Accrol Papers Limited

Annual report and financial statements

for the year ended 30 April 2019

Registered Number: 03639930

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for the year ended 30 April 2019
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Directors
Gareth Jenkins
Mark Dewhurst

Registered Office
Delta Building, Roman Road, Blackburn, BB1 2LD

Company Number
03639930

Auditors
BDO LLP, 3 Hardman Street, Manchester, M3 3AT

Accrol Papers Limited
Strategic Report for the year ended 30 April 2019

The Directors present their Strategic Report on the Company for the year ended 30 April 2019.

Principal activities

The principal activity of the Company during the year was that of soft tissue paper convertors, supplying private label toilet roll, kitchen towel and facial tissues to major discounters and major grocery retailers.

Business review, including Key performance indicators ("KPIs")

We have delivered a complex and comprehensive turnaround plan, simplifying and strengthening the business to improve efficiency and optimise operational performance. Following the conclusion of this restructuring, we believe the business is more operationally efficient and fit for purpose than it has ever been and we now have a solid base on which to create sustainable growth.

Most importantly, throughout this difficult and distracting period, we managed to maintain and develop the Company's strong position with all the major discounter retailers, whilst also attracting new relationships with some major grocery retailers.

Current year revenue was £119.1m, compared to £139.7m in the prior year, as we strategically exited the Away from Home market and other low margin contracts. On a like for like basis, however, consumer revenue, at £116.7m, was broadly unchanged on the prior year of £115.3m. All other key earnings figures showed material improvement on the prior year. Operating loss was reduced by £10.2m to a loss of £10.6m (FY18: loss of £20.8m) and the Company returned to profit at Adjusted EBITDA* level of £1.1m (FY18: loss of £5.8m). Loss Before Tax decreased by £10.0m to £11.1m (FY18: loss of £21.1m). These significant improvements were achieved despite adverse headwinds in tissue prices and FX negatively impacting FY19 results by £10.8m.

During this year of phenomenal remedial activity, in which no area was left untouched, we incurred £7.9m of turnaround and operational costs. These related to waste, wages, consultancy and legal costs (see note 6). This level of spend was necessary to effect change in all areas in a concentrated period, whilst protecting customer service and cash. Despite the significant level of expenditure on turnaround costs and investment in increased capacity, through a keen focus on working capital management, controlled investment and restored cash profitability we were able to reduce Company net debt at 30 April 2019 by £4.0m to £15.1m (FY18: £19.1m).

Principal risks and uncertainties

Key areas include parent reel pricing and pulp capacity/pricing, which is managed by remaining close to market dynamics, nurturing relationships with key suppliers, whilst also remaining open to broadening the supply base.

Volatility of foreign exchange rates could also impact given most parent reel purchases are made in USD. This is managed through the close monitoring of short-term purchasing forecasts, adherence to our foreign exchange policy and being aware of opportunities to source in multiple currencies.

The loss of a major customer and/or being too dependent on a small number of high value customers could seriously impact the sales revenue and hence profitability of the business. We manage this through nurturing relationships with key customers, understanding their business in order to identify further opportunities, ensuring customer service levels are high and that we respond rapidly to any shortcomings.

Failure to adhere to regulatory requirements such as Health and Safety and fire safety regulations. A major fire would lead to production loss and even factory loss. Due to the inflammable nature of tissue and the dust created during the converting process, the Company is at a greater risk of fire than many other industries. Non-compliance to Health and Safety regulations could result in fines, litigation and reputational damage. To manage this, the Board has oversight over the management of regulatory risk and compliance and designates specific responsibilities to senior management who will seek external advice where relevant. We ensure that the Company has robust operational policies, procedures, risk assessments and contingencies around fire safety regulations. We update and test the Disaster Recovery Plan annually and work with our insurers to understand physical or procedural mitigation strategies to reduce the likelihood or scope of an incident.

*Adjusted EBITDA, defined as profit before finance costs, tax, depreciation, amortisation, turnaround and operational costs and share-based payment, is a non-GAAP metric used by management and is not an IFRS disclosure.

Principal risks and uncertainties (continued)

The Company continues to monitor the potential impact of Brexit. Operational risk is limited as most purchases are made from outside Europe, however, there is a small risk arising from administrative complexity at the docks. The Company is reassured that the principal docks have sufficient capacity to handle any issues.

Going concern

The going concern status of the Company is intrinsically linked to the success of the Accrol Group Holdings plc group ('The Group'), which as disclosed in its Annual Report and Accounts for the year ended 30 April 2019, is dependent upon certain key assumptions being achieved.

The Group has now completed the turnaround plan, at a cost of c£8m this year. £9.3m was received from shareholders in June 2018, bank covenants have been reset whilst scheduled bank loan repayments of £3m were also made. Net debt was reduced by £6.7m in the year, closing at £27.1m. Subsequently, the Group published an encouraging set of interim results for the period to 31 October 2019 which showed, against the comparative period last year, c20% growth in consumer revenue, improvement in gross margins from c12% to c20% and reduction in net debt to £24.8m.

As in previous years, The Group's performance is dependent on a number of market and macroeconomic factors particularly the sensitivity to the price of parent reels and the sterling/USD exchange rate which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months including the delivery of operational savings, maintenance of newly agreed parent reel prices and successful management of any foreign exchange downside through price increases or further cost reductions. Downside sensitivity analysis was performed on the assumptions around parent reel prices and foreign exchange rate movements.

The Directors confirm that, after due consideration, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements of the Company.

On behalf of the board

Gareth Jenkins
Director
27 January 2020

Accrol Papers Limited
Directors' report for the year ended 30 April 2019

The Directors present their Directors' report and the audited financial statements of the Company for the year ended 30 April 2019.

