 8 | 383 | 963 |
| At 31 March 2021 | 5,375 | 8,391 | 1,684 | 1,354 | (562) | 16,242 |
| Deferred tax liabilities | (1,834) | — | (3) | — | (4,968) | (6,805) |
| Deferred tax assets | 7,209 | 8,391 | 1,687 | 1,354 | 4,406 | 23,047 |
| | 5,375 | 8,391 | 1,684 | 1,354 | (562) | 16,242 |

| | 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 2021 | 5,375 | 8,391 | 1,684 | 1,354 | (562) | 16,242 |
| (Charge)/credit to income statement | **(1,659)** | **(77)** | **(956)** | **(1,348)** | **5,409** | **1,369** |
| Credit/(charge) to equity | **33** | **(745)** | **(728)** | **—** | **(235)** | **(1,675)** |
| **At 31 March 2022** | **3,749** | **7,569** | **—** | **6** | **4,612** | **15,936** |
| Deferred tax liabilities | **(335)** | **—** | **—** | **—** | **(90)** | **(425)** |
| Deferred tax assets | **4,084** | **7,569** | **—** | **6** | **4,702** | **16,361** |
| | **3,749** | **7,569** | **—** | **6** | **4,612** | **15,936** |

(a) Other timing differences include a deferred tax asset closing balance of $0.6 million (2021: $4.1 million liability) in respect of provision for inventory and $3.4 million (2021: $3.1 million) in respect of leases.

Deferred tax is presented net on the balance sheet in so far as a right of offset exists. The net deferred tax asset is $16.3 million (2021: $18.4 million) and the net deferred tax liability is $381,000 (2021: $2.1 million). 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 deferred tax asset in respect of tax losses carried forward at 31 March 2022 of $7.6 million (2021: $8.4 million) comprises deferred tax assets in relation to UK tax losses of $nil (2021: $3.3 million), US tax losses of $7.2 million (2021: $5.0 million) and Asia tax losses of $337,000 (2021: $156,000). All of these recognised tax losses may be carried forward indefinitely. The deferred tax assets have been recognised in the territories where the Board considers there is sufficient evidence that taxable profits will be available against which the tax losses can be utilised. The key assumptions in those forecasts are sales, margins achievable and overhead costs, which are based on past experience, more recent performance and future expectations. The Group then extrapolates cash flows for the following two years based on the long-term growth rates applicable to the relevant territories. Based on this assessment the Board expects that these tax losses will be recoverable against future profits.

During the year, all previously recognised deferred tax assets in the UK were derecognised. The derecognition has occurred as a result of the assessment of future taxable profits (which is as a result of the growing costs in IG Design Group plc) against which the asset could unwind.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 11 Deferred tax assets and liabilities continued

### Recognised deferred tax assets and liabilities continued

In the UK there are gross temporary differences of $100,000 (2021: $nil) and unused tax losses, with no expiry date, of $20.8 million (2021: $4.7 million) on which deferred tax assets have not been provided.

In the DG Americas segment there are gross temporary differences of $59.6 million (2021: $76.4 million) and unused tax losses, with no expiry date, of $25.0 million (2021: $23.0 million) on which deferred tax assets have not been provided. This is as a result of restrictions under the US change in ownership rules following the acquisition of CSS in 2020.

A deferred tax liability of $88,000 (2021: $101,000) has been recognised in relation to the tax cost of remitting earnings (forecast dividends) from China to the UK. 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 corporation tax in the Netherlands increased from 25% to 25.8% effective from 1 January 2022 and therefore the deferred tax balances in the Netherlands were re-measured to 25.8%. The standard rate of corporation tax in the UK will rise to 25% effective from 1 April 2023. Given that no deferred tax is recognised in the UK, this does not impact the deferred tax measurement at the balance sheet date.

Included within current tax liabilities is $4.5 million (2021: $6.1 million) in respect of uncertain tax positions. These risks arise because the Group operates in a complex multinational tax environment. The amount consists of various tax risks which individually are not material. 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. During the year, there has been a decrease in the Group's total provision in respect of uncertain tax positions of $1.5 million, the majority of which relates to the reassessment of acquisition related tax risks and has been treated as an Adjusting item.

A deferred tax charge of $1.5 million was recognised through the statement of changes in equity as a result of the derecognition of deferred tax asset balances in relation to share-based payments and IFRS 16 adoption which were initially recognised through the statement of changes in equity in previous years. In the prior year, a deferred tax credit of $214,000 was recognised through the statement of changes in equity in respect of share-based payments. There are no deferred tax balances with respect to cash flow hedges.

## 12 Inventory

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Raw materials and consumables | 37,586 | 23,219 |
| Work in progress | 28,925 | 27,632 |
| Finished goods | 164,374 | 125,314 |
| | 230,885 | 176,165 |

During the year, materials, consumables, changes in finished goods and work in progress of $701.1 million (2021: $613.3 million) were recognised as an expense and included in cost of sales.

Inventories have been assessed as at 31 March 2022 and overall an expense of $12.1 million has been recognised in the year. This consists of an impairment of $18.3 million (2021: $19.6 million) which has been taken to reduce the value of inventories to net realisable value. In addition to this, inventories have been increased by previous Covid-19 write downs which have been reversed of $1.2 million (2021: $4.0 million). The impairment expense in the year has been reduced by the reversal of previous write downs amounting to $5.0 million (2021: $0.4 million) due to inventory either being used or sold.

## 13 Long-term assets and trade and other receivables

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Acquisition indemnities | 990 | 856 |
| UK pension surplus (note 23) | — | 676 |
| Security deposits | 1,607 | 1,011 |
| Insurance related assets | 2,508 | 3,178 |
| | 5,105 | 5,721 |

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:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Trade receivables | 115,317 | 115,858 |
| Prepayments, other receivables and accrued income | 11,627 | 13,066 |
| VAT receivable | 906 | 295 |
| | 127,850 | 129,219 |

The Group has receivable financing arrangements in Hong Kong. None of this facility was drawn at 31 March 2022 (2021: $nil). The Group is party to supplier financing arrangements with one of its key customers and the associated balances are recognised as trade receivables until receipt of the payment from the bank, at which point the receivable is derecognised. At 31 March 2022, $6.0 million had been drawn down on this arrangement (2021: $4.1 million).

Please see note 15 for more details of the banking facilities.

There are no trade receivables in the current year (2021: $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

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Cash and cash equivalents | 50,179 | 132,760 |
| Bank overdrafts | (20,380) | (57,033) |
| **Cash and cash equivalents and bank overdrafts per cash flow statement** | 29,799 | 75,727 |

### Net cash

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Cash and cash equivalents | 29,799 | 75,727 |
| Loan arrangement fees | 360 | 723 |
| **Net cash as used in the financial review cash flow statement** | 30,159 | 76,450 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 14 Cash and cash equivalents/bank overdrafts continued

### 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 2020 | (987) | 1,209 | 222 | 52,197 | 52,419 |
| Cash flows | 1,158 | — | 1,158 | 24,777 | 25,935 |
| **Effect of other items** | | | | | |
| Amortisation of loan arrangement fees | — | (588) | (588) | — | (588) |
| Effect of movements in foreign exchange | (171) | 102 | (69) | (1,247) | (1,316) |
| Balance at 1 April 2021 | — | 723 | 723 | 75,727 | 76,450 |
| Cash flows | **—** | **494** | **494** | **(48,165)** | **(47,672)** |
| **Effect of other items** | | | | | |
| Amortisation of loan arrangement fees | **—** | **(824)** | **(824)** | **—** | **(824)** |
| Effect of movements in foreign exchange | **—** | **(33)** | **(33)** | **2,237** | **2,205** |
| **Balance at 31 March 2022** | **—** | **360** | **360** | **29,799** | **30,159** |

## 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.

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | **—** | — |
| Loan arrangement fees | **(20)** | (103) |
| | **(20)** | (103) |
| **Current liabilities** | | |
| Current portion of secured bank loans | **—** | — |
| Loan arrangement fees | **(340)** | (620) |
| | **(340)** | (620) |

### Secured bank loans

The Group maintains its banking facilities through a club of five banks chosen to reflect and support the geographical spread of the Group. The banks within the club are HSBC, NatWest, Citigroup (who replaced BNP Paribas), Truist Bank (as successor by merger to SunTrust Bank) and PNC.

On 1 June 2022, the Company extended the term of its existing banking agreement to 31 March 2024. As part of this extension, covenants have been revised for the period to 31 March 2023 and the amended facilities comprise:

- a revolving credit facility ('RCF A') which has reduced from $95.0 million to $90.0 million;
- a further flexible revolving credit facility ('RCF B') with availability varying from month to month of up to a maximum level of £92.0 million (reduced from a maximum level of £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 carrying costs; and
- an invoice financing arrangement in Hong Kong, maximum limit $18.0 million dependent on level of eligible receivables.

In total, accessible facilities are considered sufficient to cover the Group's peak requirements. The facilities do not amortise with time and being partially denominated in US dollars they also provide a hedge against currency movements.

Invoice financing arrangements are secured over the trade receivables that they are drawn on (see note 13). The RCFs are secured with a fixed and floating charge over other assets of the Group. Amounts drawn under RCFs are classified as current liabilities as the Group expects to settle these amounts within twelve months.

The revised covenants, which operate for a maximum period to 31 March 2023, are as follows:

- minimum adjusted earnings before interest, depreciation and amortisation (Adjusted EBITDA), as defined by the banking facility, measured quarterly at the end of June, September, December and March, which requires the Group to be within $10.0 million of its Adjusted EBITDA budget at each quarter end, based on the last twelve-month Adjusted EBITDA performance at each measurement point; and
- minimum liquidity level, which requires the Group to maintain a minimum of $35.0 million of headroom to the maximum available facility on a monthly basis.

The amendment also stipulates that any dividends to be paid by the Group during the remaining term of the agreement will require majority lender approval. Banking and legal fees associated with the amendment and extension of the facility totalled c.$1 million.

From April 2023 the Group will revert to the previous covenants tested quarterly, which are as follows:

- interest cover, being the ratio of adjusted earnings before interest, depreciation and amortisation (Adjusted 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.

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.

Both revised and previous covenants are measured on pre-IFRS 16 accounting definitions.

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.

The Group is party to supplier financing arrangements with one of its key customers and the associated balances are recognised as trade receivables until receipt of the payment from the bank, at which point the receivable is derecognised. This arrangement is not considered to have had a significant impact on the Group's cash flow in the year.

## 16 Deferred income

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Included within non-current liabilities** | | |
| Deferred grant income | **523** | 486 |
| **Included within current liabilities** | | |
| Deferred grant income | **414** | 136 |
| Other deferred income | **51** | 288 |
| | **465** | 424 |

The deferred grant income is in respect of government grants relating to the development of the Penallta site in Wales and the Byhalia site in Mississippi. The conditions for the Wales grant were all fully met in January 2019 and the deferred income is being released in line with the depreciation of the assets for which the grant is related to. The conditions for the Byhalia grant have not yet been met.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 17 Provisions

| | Property $000 | Other $000 | Total $000 |
|---|---|---|---|
| Balance at 1 April 2021 | 6,993 | 366 | 7,359 |
| Provisions made in the year | 45 | 46 | 91 |
| Provisions released during the year | (182) | (292) | (474) |
| Unwinding of fair value discounts | 80 | — | 80 |
| Provisions utilised during the year | (615) | — | (615) |
| Effect of movements in foreign exchange | (74) | (9) | (83) |
| **Balance at 31 March 2022** | **6,247** | **111** | **6,358** |

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Non-current | 5,016 | 5,742 |
| Current | 1,342 | 1,617 |
| | 6,358 | 7,359 |

The property provision represents the estimated reinstatement cost of 14 of the Group's leasehold properties under fully repairing leases (2021: 18). A professional valuation was performed during the year for one of the leasehold properties and the provision was reassessed and is stated after discounting. Of the non-current balance, $1.4 million (2021: $1.4 million) relates to a lease expiring in 2036; the remainder relates to provisions unwinding between one and five years.

## 18 Other financial liabilities

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Included within non-current liabilities** | | |
| Other creditors and accruals | 21,557 | 15,526 |
| **Included within current liabilities** | | |
| Other creditors and accruals | 34,455 | 43,976 |
| Liability to acquire non-controlling interest | 3,069 | — |
| 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 | 18 | 293 |
| | 37,542 | 44,269 |

The $3.1 million liability to acquire non-controlling interest included in current liabilities has been recognised in relation to a put option that exists over the 49% of the share capital of Anker Play Products LLC ('APP') not currently owned by the Group; see note 28 for further details.

## 19 Trade and other payables

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Trade payables | 138,902 | 107,588 |
| Other payables including social security | 3,821 | 12,875 |
| VAT payable | 595 | 300 |
| | 143,318 | 120,763 |

## 20 Share capital

Authorised share capital at 31 March 2022 and 2021 was £6.0 million, 121.0 million ordinary shares of 5p each.

| | Ordinary shares | |
|---|---|---|
| In thousands of shares | **2022** | 2021 |
| In issue at 1 April | **96,858** | 96,367 |
| Options exercised during the year | **204** | 491 |
| **In issue at 31 March – fully paid** | **97,062** | 96,858 |

| | **2022 $000** | 2021 $000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| Ordinary shares of £0.05 each | **6,373** | 6,667 |

Of the 97.1 million shares in the Company, 31,000 (2021: 31,000) are held by IG Employee Share Trustee Limited (the 'Employee Benefit Trust').

Long Term Incentive Plan (LTIP) options exercised during the year resulted in 204,000 ordinary shares issued at nil cost (2021: 491,000 ordinary shares issued at nil cost).

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

## 21 (Loss)/earnings per share

| | **2022 $000** | 2021[(a)] $000 |
|---|---|---|
| **(Loss)/earnings** | | |
| (Loss)/earnings attributable to equity holders of the Company | **(3,277)** | 8,207 |
| **Adjustments** | | |
| Adjusting items (net of non-controlling interest effect) | **(3,498)** | 18,166 |
| Tax relief on adjustments (net of non-controlling interest effect) | **(816)** | (4,604) |
| **Adjusted (loss)/earnings attributable to equity holders of the Company** | **(7,591)** | 21,769 |

| In thousands of shares | **2022** | 2021 |
|---|---|---|
| **Weighted average number of shares** | | |
| Basic weighted average number of shares outstanding | **98,118** | 97,700 |
| Dilutive effect of employee share option plans | **119** | 440 |
| **Diluted weighted average ordinary shares** | **98,237** | 98,140 |

| | **2022 Cents** | 2021[(a)] Cents |
|---|---|---|
| **(Loss)/earnings per share** | | |
| Basic (loss)/earnings per share | **(3.3)** | 8.4 |
| Impact of Adjusting items (net of tax) | **(4.4)** | 13.9 |
| Basic Adjusted (loss)/earnings per share | **(7.7)** | 22.3 |
| Diluted (loss)/earnings per share | **(3.3)** | 8.4 |
| Diluted Adjusted (loss)/earnings per share | **(7.7)** | 22.2 |

(a) The prior year comparatives above have been re-presented. For more detail please refer to note 1.

Adjusted (loss)/earnings per share are provided to reflect the underlying earnings performance of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 21 (Loss)/earnings per share continued

| In thousands of shares | 2022 | 2021 |
|---|---|---|
| Issued ordinary shares at 1 April | 96,858 | 96,367 |
| Shares relating to share options | 1,260 | 1,333 |
| **Weighted average number of shares at 31 March** | 98,118 | 97,700 |

### Diluted (loss)/earnings per share

The diluted (loss)/earnings per share is calculated taking into account LTIP awards whose specified conditions were satisfied at the end of the year of 119,000 (2021: 440,000) share options along with 31,000 shares held by the Employee Benefit Trust (2021: 31,000). At 31 March 2022, the diluted number of shares was 98.2 million (2021: 98.1 million).

## 22 Dividends paid and proposed

A final dividend for year ending 31 March 2021 was paid on 14 October 2021. An interim dividend was paid on 16 January 2022. The Directors are not recommending the payment of a final dividend in respect of the year ended 31 March 2022.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Pence per share | Cents per share | $000 | Pence per share | Cents per share | $000 |
| Final equity dividend for prior year | 5.75 | 7.92 | 7,630 | 5.75 | 7.13 | 7,329 |
| Interim equity dividend for current year | 1.25 | 1.68 | 1,644 | 3.00 | 3.89 | 3,959 |
| **Dividends paid in the year** | | | 9,274 | | | 11,288 |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Proposed for approval at Annual General Meeting | Pence per share | Cents per share | $000 | Pence per share | Cents per share | $000 |
| Final equity dividend for the current year | — | — | — | 5.75 | 7.92 | 7,630 |

## 23 Employee benefits

### Post-employment benefits

The Group administers a defined benefit pension plan that was inherited through the acquisition of CSS 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.