Directors
The Directors who held office during the year and up to the date of this report were as follows:
Gareth Jenkins
Angus Leitch (resigned 10 July 2018)
Steven Townsley (appointed 11 June 2018, resigned 22 January 2019)
Mark Dewhurst (appointed 22 January 2019)

Directors' indemnities
The Company maintained throughout the year, and at the date of approval of the financial statements, liability insurance for its Directors and officers. This is a qualifying provision for the purposes of the Companies Act 2006.

Future developments
An indication of the likely future developments of the business is included in the Strategic Report on page 1.

Risk management
Information about the Company's financial risk management is disclosed in note 19.

Going concern
The going concern status of the Company is intrinsically linked to the success of the Accrol Group Holdings plc group ('The Group'). The Directors confirm that, after due consideration, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements of the Company.

Charitable and political donations
Charitable donations of £10,419 (2018: £17,681) were made during the year. There were no political donations during the financial year (2018: £nil).

Dividends
An interim dividend of £nil (2018: £nil) was paid during the year. The Directors do not recommend the payment of a final dividend.

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation
The Company maintains a policy of regular consultation and discussion with its employees on a wide range of issues that are likely to affect their interests and ensure that all employees are aware of the financial and economic performance of their business units and of the Company as a whole.

Statement of disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the report is approved under section 418 of the Companies Act 2006 the following applies:

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

Independent auditors

The auditors, BDO LLP, were appointed in the year. They have indicated their willingness to continue in office and a resolution concerning their reappointment was passed at the Annual General Meeting on 22 October 2019.

On behalf of the board

Gareth Jenkins
Director
27 January 2020

Accrol Papers Limited
Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Directors' confirmations
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 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 company's auditors are aware of that information.

Accrol Papers Limited
Independent auditor's report to the members of Accrol Papers Limited

Opinion

We have audited the financial statements of Accrol Papers Limited ("the Company") for the year ended 30 April 2019 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Accrol Papers Limited
Independent auditor's report to the members of Accrol Papers Limited (continued)

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

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

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP.

29.01.2020.

Stuart Wood (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Accrol Papers Limited
Income Statement for the year ended 30 April 2019

	Note	2019 £'000	2018 £'000
Revenue	4	**119,111**	139,738
Cost of sales		**(101,559)**	(115,232)
Gross profit		**17,552**	24,506
Administrative expenses		**(17,043)**	(30,597)
Distribution costs		**(11,066)**	(14,685)
Operating loss	5	**(10,557)**	(20,776)
Analysed as:			
- Adjusted EBITDA (1)		**1,135**	(5,840)
- Depreciation	11	**(2,470)**	(2,555)
- Share based payment		**(1,316)**	-
- Turnaround and Operational costs	6	**(7,906)**	(12,381)
Operating loss	5	**(10,557)**	(20,776)
Finance costs	9	**(564)**	(318)
Loss before taxation		**(11,121)**	(21,094)
Taxation	10	**1,761**	3,702
Loss for the financial year		**(9,360)**	(17,392)

All of the results of the Company relate entirely to continuing activities.

(1): Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, turnaround and operational costs and share-based payment, is a non-GAAP metric used by management and is not an IFRS disclosure.

Accrol Papers Limited
Statement of Other Comprehensive Income for the year ended 30 April 2019

	2019 £'000	2018 £'000
Loss for the year	**(9,360)**	(17,392)
Other comprehensive income/(expense) for the year		
Revaluation of derivative financial instruments [1]	50	2,868
Tax relating to components of other comprehensive income	(9)	(545)
Total comprehensive loss for the year	**(9,319)**	(15,069)

[1] Items that could potentially be reclassified subsequently to the income statement.

Accrol Papers Limited
Statement of Financial Position as at 30 April 2019

	Note	2019	2018
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	29,220	24,623
Deferred tax assets	10	1,695	-
Total non-current assets		30,915	24,623
Current assets			
Inventories	12	11,162	14,057
Trade and other receivables	13	23,045	29,864
Current tax assets		191	2,198
Derivative financial instruments	18	50	-
Cash and cash equivalents	14	2,166	134
Total current assets		36,614	46,253
Total assets		67,529	70,876
Current liabilities			
Borrowings	17	(15,073)	(18,900)
Trade and other payables	15	(42,080)	(34,131)
Derivative financial instruments	18	-	(668)
Provisions	16	(571)	(492)
Total current liabilities		(57,724)	(54,191)
Total assets less current liabilities		9,805	16,685
Non-current liabilities			
Borrowings	17	(2,236)	(304)
Provisions	16	(2,140)	(2,672)
Deferred tax liabilities	10	-	(115)
Total non-current liabilities		(4,376)	(3,091)
Total liabilities		(62,100)	(57,282)
Net assets		5,429	13,594
Capital and reserves			
Share capital	20	10	10
Hedging reserve		41	-
Retained earnings		5,378	13,584
Total shareholders' funds		5,429	13,594

The financial statements were approved by the Board of Directors on 27 January 2020 and were signed on its behalf by:

Gareth Jenkins
Director
Registered Number: 03639930

Accrol Papers Limited

Statement of Changes in Equity for the year ended 30 April 2019

	Called up share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total shareholders' funds £'000
Balance at 1 May 2017	**10**	**(2,323)**	**30,976**	**28,663**
Comprehensive income/(expense)				
Loss for the financial year	-	-	(17,392)	(17,392)
Revaluation of derivative financial instruments	-	2,868	-	2,868
Tax relating to components of other comprehensive income	-	(545)	-	(545)
Total comprehensive loss for the year	-	**2,323**	**(17,392)**	**(15,069)**
Balance at 30 April 2018	**10**	**-**	**13,584**	**13,594**
Comprehensive income/(expense)				
Loss for the financial year	-	-	(9,360)	(9,360)
Revaluation of derivative financial instruments	-	50	-	50
Tax relating to components of other comprehensive income	-	(9)	-	(9)
Total comprehensive loss for the year	-	**41**	**(9,360)**	**(9,319)**
Transactions with owners recognised directly in equity				
Share based payment (incl. tax)	-	-	1,154	1,154
Total transactions with owners	**-**	**-**	**1,154**	**1,154**
Balance as at 30 April 2019	**10**	**41**	**5,378**	**5,429**

Accrol Papers Limited

Notes to the financial statements for the year ended 30 April 2019

1 General information

Accrol Papers Limited (the "Company") is a private company limited by shares, incorporated and domiciled in the United Kingdom in England. The company number is 03639930. The registered address of the Company is the Delta Building, Roman Road, Blackburn, United Kingdom, BB1 2LD.

2 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101) and the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by financial liabilities (including derivative instruments) at fair value through the income statement.

The company has adopted IFRS 15 and IFRS 9 in the current year. Further information regarding the application of these standards is provided below.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101.

- Paragraph 38 of IAS 1, 'Presentation of Financial Statements' comparative information requirements in respect of:
    - Paragraph 73 (e) of IAS 16 Property, plant and equipment
    - The following paragraphs of IAS 1 'Presentation of financial statements':
    - 10 (d) (statement of cash flows)
    - 10 (f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements,
    - 6 (statement of compliance with all IFRS)
    - 38A (requirement for minimum of two primary statements, including cash flow statements)
    - 38 B-D (additional comparative information)
    - 40A-D (requirements for a third statement of financial position)
    - 111 (cash flow statement information), and
- IAS 7, 'statement of cash flows'
- Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation)
- The requirement of IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (impact of standards not yet effective)

2 Accounting policies (continued)

Assessment of new standards – current year
The impact of standards that are effective for this financial year, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' is as described below.

IFRS 9 'Financial Instruments'
This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) and addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. It impacted the Company as follows:

The Company applied the expected credit loss model when calculating impairment losses on its financial assets measured at amortised costs (such as trade and other receivables), resulting in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the Company considered the probability of a default occurring over the contractual life of its trade receivables on initial recognition of those assets.

Under the existing incurred loss model, the historical loss rate has been c0.1% of revenue over the past four years. Under the new model, applied to all trade and other receivables at 30 April 2019, these provision amounts remain broadly unchanged. The Company has applied the simplified model to recognise expected lifetime losses on its trade receivables and have applied a hold to collect business model.

In the prior year, the Company did not designate any hedging relationships as qualifying hedge relationships under IAS 39. In the current year, the Company has adopted the hedge accounting provisions in IFRS 9 to enable it to apply hedge accounting to foreign exchange forward contracts. This adoption has been applied prospectively from 1 May 2018.

IFRS 15 'Revenue from Contracts with Customers'
This standard establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cashflows from a contract with a customer. In particular, it requires the entity to identify distinct performance obligations within a contract with a customer and attribute values accordingly.

In transitioning to IFRS 15, the Company has applied the modified retrospective method, in which any differences at the date of adoption between IAS 18 (the previous accounting standard) and IFRS 15 are posted through retained earnings at the date of transition (30 April 2018) and prior year comparatives are not restated.

Under the previous accounting standard revenue was recognised when the risks and rewards of ownership were transferred, determined as when the product was delivered to the customer. Under the new accounting standard, the revenue is recognised when control passes, again determined as the point in time when the product is delivered. Therefore, the impact of the change in standard on the timing of revenue recognition is insignificant.

The Company also considered variable consideration (customer rebates) when determining the transaction price. These are generally fixed percentages of gross revenue and are recognised at the same time as the revenue relating to the delivery of the product. These items are usually settled shortly after the product has been delivered. The treatment of customer rebates is consistent between IAS 18 and IFRS 15, therefore the impact of the change in standard on the value of revenue recognised is insignificant.

2 Accounting policies (continued)

Going concern

The going concern status of the Company is intrinsically linked to the success of the Accrol Group Holdings plc group ('The Group'), which as disclosed in its Annual Report and Accounts for the year ended 30 April 2019, is dependent upon certain key assumptions being achieved.

The Group has now completed the turnaround plan, at a cost of c£8m this year. £9.3m was received from shareholders in June 2018, bank covenants have been reset whilst scheduled bank loan repayments of £3m were also made. Net debt was reduced by £6.7m in the year, closing at £27.1m. Subsequently, the Group published an encouraging set of interim results for the period to 31 October 2019 which showed, against the comparative period last year, c20% growth in consumer revenue, improvement in gross margins from c12% to c20% and reduction in net debt to £24.8m.

As in previous years, The Group's performance is dependent on a number of market and macroeconomic factors particularly the sensitivity to the price of parent reels and the sterling/USD exchange rate which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months including the delivery of operational savings, maintenance of newly agreed parent reel prices and successful management of any foreign exchange downside through price increases or further cost reductions. Downside sensitivity analysis was performed on the assumptions around parent reel prices and foreign exchange rate movements.

The Directors confirm that, after due consideration, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements of the Company.

Revenue

Performance obligations and timing of revenue recognition

The Company's revenue is recognised at a point in time when control of the goods has transferred to the customer. This is when the goods are delivered to the customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Company no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

Determining the transaction price

The transaction price equates to the invoice amount less an estimate of any applicable rebates and promotional allowances that are due to the customer. Rebate accruals are recognised under the terms of these agreements, to reflect the expected promotional activity and our historical experience. These accruals are reported within trade and other payables.

Allocating amounts to performance obligations

The Company has identified one performance obligation (delivery of product to the customer), therefore the entire transaction price is allocated to the identified performance obligation.