An actuarial valuation was updated on an approximate basis at 31 March 2022, by a qualified actuary, independent of the scheme's sponsoring employer.

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)

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Fair value plan of assets | 3,241 | 3,615 |
| Present value of defined benefit obligation | (1,858) | (2,528) |
| Surplus in plan | 1,383 | 1,087 |
| **Net defined benefit asset to be recognised** | — | 676 |

## Reconciliation of opening and closing balances of the defined benefit obligation

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Defined benefit obligation as at 1 April | (2,528) | (2,430) |
| Interest expense | (50) | (47) |
| Benefits payments from plan assets | 384 | — |
| Actuarial gains due to changes in demographic assumptions | 52 | 9 |
| Actuarial gains due to changes in financial assumptions | 205 | 201 |
| Effect of experience adjustments | (18) | — |
| Effect of movement in foreign exchange | 97 | (261) |
| **Defined benefit obligation as at 31 March** | **(1,858)** | (2,528) |

## Reconciliation of opening and closing balances of the fair value of plan assets

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Fair value of plan assets as at 1 April | 3,615 | 3,028 |
| Interest income | 75 | 59 |
| Return on plan assets | 33 | 121 |
| Contributions by the Company | 68 | 71 |
| Benefits payments from plan assets | (384) | — |
| Admin expenses paid from plan assets | (7) | (9) |
| Effect of movement in foreign exchange | (159) | 345 |
| **Fair value of plan assets as at 31 March** | **3,241** | 3,615 |

A total of $18,000 has been charged to Group operating profit during the year, including $7,000 of expense netting against net interest income of $25,000.

The principal assumptions used by the independent qualified actuary for the purposes of IAS 19 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Increase in salaries | — | — |
| Increase in pensions | — | — |
| – at RPI capped at 5% | 3.80% | 3.70% |
| – at CPI capped at 5% | 2.75% | 2.40% |
| – at CPI capped at 2.5% | 2.50% | 2.40% |
| Discount rate | 2.80% | 2.20% |
| Inflation rate – RPI | 3.65% | 3.30% |
| Inflation rate – CPI | 2.75% | 2.40% |

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:

| | 2022 | 2021 |
|---|---|---|
| Male retiring today at age 60 | 26.4 | 26.4 |
| Female retiring today at age 60 | 28.5 | 28.5 |
| Male retiring in 20 years at age 60 | 27.9 | 27.9 |
| Female retiring in 20 years at age 60 | 30.1 | 30.1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 23 Employee benefits continued

### Post-employment benefits continued

#### Reconciliation of opening and closing balances of the fair value of plan assets continued

In addition to the defined benefit pension scheme there is also a small post-retirement healthcare scheme operated in the US, which was also inherited through the acquisition of CSS. In total, the amounts taken through the Group's statement of comprehensive income can be seen below:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **UK pension scheme** | | |
| Actuarial losses on defined benefit pension scheme | **(73)** | (62) |
| Derecognition of defined benefit pension scheme surplus | **(664)** | — |
| **US health scheme** | **22** | 30 |
| | **(715)** | (32) |

In accordance with IAS 19, the surplus on the plan has not been recognised on the basis it is not expected to be recovered, with the previously recognised asset being derecognised in the year.

### Long Term Incentive Plans

The Group operates two Long Term Incentive Plans ('Plans'): the 2014 Long Term Incentive Plan (LTIP) and the Value Creation Scheme (VCS) launched in February 2021.

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 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 base salary. The maximum opportunity available under the LTIP is up to 175% for the CEO and for other Executive Directors up to 150% of base salary.

Under the VCS, the scheme awards will allow participants to share, in total, up to 12.5% of the value created ('VCS Pool') provided that the performance criteria are met. No individual award can be greater than £12.5 million. The maximum opportunity available under the VCS is up to 17.5% of the VCS Pool for the CEO and for the other Executive Directors up to 12.5% and 7.5%. Shares will be released to the participants either following the calculation of the VCS Pool or, in the case of the awards for the CEO, the other Executive Directors and three other senior executives, following the end of a further two-year holding period. Awards may be structured as nil-cost options which can be exercised from release until the tenth anniversary of grant of the awards, or as conditional awards which deliver shares for nil-cost automatically at release.

Subsequent to year end, considering the performance of the Group for the year ended 31 March 2022, and the significant challenges and cost headwinds that have been, and will continue to be, faced over the coming financial year, the Remuneration Committee considered whether the VCS was appropriate in light of the required change of strategy of the Group. It concluded that the VCS no longer incentivised nor inspired the behaviours required to drive the Group forward and as such intends to cancel the scheme effective 28 June 2022.

For both plans together, the maximum dilution is 15% over a ten-year period. For the VCS specifically, within the 15% limit, there is a dilution limit of 7.5%.

The plan 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.

## Vested LTIP schemes – outstanding options

| | Number of ordinary shares | Exercise price pence | Exercise dates |
|---|---|---|---|
| 2015-2018 LTIP scheme | 312,916 | nil | June 2018 – January 2028 |
| 2016-2019 LTIP scheme | 231,726 | nil | June 2019 – January 2028 |
| 2017-2020 LTIP scheme | 210,091 | nil | July 2020 – August 2027 |
| 2018-2021 LTIP scheme | 333,390 | nil | June 2021 – November 2028 |
| | 1,088,123 | | |

All performance criteria have been met for the above schemes.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Weighted average exercise price pence** | **Number of options** | Weighted average exercise price pence | Number of options |
| Outstanding at 1 April | **nil** | **1,291,728** | nil | 1,359,488 |
| Prior year adjustment | **nil** | **—** | nil | 4,650 |
| Options vesting during the year | **nil** | **—** | nil | 418,429 |
| Exercised during the year | **nil** | **(203,605)** | nil | (490,839) |
| Outstanding at 31 March | **nil** | **1,088,123** | nil | 1,291,728 |
| Exercisable at 31 March | **nil** | **1,088,123** | nil | 1,291,728 |

## Scheme details for plans in vesting periods during the year

During the financial year to 31 March 2022 there were two LTIP schemes still within their vesting period (2021: three), as well as the VCS. As described above, subsequent to year end, the intention is to cancel the VCS.

### Awards

| | 2019-2022 LTIP | 2020-2022 LTIP | |
|---|---|---|---|
| | Grant A | Grant A | Grant B |
| Grant date | July 2019 | Sept 2020 | Jan 2021 |
| Fair value per share (£) | 6.02 | 4.66 | 6.03 |
| Number of participants | 28 | 1 | 1 |
| Initial award | 758,782 | 50,000 | 100,000 |
| Dividend shares | — | 1,816 | 2,323 |
| Lapses and forfeitures | (758,782) | — | — |
| **Potential to vest as at 31 March 2022** | **—** | **51,816** | **102,323** |
| Potential to vest as at 31 March 2021 | 564,027 | 50,917 | 100,548 |

No LTIP options have been granted in the year. The grant date fair value of the options granted in the previous year, assuming they were to vest in full, was $1.2 million.

The grant date fair value of the VCS of £3.54 was determined using the following factors in the binomial pricing model:

| | |
|---|---|
| Asset price | £4.50 |
| Exercise price | nil |
| Expected volatility | 31.5% |
| Option life | 2.43 |
| Risk-free rate | 0.14% |
| Dividend yield | 2% |

The expected volatility is based on the Group's historical three-year volatility. The number of participants in the VCS at the year end was 77.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 23 Employee benefits continued

### Scheme details for plans in vesting periods during the year continued

### LTIP performance targets

With the exception of the 2020-2022 scheme, LTIP 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.

| | Weighting | Threshold | Maximum |
|---|---|---|---|
| **2019-2022 scheme** | | | |
| Group Adjusted PBT[a] $m | 100% | 48.4 | 56.0 |

(a) Profit before tax and before Board-approved Adjusting items.

The performance criteria for the 2019-2022 LTIP award was amended during the year from an EPS measure. The revised performance metric was not met and therefore will not vest on approval of the results for the year ended 31 March 2022.

The 2020-2022 scheme, granted to two individuals, has only a service condition, being 1 April 2020 to 30 June 2022 and will therefore vest on 30 June 2022 for the relevant individuals.

### VCS performance targets

The VCS is based on an achievement of a minimum 7.5% CAGR on the opening valuation of the Company over a three-year performance period from 1 April 2020 to 31 March 2023. In addition, a performance underpin is included such that, ordinarily, no VCS awards will vest unless the Adjusted profit before tax for the twelve months to 31 March 2023 meets a set target.