Cost of sales

Cost of sales comprise costs arising in connection with the conversion of paper products. Cost is based on the cost of a purchase on a first in first out basis and includes all direct costs and an appropriate portion of fixed and variable overheads where they are directly attributable to bringing the inventories into their present location and condition.

2 Accounting policies (continued)

Turnaround and Operational costs

Items that are material in size or unusual or infrequent in nature are included within operating profit and disclosed separately as turnaround and operational costs in the income statement.

The separate reporting of these items, which are presented within the relevant category in the income statement, helps provide an indication of the Company's underlying business performance.

EBITDA and Adjusted EBITDA

Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) and Adjusted EBITDA are non-GAAP measures used by management to assess the operating performance of the Company. EBITDA is defined as profit before finance costs, tax, depreciation and amortisation. Depreciation is the write down of fixed assets and amortisation of the write down of intangibles. Turnaround and operational costs, including gains / (losses) on derivative financial instruments and share based payment are excluded from EBITDA to calculate Adjusted EBITDA.

The Directors primarily use the Adjusted EBITDA measure when making decisions about the Company's activities. As these are non-GAAP measures, EBITDA and Adjusted EBITDA measures used by other entities may not be calculated in the same way and hence are not directly comparable.

Foreign currency

Functional and presentation currency

Items included in the financial information are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial information is presented in Sterling, which is the functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost of the assets on a straight-line or reducing balance basis over the estimated useful lives on the following bases:

• Land and Buildings	straight line over term of lease
• Plant and Machinery	10% straight line, 40% residual value
• Motor vehicles	30% straight line
• Fixtures, fittings and office equipment	25% reducing balance

Assets under construction are not depreciated, but transferred into the appropriate asset class when they are ready for use. The estimated useful lives are reviewed at the end of each reporting period and adjusted if appropriate. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Impairment charges to reduce assets to their recoverable amount are recognised in the income statement.

Notes to the financial statements for the year ended 30 April 2019

2 Accounting policies (continued)

Financial instruments

Financial assets
The Company classifies its financial assets as either amortised cost, fair value through comprehensive income or fair value through profit or loss depending on the purpose for which the asset was acquired. The Company does not currently have any assets categorised as fair value through profit or loss.

Amortised cost
These assets arise principally from the provision of goods to customers (trade receivables). They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 to determine lifetime expected credit losses. Expected credit losses are recognised within administration expenses in the consolidated statement of comprehensive income. The Company has applied a hold to collect business model.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12 month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents comprise cash at bank, short-term deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are disclosed separately within borrowings within current liabilities.

Financial liabilities
The Company classifies its financial liabilities as either fair value through profit or loss or other financial liabilities depending on the purpose for which the liability was acquired. The Company does not currently have any liabilities categorised as fair value through profit or loss.

Other financial liabilities
Bank borrowings (including amounts owed to factors) are initially recognised at fair value net of transaction costs where applicable. They are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest rate method over the life of the loan.

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

2 Accounting policies (continued)

Hedge accounting
Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge;
- The hedge relationship meets all of the hedge effectiveness requirements including that an economic relationship exists between the hedged item and the hedging instrument, the credit risk effect does not dominate the value changes, and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

Cashflow hedges
The effective part of forward contracts designated as a hedge of the variability in cashflows of foreign currency risk are measured at fair value with changes in fair value recognised in other comprehensive

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis and includes all direct costs and an appropriate proportion of fixed and variable overheads. Net realisable value is the estimated selling price reduced by all costs of completion, marketing, selling and distribution.

Current taxation
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

Deferred taxation
Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

2 Accounting policies (continued)

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as the related expenditure is incurred.

Leases

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment, and are depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly in the income statement on an effective interest rate basis.

Material lease arrangements do not include any contingent rental conditions, options to purchase or escalation clauses. There are no restrictions imposed by these lease arrangements.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

3 Significant accounting judgements, estimates and assumptions

The preparation of the financial information in accordance with FRS 101 requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the year. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by the Company's management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The estimates and assumptions for which there is a significant risk of a material adjustment to the financial information within the next financial year are set out below.

3 Significant accounting judgements, estimates and assumptions (continued)

Turnaround and Operational costs

During the course of the year the Company incurred expenditure that is not linked directly to the normal trading of the business. This is particularly the case when undergoing significant structural change as has been the case in recent years. In order to better explain the underlying performance of the business, management makes a judgement as to which costs should be disclosed separately as turnaround and operational costs.

Significant costs within this category and associated judgements were as follows:

- Waste – the Company used judgement in determining the appropriate benchmark from which to measure incremental waste;
- Management/operational restructure – judgement was required to identify the appropriate level of dual resource ascribed to the turnaround project;
- Skelmersdale – judgement was required to identify the appropriate baseline from which to measure the incremental costs of running the site and operation.

Customer rebates

The Company provides for amounts payable to customers in relation to rebates and promotional activity. Whilst the Directors do not consider the Company's rebates to be highly complex as they are predominantly volume related, there is judgement required in calculating amounts due, as terms vary by customer.

Deferred taxation

The Company has recognised deferred tax assets in respect of losses incurred in the current and prior year. This requires the estimation of future profitability in determining the recoverability of these assets. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months including the delivery of operational savings, maintenance of newly agreed parent reel prices, the successful management of any foreign exchange downside through price increases or further cost reductions and the maintenance of the current strong customer relations. As described above, the Company's trading performance remains sensitive to a number of key variables which could have a significant effect (positive or negative) on its cashflows.

4 Revenue

The analysis by geographical area of destination of the Company's revenue is set out below:

	2019	2018
	£'000	£'000
United Kingdom	**113,736**	133,132
Europe	**5,375**	6,606
Total	**119,111**	139,738

In 2019 there were five major customers that individually accounted for c.10% and above of total revenues (2018: four customers). The revenues relating to these customers in 2019 were £24,491,000, £21,444,000, £16,524,000, 14,085,000 and £13,850,000 (2018: £22,200,000, £28,606,000, £13,885,000, £11,809,000 and £13,706,000).

5 Operating loss

	2019 £'000	2018 £'000
Operating loss is stated after (crediting)/charging:		
Employee benefit expense	**14,000**	14,302
Depreciation of property, plant and equipment	**2,470**	2,555
Impairment of property, plant and equipment	-	2,502
Operating lease rentals	**3,099**	3,808
Net foreign exchange losses	**39**	4,377
Grant income	**(118)**	(118)

Auditors' remuneration

	2019 £'000	2018 £'000
Fees payable for the audit	**65**	62
Non audit – tax compliance services	-	12
	65	74

6 Turnaround and Operational costs

	2019 £'000	2018 £'000
Setting up and subsequent exit from Skelmersdale site	**3,174**	3,961
Management reorganisation and restructure	**724**	731
Impairment of property, plant and equipment	**130**	2,502
Loss on derivative financial instruments	-	4,377
Operational reorganisation and restructure	**872**	-
Raw materials waste	**2,308**	-
Other	**698**	810
	7,906	12,381

Notes to the financial statements for the year ended 30 April 2019

6 Turnaround and Operational costs (continued)

These items for the current year are included within cost of sales and administration expenses. For the prior year they are included in administration expenses only.

A summary of the Turnaround and Operational costs for the current year are as follows.:

Setting up and subsequent exit from Skelmersdale site

	2019	2018
	£'000	£'000
Incremental labour costs	**1,229**	-
Incremental transport costs	**437**	-
Incremental facility costs	**645**	-
Incremental cost to create space	**185**	-
Project management support	**246**	-
Exit agreement consultancy and legal costs	**176**	132
Building repairs and dilapidations	**256**	-
Initial site set up	-	315
Onerous contract costs	-	3,164
Impairment of trade receivables	-	350
	3,174	3,961

The costs of incremental labour were incurred from operating the logistics from multiple sites and under a third-party agreement (providing and managing the labour offsite).

Incremental transport costs are for shunting goods from production sites to the warehousing site.

Incremental facility costs are for the unrequired facility that added complexity and cost to the operations in H1 FY19. Costs include rent, rates and utilities charges.

Incremental cost to create space was incurred as the Group downsized from five sites to four, creating short-term pressures on the remaining sites. Costs included the disposal of raw materials (£119,000), production inefficiency as lines were stopped to manage the stock position (£49,000) and local offsite storage for a brief period (£17,000).

Project management support included expert advice and temporary support to ensure actions were completed as quickly as possible.

Exit agreement consultancy and legal costs was necessary due to the number and complexity of contracts that needed to be agreed prior to exit and the need for speed in execution required substantial advisory input.

Building repairs and dilapidations became evident as the Skelmersdale site was cleared ready for the new tenant. Due to the length and terms of the sub lease, the facility needed to be returned to its original condition.

6 Turnaround and Operational costs (continued)

Management reorganisation and restructure

	2019 £'000	2018 £'000
Hiring and exiting of senior management team	**172**	485
Implementation of new incentive plan	**110**	-
Dual resourcing of financial planning, procurement and paper ordering	**252**	120
Incremental audit fees	**30**	-
Covenant reset consultancy and legal costs	**160**	126
	724	731

Hiring and exiting directors includes compensation for lost bonus payments to facilitate speedy appointment, compensation for loss of office for departing directors, recruitment search fees and legal costs. This process spanned the year end hence costs in both years.

A new incentive plan was required as the previous incentive structures were only appropriate for a stable business and, with the survival of the Company at risk, external advisers were needed to construct, test, approve and document an entirely new scheme rapidly.

Dual resourcing was required throughout much of calendar 2018 to support projects, which would normally be completed sequentially, and had to be run in parallel. This included the establishment of processes for financial planning and reporting, procurement and paper ordering.

Incremental audit fees resulted from an unusually lengthy audit process, focused on the turnaround, and work relating to cash recovery associated with tax losses.

Bank covenants were re-set in conjunction with both the November 2017 and June 2018 placings to raise funding from shareholders. This required considerable support from advisers.

Impairment of property, plant and equipment

Two Away from Home lines, impaired in the prior year, were sold in the current year, recognising a loss of £130,000.

In the prior year, a provision of £2,056,000 was made against five redundant lines. This space was required as part of the site re-organisation to allow the absorption of stockholding from Skelmersdale, and an additional £446,000 impairment was recognised for lines associated with the AFH business which was being exited.

Notes to the financial statements for the year ended 30 April 2019

6 Turnaround and Operational costs (continued)

Operational reorganisation and restructure

	2019	2018
	£'000	£'000
Redundancy and associated professional fees	338	-
Investment in training	444	-
Film write off	90	-
	872	-

Redundancy and associated professional fees were incurred as employee headcount was reduced to the new operational blueprint and production lines for discontinued products were shut down, as the new management team's simplification plans were effected.

Extensive investment in training was required through most of H1. Instead of moving straight to blueprint numbers and costs in Q1, the operational workforce was maintained to underpin the Company's operations whilst a comprehensive "on the job" retraining effort was conducted.

Film wrapping was written off to enable a rapid shift to the Company's new rationalised product and manufacturing schedule. It was necessary to dispense with the Company's normal procedure of maintaining production of a product until all raw material stock has been consumed. The benefits of achieving fixed schedule production outweighed the loss on the film written off.