The closing market capitalisation will be based on the volume weighted average share price over the period of 30 days following announcement of the audited results for the twelve months ending on 31 March 2023. Appropriate adjustments shall be made in respect of any capital raised from or returned to shareholders during the measurement period.

Following the calculation of the VCS Pool, each participant's allocation will be converted into a number of ordinary shares in the Company by reference to the share price used to determine the size of the VCS Pool.

As described above, subsequent to the year end, the intention is to cancel the VCS.

### Share-based payments charges

The total expense recognised for the year arising from equity-settled share-based payments is as follows:

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Charge in relation to the 2018-2021 LTIP scheme | — | 2,951 |
| Charge in relation to the 2020-2022 LTIP scheme | 723 | 229 |
| (Credit)/charge in relation to the VCS | (482) | 488 |
| Equity-settled share-based payments charge/(credit) | 241 | 3,668 |
| Social security (credit)/charge | (1,089) | 524 |
| **Total equity-settled share-based payments (credit)/charge** | (848) | 4,192 |

Deferred tax assets are recognised on share-based payment schemes (see note 11).

### 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 $137,000 (2021: $1.3 million).

## 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 2022, the Group had derivative contracts, which were measured at Level 2 fair value subsequent to initial recognition, to the value of an asset of $316,000 (2021: $207,000) and a liability of $18,000 (2021: $293,000).

#### 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 $170.9 million (2021: $254.5 million) 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 reporting segment was:

| | **2022 $000** | 2021 $000 |
|---|---|---|
| DG Americas | **84,966** | 94,484 |
| International | **30,351** | 21,374 |
| | **115,317** | 115,858 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 24 Financial instruments continued
### Derivative financial assets continued
### b) Credit risk continued
#### Credit quality of financial assets and impairment losses
The ageing of trade receivables at the balance sheet date was:

| | 2022 | | | Restated[a] 2021 | | |
|---|---|---|---|---|---|---|
| | Expected loss rate % | Gross $000 | Provisions for doubtful debts $000 | Expected loss rate % | Gross $000 | Provisions for doubtful debts $000 |
| Not past due | — | 71,429 | — | 0.1 | 76,673 | (69) |
| Past due 0-60 days | — | 26,889 | — | 0.3 | 24,209 | (82) |
| 61-90 days | 2.0 | 9,721 | (195) | 5.3 | 5,926 | (314) |
| More than 90 days | 4.5 | 7,825 | (352) | 23.7 | 12,470 | (2,955) |
| | 0.5 | 115,864 | (547) | 2.9 | 119,278 | (3,420) |

(a) There has been a restatement of $6.6 million between gross trade receivables and provisions for doubtful debts due to a misclassification in the prior year.

There were no unimpaired balances outstanding at 31 March 2022 (2021: $nil) where the Group had renegotiated the terms of the trade receivable. The movement year-on-year relates to assets impaired as at 31 March 2021 due to Covid-19 provisions that have been utilised or released as no longer required during the year to 31 March 2022 (please refer to note 3 for further information).

#### 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:

| | 2022 $000 | Restated[a] 2021 $000 |
|---|---|---|
| Balance at 1 April | 3,420 | 10,616 |
| Charge for the year | 277 | 2,045 |
| Unused amounts reversed | (1,511) | (5,352) |
| Amounts utilised | (1,627) | (4,000) |
| Effects of movement in foreign exchange | (12) | 111 |
| **Balance at 31 March** | 547 | 3,420 |

(a) There has been a restatement of $6.6 million between gross trade receivables and provisions for doubtful debts due to a misclassification in the prior year.

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.

## 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 2022 are set out in note 15.

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

| 31 March 2022 | 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** | | | | | | | |
| Other financial liabilities | 18 | 59,081 | (59,081) | (37,524) | (21,523) | (32) | (2) |
| Lease liabilities | 10 | 99,843 | (112,186) | (22,538) | (20,669) | (37,244) | (31,735) |
| Trade payables | 19 | 138,902 | (138,902) | (138,902) | — | — | — |
| Other payables | 19 | 4,416 | (4,416) | (4,416) | — | — | — |
| **Derivative financial liabilities** | | | | | | | |
| Forward foreign exchange contracts carried at fair value through the hedging reserve[(a)] | 18 | 18 | (524) | (524) | — | — | — |
| | | 302,260 | (315,109) | (203,904) | (42,192) | (37,276) | (31,737) |

(a) Measured at Level 2.

| 31 March 2021 | 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** | | | | | | | |
| Other financial liabilities | 18 | 59,502 | (59,502) | (43,976) | (15,279) | (122) | (125) |
| Lease liabilities | 10 | 113,922 | (129,399) | (22,729) | (20,125) | (44,212) | (42,333) |
| Trade payables | 19 | 107,588 | (107,588) | (107,588) | — | — | — |
| Other payables | 19 | 13,175 | (13,175) | (13,175) | — | — | — |
| **Derivative financial liabilities** | | | | | | | |
| Forward foreign exchange contracts carried at fair value through the hedging reserve[(a)] | 18 | 293 | (2,100) | (2,100) | — | — | — |
| | | 294,480 | (311,764) | (189,568) | (35,404) | (44,334) | (42,458) |

(a) Measured at Level 2.

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

| | 31 March 2022 | | | | 31 March 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| Corporate revolving credit facilities | — | — | (97,208) | (97,208) | — | — | (97,136) | (97,136) |
| Bank overdraft | — | — | (4,909) | (4,909) | — | — | (5,002) | (5,002) |
| | — | — | (102,117) | (102,117) | — | — | (102,138) | (102,138) |

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 was $283.7 million (2021: $292.0 million).

At 31 March 2022 the facility amounted to $97.2 million (2021: $97.1 million).

Additional facilities were available at other banks of $4.9 million (2021: $5.0 million).

On 1 June 2022 the Group banking facilities were extended to run to March 2024; see note 15 for more information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 24 Financial instruments continued

### Derivative financial assets continued

### c) Liquidity risk continued

#### Financial risk management continued

The following table shows other facilities that are treated as contingent liabilities:

| | 31 March 2022 | | 31 March 2021 | |
|---|---|---|---|---|
| | Facility $000 | Utilised $000 | Facility $000 | Utilised $000 |
| UK Guarantee | 2,101 | 1,996 | 2,203 | 2,092 |
| UK Import line | 1,313 | — | 1,377 | — |
| Foreign Bills | 6,566 | — | 6,883 | — |
| USA Guarantee | 5,500 | 2,980 | 5,500 | 2,980 |
| Netherlands Guarantee (Trade and Import line) | 667 | 121 | 704 | 127 |
| | 16,147 | 5,097 | 16,667 | 5,199 |

### d) Cash flow hedges

The following derivative financial instruments were designated as cash flow hedges:

| Forward exchange contracts carrying amount | 2022 $000 | 2021 $000 |
|---|---|---|
| Derivative financial assets | 316 | 207 |
| Derivative financial liabilities | (18) | (293) |

The Group has forward currency hedging contracts outstanding at 31 March 2022 designated as hedges of expected future purchases in US dollars and Japanese yen 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 24 months of the balance sheet date at average prices of 1.14 for US dollar contracts (2021: 1.23), not applicable for Chinese renminbi contracts (2021: 6.56) and 152.8 for Japanese yen contracts (2021: not applicable). At the year end the Group held $11.2 million (2021: $13.2 million), RMB nil (2021: RMB 42.0 million) and JPY 60.8 million (2021: JPY 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 the year were assessed to be highly effective and as at 31 March 2022, a net unrealised profit of $686,000 (2021: $1.3 million loss) with related deferred tax credit of $nil (2021: $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 were $nil (2021: $nil).

### 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 2022 | Note | US dollar $000 | Sterling $000 | Euro $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| Long-term assets | 13 | **5,105** | **—** | **—** | **—** | **5,105** |
| Cash and cash equivalents | 14 | **32,910** | **7,447** | **2,388** | **7,434** | **50,179** |
| Trade receivables | 13 | **87,431** | **12,281** | **11,014** | **4,591** | **115,317** |
| Derivative financial assets | | **—** | **316** | **—** | **—** | **316** |
| Bank overdrafts | 14 | **(295)** | **(14,464)** | **(5,621)** | **—** | **(20,380)** |
| Loan arrangement fees | 15 | **—** | **360** | **—** | **—** | **360** |
| Trade payables | 19 | **(105,299)** | **(16,638)** | **(14,320)** | **(2,645)** | **(138,902)** |
| Other payables | 19 | **(2,418)** | **(1,130)** | **(623)** | **(245)** | **(4,416)** |
| **Balance sheet exposure** | | **17,434** | **(11,828)** | **(7,162)** | **9,135** | **7,579** |

| 31 March 2021 | Note | US dollar $000 | Sterling $000 | Euro $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| Long-term assets | 13 | 5,721 | — | — | — | 5,721 |
| Cash and cash equivalents | 14 | 101,602 | 10,227 | 4,556 | 16,375 | 132,760 |
| Trade receivables | 13 | 95,336 | 9,947 | 6,233 | 4,342 | 115,858 |
| Derivative financial assets | | — | 206 | — | 1 | 207 |
| Bank overdrafts | 14 | (41,582) | (11,594) | (3,857) | — | (57,033) |
| Loan arrangement fees | 15 | — | 723 | — | — | 723 |
| Trade payables | 19 | (83,908) | (11,769) | (7,898) | (4,013) | (107,588) |
| Other payables | 19 | (11,650) | (703) | (611) | (211) | (13,175) |
| Balance sheet exposure | | 65,519 | (2,963) | (1,577) | 16,494 | 77,473 |

The following significant exchange rates applied to US dollar during the year:

| | Average rate | | 31 March spot rate | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Euro | **0.86** | 0.85 | **0.90** | 0.85 |
| Pound sterling | **0.73** | 0.76 | **0.76** | 0.73 |

## Sensitivity analysis

A 10% weakening of the following currencies against US dollar at 31 March 2022 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 2021.

| | Equity | | Loss | |
|---|---|---|---|---|
| | **2022 $000** | 2021 $000 | **2022 $000** | 2021 $000 |
| Euro | **(651)** | (143) | **(551)** | (14) |
| Pound sterling | **(1,075)** | (269) | **(3)** | — |

On the basis of the same assumptions, a 10% strengthening of the above currencies against US dollar at 31 March 2022 would have affected equity and profit or loss by the following amounts:

| | Equity | | Profit | |
|---|---|---|---|---|
| | **2022 $000** | 2021 $000 | **2022 $000** | 2021 $000 |
| Euro | **796** | 175 | **674** | 17 |
| Pound sterling | **1,314** | 329 | **3** | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 24 Financial instruments continued
### Derivative financial assets continued
### e) Market risk continued
#### Profile
At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

| Variable rate instruments | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| Financial assets | | 50,179 | 132,760 |
| Financial liabilities | | (20,380) | (57,033) |
| **Net cash** | 14 | **29,799** | 75,727 |

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 2021.

#### Sensitivity analysis

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Equity** | | |
| Increase | 149 | 379 |
| Decrease | — | — |
| **Profit or loss** | | |
| Increase | 149 | 379 |
| Decrease | — | — |

### f) Capital management
The Board's policy is to hold a strong capital base so as to maintain investor, creditor, customer 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 the Group's principal bank have amended covenants relating to earnings and liquidity cover and previous 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 | 2022 $000 | 2021 $000 |
| Net equity attributable to owners of the Parent Company | | 361,711 | 383,522 |
| Net cash | 14 | (30,159) | (76,450) |
| **Trading capital** | | **331,552** | 307,072 |

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, Chief Executive Officer and Interim Executive Chair, 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 before lease liabilities to Adjusted EBITDA reduced for lease payments.

## 25 Capital commitments

At 31 March 2022, the Group had outstanding authorised capital commitments to purchase plant and equipment for $1.5 million (2021: $2.7 million).

## 26 Related parties

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **Sale of goods:** | | |
| Hedlunds Pappers Industri AB | 566 | 278 |
| Festive Productions Ltd | — | 14 |
| SA Greetings (Pty) Ltd | 93 | 45 |
| | 659 | 337 |
| **Receivables:** | | |
| Hedlunds Pappers Industri AB | 23 | 7 |
| | 23 | 7 |

### Identity of related parties and trading

Hedlund Import AB is 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, who are a major shareholder in the Company. Festive Productions Ltd is a subsidiary undertaking of Malios Holding AG, a company under the ultimate control of the Hedlund family.

John Charlton is the Chairman of SA Greetings (Pty) Ltd (South African Greetings).

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 24% (2021: 24%) of the voting shares of the Company. The shareholdings of Directors and changes during the year are shown in the Directors' report on page 74.

### Directors' remuneration

| | 2022 $000 | 2021 $000 |
|---|---|---|
| Short-term employee benefits | 2,496 | 1,874 |
| Termination benefits | 890 | — |
| Share-based payments (credit)/charge | (1,256) | 2,266 |
| | 2,130 | 4,140 |

See the Directors' remuneration report on pages 56 to 73 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.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Non-controlling interest – balance sheet as at 31 March | Australia $000 | APP $000 | Total $000 | Australia $000 | APP $000 | Total $000 |
| Non-current assets | 9,625 | 1,253 | 10,878 | 11,146 | 177 | 11,323 |
| Current assets | 16,497 | 15,639 | 32,136 | 19,525 | 8,328 | 27,853 |
| Current liabilities | (9,082) | (10,706) | (19,788) | (8,757) | (6,462) | (15,219) |
| Non-current liabilities | (4,355) | (894) | (5,249) | (6,066) | — | (6,066) |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Non-controlling interest – comprehensive income for the year ended 31 March | Australia $000 | APP $000 | Total $000 | Australia $000 | APP $000 | Total $000 |
| Revenue | 51,296 | 38,309 | 89,605 | 43,995 | 21,084 | 65,079 |
| Profit after tax | 3,756 | 2,211 | 5,967 | 4,399 | 1,307 | 5,706 |
| Total comprehensive income | 3,568 | 2,211 | 5,779 | 6,564 | 1,307 | 7,871 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 27 Subsidiary with significant non-controlling interest continued

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Non-controlling interest – cash flow for the year ended 31 March | Australia $000 | APP $000 | Total $000 | Australia $000 | APP $000 | Total $000 |
| Cash flows from operating activities | 3,101 | 602 | 3,703 | 7,584 | 1,397 | 8,981 |
| Cash flows from investing activities | (357) | (224) | (581) | (251) | (88) | (339) |
| Cash flows from financing activities | (8,348) | (63) | (8,411) | (2,343) | (125) | (2,468) |
| Net (decrease)/increase in cash and cash equivalents | (5,604) | 315 | (5,289) | 4,990 | 1,184 | 6,174 |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Non-controlling interest | Australia $000 | APP $000 | Total $000 | Australia $000 | APP $000 | Total $000 |
| Balance as at 1 April | 7,924 | 573 | 8,497 | 4,643 | — | 4,643 |
| Share of profits for the year | 1,878 | 1,083 | 2,961 | 2,200 | 34 | 2,234 |
| Other comprehensive expense | — | — | — | (94) | — | (94) |
| Recognition of non-controlling interest | — | — | — | — | 539 | 539 |
| Dividend paid to non-controlling interest | (3,365) | — | (3,365) | — | — | — |
| Currency translation | (94) | — | (94) | 1,175 | — | 1,175 |
| **Balance as at 31 March** | 6,343 | 1,656 | 7,999 | 7,924 | 573 | 8,497 |

## 28 Non-adjusting post balance sheet events

On 28 April 2022, a property owned by the Group in Manhattan, Kansas was sold for net proceeds of $6.7 million. The net book value of the property was $2.2 million, resulting in a profit on disposal of $4.5 million which will be included in next year's results.

On 23 May 2022, the Group purchased the remaining 49% interest in APP, bringing its total ownership to 100%. This was completed pursuant to the exercise of a put option by Maxwell Summers, Inc., the holder of the remaining 49% interest, which the Group is legally obliged to purchase with the exercise of the put option under the APP Limited Liability Company agreement dated 30 March 2017. The transaction was contractually committed on 23 May 2022, with an effective date of 1 April 2022. The transaction, made through the Group's American subsidiary IG Design Group Americas, Inc., is satisfied with an initial cash payment of $1.5 million with the final cash payment subject to finalisation of APP's financial results for the year ended 31 March 2022. The Directors anticipate this payment to be c.$1.6 million. The consideration will be satisfied from the existing Group banking facilities.

On 4 May 2022, the Group received confirmation of insurance proceeds regarding representations and warranties associated with the acquisition of Impact in August 2018. The proceeds, which will be included in next year's results as an Adjusting item, amount to $1.5 million.

There were no other material non-adjusting events which occurred between the end of the reporting period and prior to the authorisation of these financial statements on 27 June 2022.