Raw materials waste

Waste covers the paper, film and coreboard that is scrapped each month as manufacturing issues prevent optimisation of raw material usage. The turnaround required a significant change in the manufacturing approach, with considerable simplification of materials, schedules and finished goods, alongside changes to working practices and the physical layout, the scale of which could not be delivered under normal operating conditions.

Based upon experience the Board took the decision to accept incremental waste caused by the multiple turnaround projects for a period of time in order to move the project at pace and get to the optimal production schedule quickly. The Board considers the cost of £2,308,000 to be a critical element of the turnaround, without which the operational cost savings could not have been achieved in such a short timescale.

Notes to the financial statements for the year ended 30 April 2019

6 Turnaround and Operational costs (continued)

Other

	2019	2018
	£'000	£'000
FCA investigation costs	**179**	-
AFH exit	**89**	91
Cash generation	**160**	277
New line temporary inefficiency	**86**	-
Sub-standard paper write-off	**107**	-
Other	77	442
	698	810

Other costs of a non-recurring nature were incurred during the year. Many relate to the challenging circumstances in which the Company found itself, due to the situation created in 2017. The total amounted to £698,000 (FY18: £810,000), a description of these costs is provided below.

The FCA is investigating the period from 10 June 2016 to 30 September 2018 (see the RNS 6698N on 21 January 2019 and RNS 1694U on 24 March 2019). The Company has incurred significant consultancy and legal costs associated with the management of this investigation.

The AFH exit was a strategic decision to allow the Company to focus on its core consumer products. In addition to the impairment costs associated with AFH machinery, the Company incurred costs on corporate finance advice, redundancy and raw material sales.

Approaching a key point in the cash cycle, steps were taken to support the cash position. This was before the new planning and procurement process was established and the paper stocks were running too high. These steps included selling a small amount of excess paper stock at a loss (£82,000) and holding some stock at docks incurring additional charges (£64,000).

New line temporary inefficiency relates to additional commissioning cost incurred over and above normal expectations. Ongoing focus remains on this line to ensure that industry leading output is achieved.

Sub-standard paper write-offs were incurred as the Group trialled several new suppliers in the search for an improved selection of paper types and suppliers to support the new turnaround requirements. Poor production quality from one delivery meant the stock did not meet the new business standards and was written off.

Notes to the financial statements for the year ended 30 April 2019

7 Directors' emoluments

	2019	2018
	£'000	£'000
Emoluments	691	919
Pension costs	11	-
Compensation for loss of office	-	260
	702	1,179

Retirement benefits are accruing to one Director (2018: nil) under a defined contribution benefit scheme. The aggregate amount of emoluments paid to the highest paid Director was £458,000 (2018: £423,000).

8 Employee information

The average monthly number of persons (including Directors) employed by the Company during the year was:

By activity	2019	2018
	Number	Number
Production	350	463
Administration	38	47
	388	510

Staff costs (for the above persons)	£'000	£'000
Wages and salaries	11,376	12,930
Social security costs	1,097	1,204
Other pension costs	211	168
Share based payment	1,316	-
	14,000	14,302

Notes to the financial statements for the year ended 30 April 2019

9 Finance costs

	2019 £'000	2018 £'000
Bank loans and overdrafts	**291**	277
Finance leases and hire purchase contracts	**167**	23
Unwind of discount on provisions	**48**	-
Other	**58**	18
	564	318

10 Taxation

	2019 £'000	2018 £'000
Current income tax:		
Current tax on profits for the year	-	-
Adjustments in respect of prior periods	-	2,085
Total current tax credit	-	2,085
Deferred tax:		
Origination and reversal of timing differences	**2,083**	2,073
Adjustment in respect of prior periods	**(175)**	(382)
Effects of rate change	**(147)**	(74)
Total deferred tax credit	**1,761**	1,617
Total tax credit	**1,761**	3,702

Notes to the financial statements for the year ended 30 April 2019

10 Taxation (continued)

The tax credit for the year is lower (2018: credit is lower) than the effective rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Loss before taxation	**(11,121)**	(21,094)
Tax credit using UK corporation tax rate of 19% (2018: 19%)	**2,113**	4,008
Effects of:		
Expenses not deductible for tax purposes	**(52)**	(11)
Tax exempt income	**22**	-
Adjustment in respect of prior periods	**(175)**	(382)
Change in rate	**(147)**	87
Total tax credit for year	**1,761**	3,702

During the year the Company recognised the following deferred tax assets/(liabilities):

	Derivative Financial Instruments £'000	Accelerated capital allowances £'000	Losses £'000	Share based payment £'000	Total £'000
As at 1 May 2018	127	(1,143)	901	-	(115)
Credited/(charged) to Income Statement	(127)	(768)	2,406	250	1,761
Credited/(charged) to equity	(9)	-	-	58	49
At 30 April 2019	**(9)**	**(1,911)**	**3,307**	**308**	**1,695**

A deferred tax asset of £3,307,000 relating to current and prior year losses has been recognised on the basis that, following a review of forecasts, management expect that these will be recovered against future taxable profits.

Factors affecting taxation for the current year

The Finance Act 2016 reduced the main rate of corporation tax to 19% from 1 April 2017. A future rate reduction to 17% from 1 April 2020, was substantively enacted on 15 September 2016. Therefore, the rate of 19% (2018: 19%) has been reflected in the financial statements and deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses. Deferred tax has been provided at the rate of 17% as at 30 April 2019 (2018: 17%).

Notes to the financial statements for the year ended 30 April 2019

11 Property, plant and equipment

	Land and Buildings £'000	Plant and Machinery £'000	Motor Vehicles £'000	Fixtures, Fittings and Office Equipment £'000	Assets Under Construction £'000	Total £'000
Cost						
At 1 May 2018	445	31,747	71	1,303	979	34,545
Additions	-	6,640	-	608	294	7,542
Reclassification	-	979	-	-	(979)	-
Disposals	-	(2,088)	(71)	-	-	(2,159)
At 30 April 2019	**445**	**37,278**	-	**1,911**	**294**	**39,928**
Accumulated depreciation						
At 1 May 2018	96	9,115	67	644	-	9,922
Charge for the year	40	2,072	4	354	-	2,470
Disposals	-	(1,613)	(71)	-	-	(1,684)
At 30 April 2019	**136**	**9,574**	-	**998**	-	**10,708**
Net book value						
At 30 April 2019	**309**	**27,704**	-	**913**	**294**	**29,220**
At 30 April 2018	349	22,632	4	659	979	24,623

The net book value of tangible fixed assets includes an amount of £4,450,000 (2018: £317,000) in respect of plant and machinery assets held under finance leases and £nil (2018: £nil) in respect of assets under construction held under finance leases.

Depreciation is charged to the income statement within administrative expenses.

12 Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	**7,301**	8,690
Finished goods and goods for resale	**3,861**	5,367
	11,162	14,057

Inventories recognised as an expense during the year and included in cost of sales amounted to £73,014,000 (2018: £86,629,000).

Inventories are stated after provision for impairment of £781,000 (2018: £658,000).

13 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**20,996**	28,660
Less: provision for impairment of trade receivables	**(15)**	(815)
	20,981	27,845
Prepayments and other debtors	**2,064**	2,019
	23,045	29,864

Trade receivables are stated after a provision for impairment of £15,000 (2018: £815,000).

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar ageing. The expected loss rates are based on the Company's historical credit losses experience over the four-year period prior to the period end. Forward looking issues have been considered, primarily in relation to the terms under which the UK will leave the EU. This has had an immaterial effect on the expected credit loss rate.

14 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	**2,166**	134

15 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	**11,107**	8,859
Amounts owed to group undertakings	**26,143**	20,343
Social security and other taxes	**1,842**	788
Accruals and deferred income	**2,410**	3,445
Deferred government grant income	**578**	696
	42,080	34,131

Trade payables are non-interest bearing and are payable on average within 44 days at 30 April 2019 (2018: 21 days).

Deferred government grant income relates to grants received for purchase of plant and machinery

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

16 Provisions

	As at 1 May 2018 £'000	Utilised in the year £'000	Discount unwind in the year £'000	As at 30 April 2019 £'000	Current £'000	Non-current £'000
Onerous contracts	3,164	(501)	48	2,711	571	2,140
	3,164	**(501)**	**48**	**2,711**	**571**	**2,140**

The onerous contract provisions relate to the decision to exit from the Skelmersdale facility and logistics agreements. The non-current portion of the onerous contract provision is expected to be utilised in the following periods: years 1-2 (£503,000), years 2-5 (£1,406,000) and years 5-9 (£231,000)

17 Borrowings

	2019 £'000	2018 £'000
Current		
Factoring facility	**13,690**	18,677
Finance leases	**1,383**	223
	15,073	18,900
Non-current		
Finance leases	**2,236**	304
	2,236	304
Loan maturity analysis:		
Within one year	**15,073**	18,900
Between one and two years	**1,439**	216
Between two and five years	**797**	88
After five years	**-**	-
	17,309	19,204

The following amounts remain undrawn and available.

	2019 £'000	2018 £'000
Factoring facility	**1,203**	2,852
	1,203	2,852

HSBC £23million factoring facility

The Company has a £23million multi-currency revolving credit facility to provide factoring finance for general working capital requirements. Under the terms of this facility the drawdown is based upon gross debtors less a retention (typically 15%), with the remaining debt funded. Each drawing under the facility is repayable within a maximum of 90 days from the date of invoice for jurisdictions within the United Kingdom and 120 days for other countries.

Covenants

The Company is subject to financial covenants in relation to the Factoring facility. The covenants cover the following: a) Debt dilution, b) Disputed debt and c) Tangible net worth. Breach of the covenants would render any outstanding borrowings subject to immediate settlement.

18 Financial instruments

Derivative financial instruments

Derivative financial instruments represent the Company's forward foreign exchange contracts. The liabilities representing the valuations of the forward foreign exchange contracts at the year end are:

Foreign currency contracts	**2019** **£'000**	2018 £'000
Current assets	50	-
Current liabilities	-	(668)
	50	**(668)**

The fair value of a derivative financial instrument is split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows. The foreign currency swaps are designated as fair value through profit or loss at initial recognition. The fair value of the Company's foreign currency derivatives is calculated as the difference between the contract rates and the mark to market rates which are current at the balance sheet date. This valuation is obtained from the counterparty bank and at each period end is categorised as a Level 2 valuation, see below. The maximum exposure to credit risk is the fair value of the derivative as a financial asset.

Fair value hierarchy

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:

Level 1: inputs are quoted prices in active markets.

Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets.

Level 3: a valuation using unobservable inputs i.e. a valuation technique.

There were no transfers between levels throughout the years under review.