# COMPANY BALANCE SHEET
## AS AT 31 MARCH 2022

| | Note | 2022 £000 | 2021 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 2 | — | — |
| Tangible assets | 3 | 90 | 68 |
| Investments | 4 | 214,443 | 213,858 |
| Deferred tax | 5 | — | 2,998 |
| **Total non-current assets** | | 214,533 | 216,924 |
| **Current assets** | | | |
| Debtors – due within one year | 6 | 1,372 | 1,095 |
| Debtors – due after more than one year | 7 | 26,864 | 26,924 |
| Cash at bank and in hand | 8 | — | 30,657 |
| **Total current assets** | | 28,236 | 58,676 |
| **Creditors: amounts falling due within one year** | 9 | (14,386) | (42,231) |
| **Net current assets** | | 13,850 | 16,445 |
| **Total assets less current liabilities** | | 228,383 | 233,369 |
| **Provisions for liabilities** | 10 | — | (90) |
| **Net assets** | | 228,383 | 233,279 |
| **Capital and reserves** | | | |
| Called up share capital | 11 | 4,853 | 4,843 |
| Share premium account | | 172,383 | 172,383 |
| Capital redemption reserve | | 1,340 | 1,340 |
| Merger reserve | | 32,399 | 32,399 |
| Hedging reserve | | 227 | 9 |
| Profit and loss account | | 17,181 | 22,305 |
| **Total equity** | | 228,383 | 233,279 |

IG Design Group plc is registered in England and Wales, number 1401155.

The Company made a profit in the year of £2.4 million (2021: £109,000).

The financial statements on pages 135 to 149 were approved by the Board of Directors on 27 June 2022 and were signed on its behalf by:

**Giles Willits**
Director

# COMPANY STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED 31 MARCH 2022

| | 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 2020 | 4,818 | 172,383 | 1,340 | 32,399 | 198 | 27,731 | 238,869 |
| Profit for the year | — | — | — | — | — | 109 | 109 |
| Other comprehensive income | — | — | — | — | (189) | — | (189) |
| **Total comprehensive income** | — | — | — | — | (189) | 109 | (80) |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Equity-settled share-based payments (note 12) | — | — | — | — | — | 1,427 | 1,427 |
| Tax on equity-settled share-based payments (note 5) | — | — | — | — | — | 158 | 158 |
| Share options charge relating to subsidiary employees (note 4) | — | — | — | — | — | 1,359 | 1,359 |
| Options exercised (note 11) | 25 | — | — | — | — | (25) | — |
| Equity dividend paid (note 17) | — | — | — | — | — | (8,454) | (8,454) |
| At 31 March 2021 | 4,843 | 172,383 | 1,340 | 32,399 | 9 | 22,305 | 233,279 |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **2,412** | **2,412** |
| Other comprehensive income | **—** | **—** | **—** | **—** | **218** | **—** | **218** |
| **Total comprehensive income** | **—** | **—** | **—** | **—** | **218** | **2,412** | **2,630** |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Equity-settled share-based payments (note 12) | **—** | **—** | **—** | **—** | **—** | **(143)** | **(143)** |
| Derecognition of deferred tax – share-based payments (note 5) | **—** | **—** | **—** | **—** | **—** | **(912)** | **(912)** |
| Share options charge relating to subsidiary employees (note 4) | **—** | **—** | **—** | **—** | **—** | **319** | **319** |
| Options exercised (note 11) | **10** | **—** | **—** | **—** | **—** | **(10)** | **—** |
| Equity dividend paid (note 17) | **—** | **—** | **—** | **—** | **—** | **(6,790)** | **(6,790)** |
| **At 31 March 2022** | **4,853** | **172,383** | **1,340** | **32,399** | **227** | **17,181** | **228,383** |

Within the profit and loss account is a cumulative credit amount of £4.4 million (2021: £4.0 million) which is unrealised in respect of share options granted to subsidiary employees. See the consolidated statement of changes in equity for descriptions of reserves.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies – Company

### a. 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 Company is applying Sections 11 and 12 of FRS 102 in respect of recognition and measurement of financial instruments. The presentation and functional currency of these financial statements is pound 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 pages 93 to 101. 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.

### b. 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 pound 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).

### c. 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 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.

### d. Investments in subsidiaries

Investments in subsidiaries are carried at cost less any provision for impairment.

### 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 Company's cash management are included as a component of cash and cash equivalents in the cash flow statement.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 1 Accounting policies – Company continued

### f. 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 re-measurement of fair value is recognised immediately in profit or loss, except where it qualifies for hedge accounting.

### g. 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.

### h. 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

### i. 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

### j. 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.

### k. 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.

### l. 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 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 those already vested.

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 the 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.

## m. Own shares held by Employee Benefit Trust

Transactions of the Group-sponsored 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.

## n. 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.

## o. 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.

## p. Employee benefits

### Pensions

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

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 2 Intangible assets

| Software | 2022 £000 | 2021 £000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 April | **86** | 153 |
| Disposal | **—** | (67) |
| **Balance at 31 March** | **86** | 86 |
| **Accumulated amortisation and impairment** | | |
| Balance at 1 April | **(86)** | (86) |
| Amortisation charge for the year | **—** | — |
| **Balance at 31 March** | **(86)** | (86) |
| Net book value at 31 March | **—** | — |

## 3 Tangible assets

| Fixtures and fittings | 2022 £000 | 2021 £000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 April | **247** | 181 |
| Additions | **30** | 66 |
| **Balance at 31 March** | **277** | 247 |
| **Accumulated depreciation and impairment** | | |
| Balance at 1 April | **(179)** | (178) |
| Depreciation charge for the year | **(8)** | (1) |
| **Balance at 31 March** | **(187)** | (179) |
| Net book value at 31 March | **90** | 68 |

## 4 Investments

| | Shares in Group undertakings £000 | Loans to Group undertakings £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2020 | 209,639 | 6,128 | 215,767 |
| Additions – share option charge relating to subsidiary employees | 1,359 | — | 1,359 |
| Effects of movement in foreign exchange | — | (608) | (608) |
| At 31 March 2021 | 210,998 | 5,520 | 216,518 |
| Additions – share option charge relating to subsidiary employees | **319** | **—** | **319** |
| Adjustment relating to historic disposal[(a)] | **(1,211)** | **—** | **(1,211)** |
| Effects of movement in foreign exchange | **—** | **266** | **266** |
| **At 31 March 2022** | **210,106** | **5,786** | **215,892** |
| **Provisions** | | | |
| At 1 April 2020 and 2021 | (2,660) | — | (2,660) |
| Adjustment relating to historic disposal[(a)] | **1,211** | **—** | **1,211** |
| **At 31 March 2022** | **(1,449)** | **—** | **(1,449)** |
| **Net book value** | | | |
| **At 31 March 2022** | **208,657** | **5,786** | **214,443** |
| At 31 March 2021 | 208,338 | 5,520 | 213,858 |

(a) The cost and provision figures have been adjusted to reflect a historic disposal. This has no effect on the net book values.

The Company has the following investments in subsidiaries:

| | Country of incorporation | **Percentage of ordinary shares held 2022** | Percentage of ordinary shares held 2021 |
|---|---|---|---|
| **Trading companies** | | | |
| Anchor International BV<br>Registered office: Voltastraat 12, 3281 NG Numansdorp, The Netherlands | Netherlands | **100[(a)]** | 100[(a)] |
| Anker Play Products, LLC<br>Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA | USA | **51[(a)]** | 51[(a)] |
| Berwick Management LLC<br>Registered office: Bomboy Lane & Ninth Street, Berwick, PA 18603, USA | USA | **100[(a)]** | 100[(a)] |
| Berwick Offray Hong Kong Limited<br>Registered office: 31/F., 148 Electric Road, North Point, Hong Kong | Hong Kong | **100[(a)]** | 100[(a)] |
| Berwick Offray LLC<br>Registered office: 2015 West Front Street, Berwick, Pennsylvania 18603, USA | USA | **100[(a)]** | 100[(a)] |
| BOC Distribution Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100[(a)]** | 100[(a)] |
| C.R. Gibson, LLC<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100[(a)]** | 100[(a)] |
| British Trimmings Limited<br>Registered office: 1 Coronation Point, Coronation Street,<br>South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100[(a)]** | 100[(a)] |
| C.R. Gibson Pacific Rim Limited<br>Registered office: 31/F., 148 Electric Road, North Point, Hong Kong | Hong Kong | **100[(a)]** | 100[(a)] |
| CRG Distribution, Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100[(a)]** | 100[(a)] |
| Greetings Ningbo Business Consulting Limited<br>Registered office: 13-8, Building 003, No 3, 5 and 6 of Century<br>Oriental Business Plaza, Yinzhou, Ningbo, China | China | **100[(a)]** | 100[(a)] |
| CSS Industries, Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100[(a)]** | 100[(a)] |
| CSS Pacific Rim Limited<br>Registered office: 31/F., 148 Electric Road, North Point, Hong Kong | Hong Kong | **100[(a)]** | 100[(a)] |
| IG Design Group Americas, Inc<br>Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA | USA | **100** | 100 |
| IG Design Group Australia Pty Limited<br>Registered office: 121 Rayhur Street, Clayton, South Victoria 3169, Australia | Australia | **50** | 50 |
| IG Design Group BV<br>Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands | Netherlands | **100[(a)]** | 100[(a)] |
| IG Design Group UK Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(b)]** | 100[(b)] |
| IG Design Group S.p.z.o.o<br>Registered office: Jędrzychowice 116A, 59-900 Zgorzelec, Poland | Poland | **100[(a)]** | 100[(a)] |
| India Trimmings Private Limited<br>Registered office: Tamil Nadu, Coimbatore, India | India | **100[(a)]** | 100[(a)] |
| International Greetings Asia Limited<br>Registered office: 20/F, Times Media Centre, No. 133 Wanchai Road, Hong Kong | Hong Kong | **100** | 100 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 4 Investments continued