18 Financial instruments (continued)

Fair values

The fair values of the Company's financial instruments approximates closely with their carrying values, which are set out in the table below:

	Fair values and carrying values	
	2019	2018
Financial assets	**£'000**	£'000
Current		
Trade and other receivables	**20,981**	27,845
Cash and short-term deposits	**2,166**	134
Derivative financial instruments	**50**	-
Financial liabilities		
Current		
Borrowings	**15,073**	18,900
Trade and other payables	**42,080**	34,131
Derivative financial instruments	**-**	668
Non-Current		
Borrowings	**2,236**	304

19 Capital and financial risk management objectives and policies

(a) Capital risk management

The Company's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust capital the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

	2019	2018
	£'000	£'000
Total borrowings	**17,309**	19,204
Less: cash and cash equivalents	**(2,166)**	(134)
Net debt	**15,143**	19,070

19 Capital and financial risk management objectives and policies (continued)

*(b) **Financial risk management***

The Company has exposure to the following risks from its use of financial instruments:

- Foreign currency risk
- Liquidity risk
- Credit risk

This note presents information about the Company's exposure to each of the above risks, and the Company's objectives, policies and procedures for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(i) Foreign currency risk

The Company has transactional currency exposures arising from purchases in currencies other than the Company's functional currency. These exposures are forecast on a monthly basis and are monitored by the Finance Department. Under the Company's foreign currency policy, such exposures are hedged on a reducing percentage basis over a number of forecast time horizons using forward foreign currency contracts.

The Company's largest exposures are the US Dollar and Euro forward contracts. The derivative analysis below had been prepared by re-performing the calculations used to determine the balance sheet values assuming a 1% strengthening of Sterling:

	2019	2018
	£'000	£'000
USD – loss	**(57)**	(97)
	(57)	(97)

Notes to the financial statements for the year ended 30 April 2019

19 Capital and financial risk management objectives and policies (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves.

The table below summaries the maturity profile of the Company's financial liabilities:

As at 30 April 2019

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due in more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Borrowings	15,073	1,439	797	-	17,309
Trade and other payables	42,080	-	-	-	42,080
Derivative financial instruments	-	-	-	-	-
Total financial liabilities	57,153	1,439	797	-	59,389

As at 30 April 2018

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due in more than 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Borrowings	18,900	216	88	-	19,204
Trade and other payables	34,131	-	-	-	34,131
Derivative financial instruments	668	-	-	-	668
Total financial liabilities	53,699	216	88	-	54,003

19 Capital and financial risk management objectives and policies (continued)

(iii) Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables. The Company's credit risk is low. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company's major customers (including those disclosed in note 4) are established retailers and therefore management do not deem there to be significant associated credit risk.

The Company manages credit risk by allocating customers a credit limit and ensures the Company's exposure is within this limit. This approach is strengthened with the use of credit insurance where deemed appropriate.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing.

The expected loss rates are based on the Company's historical credit losses experienced over the four year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

At 30 April 2019 the lifetime expected loss provision for trade receivables is as follows:

	<1 month £'000	1-2 months £'000	2-3 months £'000	>3 months £'000	Total £'000
Expected loss rate	0%	5%	15%	30%	
Gross carrying amount	50	39	1	42	132
Loss provision (£'000)	-	2	-	13	15

The movement in the provision for trade and other receivables is analysed below:

	2019 £'000	2018 £'000
At the beginning of the year	(815)	-
Impairment losses recognised	-	(465)
Impairment losses recognised – Turnaround and Operational	-	(350)
Provisions utilised	800	-
	(15)	(815)

Impairment losses recognised are included in the administrative expenses in the Income Statement, unless otherwise stated. The Turnaround and Operational charge in the prior year is related to the exit from the Skelmersdale facility. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the financial statements for the year ended 30 April 2019

20 Share capital

	2019	2018
	£'000	£'000
Called up, allotted and fully paid		
10,000 Ordinary shares of £1 each (2018: 10,000)	**10**	10

21 Reserves

Retained earnings represent retained profits/(losses) for the current and prior reporting periods.

22 Dividends

The Company did not pay an interim dividend (2018: £nil).

The Directors do not propose a final dividend (2018: £nil).

The total dividend for the year was therefore £nil (2018: £nil).

23 Commitments and contingencies

Operating lease commitments

The Company has operating leases in place on a number of business premises. These leases have durations of between 10 and 15 years. There are no restrictions placed upon the Company by entering into these leases. The lease expenditure charged to the income statement during the year is disclosed in note 5.

Future minimum rentals payable under non-cancellable operating leases as at the year end, analysed by the period in which they fall due, are as follows:

	2019	2018
	£'000	£'000
Within one year	**3,773**	3,508
Between one and two years	**3,773**	3,773
Between two and five years	**9,571**	10,229
Greater than five years	**5,300**	8,031
	22,417	25,541

In October 2018, the Company exited the Skelmersdale facility and has sublet to a third party. The commitments above are not shown net of any expected sublet income.

23 Commitments and contingencies (continued)

Finance lease commitments

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are, as follows:

	2019	2018
	£'000	£'000
Within one year	1,541	224
Between one and two years	1,516	244
Between two and five years	812	96
	3,869	564
Future finance charges	(250)	(37)
Present value	3,619	527

The present value of finance lease liabilities is as follows:

	2019	2018
	£'000	£'000
Within one year	1,383	223
Between one and two years	1,439	216
Between two and five years	797	88
	3,619	527

Capital commitments

	2019	2018
	£'000	£'000
Contracted for but not provided	341	3,611

24 Related party disclosures

Three of Accrol Group Holding plc's shareholders, Majid Hussain, Wajid Hussain and Mozam Hussain, each hold one third of the shares in Phoenix Court Blackburn Limited. Phoenix Court Blackburn Limited owns the commercial property leased by Accrol Papers Limited and charged rentals of £1,872,000 in the year (2018: £1,751,000).

As at 30 April 2019 and 30 April 2018, no amounts are owed to/from related parties.

25 Subsequent events

Subsequent to the year end, the FCA have confirmed that they have closed their investigation and that they will not be taking any action.

26 Ultimate parent company

The parent company is Accrol Holdings Limited. The ultimate parent undertaking and controlling party is Accrol Group Holdings plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Consolidated financial statements for the group headed by Accrol Group Holdings plc group can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.