| | Country of incorporation | Percentage of ordinary shares held 2022 | Percentage of ordinary shares held 2021 |
|---|---|---|---|
| **Trading companies** | | | |
| Impact Innovations, Inc<br>Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA | USA | **100**[(a)] | 100[(a)] |
| Impact Innovations Asia Limited<br>Registered office: Flat 11A, Eldex Industrial Building,<br>21 Ma Tam Wai Road, To Kwa Wan Kowloon, Hong Kong | Hong Kong | **100**[(a)] | 100[(a)] |
| Lion Ribbon Company, LLC<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| McCall Distribution, Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| McCall Pattern Company Limited<br>Registered office: 3rd Floor, Condor House, 5-10 St.<br>Paul's Churchyard, London, EC4M 8AL, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Paper Magic Group, Inc<br>Registered office: 54 Glenmaura National Blvd.,<br>Suite 200, Moosic, Pennsylvania 18507, USA | USA | **100**[(a)] | 100[(a)] |
| Paper Magic Distribution, Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| Paper Magic Group (Hong Kong) Limited<br>Registered office: 31/F., 148 Electric Road, North Point, Hong Kong | Hong Kong | **100**[(a)] | 100[(a)] |
| Simplicity Creative Corp<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| Simplicity Limited<br>Registered office: PO Box 367, Coronation Street,<br>Stockport, Cheshire, SK5 7WZ, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Simplicity Pty Limited<br>Registered office: Derham Houston Lawyers, Suite 12 Level 12,<br>37 Bligh Street, Sydney NSW 2000, Australia | Australia | **100**[(a)] | 100[(a)] |
| The Huizhou Gift International Greetings Company Limited<br>Registered office: Fuda Industrial Zone, Futian Town, Bolao,<br>Huizho City, Guangdong, China | China | **100**[(a)] | 100[(a)] |
| The Lang Companies, Inc<br>Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA | USA | **100**[(a)] | 100[(a)] |
| The McCall Pattern Company Inc<br>Registered office: Corporation Trust Center,<br>1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| Wrights Commercial (Shanghai) Co Limited<br>Registered office: Unit E, 12th Floor, Building 1 N, 107,<br>South Zhongshan Er Road, Xuhui District, Shanghai, China | China | **100**[(a)] | 100[(a)] |

| | Country of incorporation | **Percentage of ordinary shares held 2022** | Percentage of ordinary shares held 2021 |
|---|---|---|---|
| **Non-trading and dormant companies** | | | |
| Anker International plc<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(a)]** | 100[(a)] |
| Belgrave Graphics Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100** | 100 |
| Britesparks Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100** | 100 |
| British Trimmings (1997) Limited<br>Registered office: 1 Coronation Point, Coronation Street,<br>South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100[(a)]** | 100[(a)] |
| British Trimmings (Leek) Limited<br>Registered office: 1 Coronation Point, Coronation Street,<br>South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100[(a)]** | 100[(a)] |
| British Trimmings (Reddish) Limited<br>Registered office: 1 Coronation Point, Coronation Street,<br>South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100[(a)]** | 100[(a)] |
| Concorde Industries Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(a)]** | 99[(a)] |
| Copywrite Designs Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100** | 100 |
| Credit Collection Consultants Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(a)]** | 50[(a)] |
| Dominion Simplicity Patterns Limited<br>5240 Finch Avenue East, Scarborough, Ontario M1S5A2, Canada | Canada | **100[(a)]** | 100[(a)] |
| Hoopack Hoogeveen BV<br>Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands | Netherlands | **100[(a)]** | 100[(a)] |
| Howard Industries Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(a)]** | 100[(a)] |
| IG Design Group (Lang), Inc<br>Registered office: 5555 Glenridge Connector, Suite 300, Atlanta, GA 30342, USA | USA | **100[(a)]** | 100[(a)] |
| IG Design Group Europe BV<br>Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands | Netherlands | **100** | 100 |
| IG Employee Share Trustee Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100[(b)]** | 100[(b)] |
| Impact Paper Products, LLC<br>Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA | USA | **100[(a)]** | 100[(a)] |
| Impact Paper Hong Kong Limited<br>Registered office: Flat 11A, Eldex Industrial Building,<br>21 Ma Tam Wai Road, To Kwa Wan Kowloon, Hong Kong | Hong Kong | **100[(a)]** | 100[(a)] |
| LR Texas Corp<br>Registered office: 350 North St. Paul Street, Suite 2900, Dallas, Texas 75201, USA | USA | **100[(a)]** | 100[(a)] |
| McCall Pattern Service NZ Limited<br>Registered office: Simpson Grierson, 88 Shortland Street,<br>Auckland Central, New Zealand | New Zealand | **100[(a)]** | 100[(a)] |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 4 Investments continued

| | Country of incorporation | Percentage of ordinary shares held 2022 | Percentage of ordinary shares held 2021 |
|---|---|---|---|
| **Non-trading and dormant companies** | | | |
| McCall Pattern Service Pty Limited<br>Registered office: Derham Houston Lawyers, Suite 12 Level 12, 37 Bligh Street, Sydney NSW 2000, Australia | Australia | **100**[(a)] | 100[(a)] |
| Paper Magic de Mexico, SA de CV<br>No registered address | Mexico | **100**[(a)] | 100[(a)] |
| Polaris Plastics Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Philadelphia Industries, Inc<br>Registered office: 1105 North Market Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 100[(a)] |
| School Supplyline Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Scoop Designs Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Simplicity Creative Group Limited<br>Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Tom Smith Christmas Crackers Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Tom Smith Crackers Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100** | 100 |
| Tom Smith Group Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(b)] | 100[(b)] |
| Tom Smith Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100** | 100 |
| Tom Smith Online Limited<br>Registered office: Howard House, Howard Way, Newport Pagnell, MK16 9PX, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Variety Accessories, LLC<br>Registered office: 233 SE 1st Avenue, Clara City, Minnesota 5622, USA | USA | **100**[(a)] | 100[(a)] |
| Weltec BV<br>Registered office: Industrieweg 62, 7903 AK Hoogeveen, The Netherlands | Netherlands | **100**[(a)] | 100[(a)] |
| Wendy A. Cushing Limited<br>Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100**[(a)] | 100[(a)] |
| Wendy Cushing Trimmings Limited<br>Registered office: 1 Coronation Point, Coronation Street, South Reddish, Stockport, Cheshire, SK5 7PL, UK | Great Britain | **100**[(a)] | 100[(a)] |
| W.J.S. Furniture, Inc<br>Registered office: Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, USA | USA | **100**[(a)] | 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.

For the year ended 31 March 2022, the Company was entitled to exemption from audit under Section 479A of the Companies Act relating to qualifying subsidiaries. British Trimmings Limited, McCall Pattern Company Limited and Simplicity Limited have not required the Company to obtain an audit of their accounts for the year in question in accordance with Section 476. The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

## 5 Deferred tax

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Accelerated capital allowances | — | 42 |
| Tax loss carried forward | — | 1,846 |
| Other timing differences | — | 1,110 |
| | — | 2,998 |

Deferred tax is presented net on the balance sheet in so far as a right of offset exists. The net deferred tax asset is £nil (2021: £3.0 million). 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.

During the year, all previously recognised deferred tax assets in the UK were derecognised. The derecognition has occurred as a result of the assessment of future taxable profits (which is as a result of the growing costs in the Company) against which the asset could unwind.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The Government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Given that no deferred tax is recognised in the UK, this does not impact the deferred tax measured at the balance sheet date.

A deferred tax charge of £912,000 (2021: £158,000 credit) has been recognised through the statement of changes in equity in respect of share-based payments. There are no deferred tax balances with respect to cash flow hedges.

## 6 Debtors – due within one year

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Trade receivables | 11 | — |
| Amounts owed by Group undertakings | 715 | 345 |
| Financial assets designated at fair value through hedging reserve | 241 | 150 |
| Loan arrangement fees | 259 | 450 |
| Prepayments and accrued income | 146 | 150 |
| | 1,372 | 1,095 |

## 7 Debtors – due after more than one year

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Amounts owed by Group undertakings[(a)] | 26,849 | 26,849 |
| Loan arrangement fees | 15 | 75 |
| | 26,864 | 26,924 |

(a) The intercompany loan is with IG Design Group UK Limited and it attracts interest at market rate and is repayable on 31 July 2023.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 8 Cash at bank and in hand

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Cash at bank and in hand | — | 30,657 |
| Bank overdrafts | (11,166) | (38,625) |
| **Net bank overdrafts** | **(11,166)** | (7,968) |

## 9 Creditors: amounts falling due within one year

| | Note | 2022 £000 | 2021 £000 |
|---|---|---|---|
| Bank loans and overdrafts | 8 | 11,166 | 38,625 |
| Trade creditors | | 395 | 268 |
| Amounts owed to Group undertakings | | 628 | 946 |
| Other taxation and social security | | 165 | 105 |
| Accruals and deferred income | | 2,032 | 2,287 |
| | | 14,386 | 42,231 |

Refer to note 15 of the Group's financial statements for more details of the terms of the bank borrowings.

## 10 Provisions for liabilities

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Balance at 1 April | 90 | 58 |
| Provisions made in the year | — | 32 |
| Provisions released in the year | (42) | — |
| Provisions used during the year | (48) | — |
| Unwinding of discounted amount | — | — |
| **Balance at 31 March** | **—** | 90 |

The provision relates to dilapidations of a property lease that expired in August 2021.

## 11 Called up share capital

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 97,061,240 (2021: 96,857,638) ordinary shares of 5p each | 4,853 | 4,843 |

Of the 97.1 million (2021: 96.9 million) shares in the Company, 31,000 (2021: 31,000) are held by the Employee Benefit Trust.

Refer to note 20 of the Group's financial statements for details of movements in share capital.

## 12 Share-based payments
Refer to note 23 of the Group's financial statements for details of share-based payments.

## 13 Financial instruments

### (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Assets measured at fair value through the hedging reserve | 241 | 150 |
| Assets measured at amortised cost | 27,575 | 57,851 |
| Liabilities measured at fair value through the hedging reserve | (14) | (141) |
| Liabilities measured at amortised cost | (12,189) | (39,839) |
| | 15,613 | 18,021 |

### (b) Financial instruments measured at fair value

#### 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.

### (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.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | 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 | 241 | 7,927 | 7,927 | 150 | 5,352 | 5,352 |
| Liabilities | (14) | 783 | 783 | (141) | 4,199 | 4,199 |
| | 227 | 8,710 | 8,710 | 9 | 9,551 | 9,551 |

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 2022 was £227,000 (2021: £9,000) recognised in other comprehensive income.

The amount recognised in the profit and loss account for the year was £nil (2021: £nil).

### (d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

| | Fair value 2022 £000 | Fair value 2021 £000 |
|---|---|---|
| Forward exchange contracts: | | |
| Assets | 241 | 150 |
| Liabilities | (14) | (141) |
| | 227 | 9 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 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, Citigroup, Truist (formerly Sun Trust) and PNC of itself and its subsidiaries. At 31 March 2022, the Company had cash of £nil (2021: £30.7 million); there were net borrowings elsewhere in the Group of £15.5 million (2021: £41.4 million). Therefore, the total of this guarantee at the year end, in relation to the Company only, was £15.5 million (2021: £41.4 million).

The Company has given HSBC Bank (China) Company Ltd a guarantee of RMB 15.4 million (£1.7 million) (2021: RMB 15.4 million) and $3.8 million (£2.9 million) (2021: $3.8 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 (£1.0 million) (2021: €1.2 million), the USA $5.9 million (£4.5 million) (2021: $5.9 million) and in Hong Kong $18.5 million (£14.1 million) (2021: $18.5 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;
- Impact Innovations Asia Limited;
- CSS Industries, Inc;
- Simplicity Limited;
- Simplicity Pty Limited;
- India Trimmings Private Limited;
- 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

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Short-term employee benefits | **1,832** | 1,425 |
| Termination benefits | **653** | — |
| Share-based (credit)/charge | **(920)** | 1,722 |
| | **1,565** | 3,147 |

### Related party transactions – transactions with Group undertakings

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Management recharges | **2,181** | 1,652 |
| Receivables outstanding (notes 6 and 7) | **27,564** | 27,194 |
| Creditors outstanding (note 9) | **(628)** | (946) |

## 16 Accounting estimates and judgements

Management does not consider that there are any significant accounting estimates or judgements other than:

### (i) 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 that they are recoverable based on profit projections for future years. Management make a judgement in respect of the length of future cash flows against which to assess the future taxable profits and this aligns to other assessments that use similar forecasts including impairment. Income tax liabilities for anticipated issues have been recognised based on estimates of whether additional tax will be due.

### (ii) Investments

The Company evaluated whether there were any potential impairment or impairment reversal indicators present at 31 March 2022 and concluded that is not the case. The recoverable amounts of the investments are determined based on the higher of net realisable value and value in use calculations, which requires the use of estimates. The key estimates that can impact the value in use calculations are changes in the growth rates applied to derive a five-year forecast, or a movement in the discount rate applied to the future cash flows. These are key estimates as they are subjective in nature and a significant assumption is required and any changes to assumptions may lead to impairment changes being recognised. At 31 March 2022, investments in subsidiaries have a carrying value of £214.4 million (2021: £213.9 million).

## 17 Dividends paid and proposed

A final dividend for year ending 31 March 2021 was paid on 14 October 2021. An interim dividend was paid on 16 January 2022. The Directors are not recommending the payment of a final dividend in respect of the year ended 31 March 2022 (2021: 5.75p).

| | **2022** | | 2021 | |
|---|---|---|---|---|
| Dividends paid in the year | **Pence per share** | **£000** | Pence per share | £000 |
| Final equity dividend for prior year | **5.75** | **5,577** | 5.75 | 5,551 |
| Interim equity dividend for current year | **1.25** | **1,213** | 3.00 | 2,903 |
| **Dividends paid in the year** | | **6,790** | | 8,454 |

| | **2022** | | 2021 | |
|---|---|---|---|---|
| Proposed for approval at Annual General Meeting | **Pence per share** | **£000** | Pence per share | £000 |
| Final equity dividend for current year | **—** | **—** | 5.75 | 5,569 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
YEAR ENDED 31 MARCH 2022

## 18 Staff numbers and costs

The average monthly number of persons employed by the Company (including Directors) during the year was 18 (2021: 17), all relating to management and administration.

The aggregate payroll costs of these persons were as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Wages and salaries | 3,036 | 1,881 |
| Share-based payments | (911) | 1,769 |
| Social security costs | 299 | 240 |
| Other pension costs | 96 | 89 |
| | 2,520 | 3,979 |

For information on Directors' remuneration please refer to the section titled 'Directors' remuneration' within the Directors' remuneration report (pages 65 to 73), which forms part of these audited financial statements.

## 19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Less than one year | 2 | 25 |
| Between one and five years | — | 3 |
| | 2 | 28 |
| Operating lease expense in the income statement | 15 | 57 |

# ADVISERS

## Registered office

Howard House
Howard Way
Interchange Park
Newport Pagnell
MK16 9PX

IG Design Group plc is registered in England and Wales, number 1401155

Visit us online at
**thedesigngroup.com**

## Financial and nominated adviser and broker

**Canaccord Genuity Limited**
88 Wood Street
London EC2V 7QR

## Independent auditors

**PricewaterhouseCoopers LLP**
40 Clarendon Road
Watford
Hertfordshire WD17 1JJ

## Public relations

**Alma PR**
71-73 Carter Lane
London EC4V 5EQ

## Share registrar

**Link Group**
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

By phone:
UK – 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

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**IG Design Group plc**
Howard House
Howard Way
Interchange Park
Newport Pagnell MK16 9PX
T +44 (0)1525 887 310

**thedesigngroup.com**