ANNUAL REPORT
AND ACCOUNTS

2014

GRAFENIA plc

CONTENTS

FINANCIAL SUMMARY

	2014		2013		2012	
	£000	%	£000	%	£000	%
Group Turnover	**19,443**		20,664		21,768	
Annual Growth	**(5.9)%**		(5.1)%		27.9%	
Gross Profit	**10,904**	**56.1%**	11,211	54.3%	11,634	53.4%
EBITDA	**2,650**	**13.6%**	2,809	13.6%	3,434	17.8%
Operating Profit Before Exceptionals	**811**	**4.2%**	1,111	5.4%	1,300	8.6%
Annual Growth	**(27.00)%**		(14.54)%		(11.1)%	
Profit Before Tax	**755**		891		1,258	
Annual Growth	**(15.26)%**		(29.17)%		(4.0)%	
Taxation	**108**		(86)		(158)	
Tax Rate			9.7%		12.6%	
Profit on Ordinary Activities After Tax	**863**		805		1,100	
Dividend declared on equity shares	**628**		1,213		1,213	
Earnings per ordinary share - basic	**1.82p**		1.69p		2.33p	
Earnings per ordinary share - diluted	**1.82p**		1.69p		2.32p	
Interim Dividend per ordinary share	**0.33p**		1.05p		1.05p	
Final Dividend per ordinary share	**1.00p**		1.50p		1.50p	
Total Dividend per ordinary share	**1.33p**		2.55p		2.55p	
	£000		£000		£000	
Net Funds	**1,401**		1,394		1,771	
Group Revenues						
UK & Ireland	**11,294**	**58.1%**	12,549	60.7%	13,781	63.3%
Europe	**7,895**	**40.6%**	7,893	38.2%	7,794	35.8%
Rest of the World	**254**	**1.3%**	222	1.1%	193	0.9%
Total Group Revenue	**19,443**	**100.0%**	20,664	100.0%	21,768	100.0%

GRAFENIA PLC's REVENUE STREAMS

Online Channels
Order online, pay online.

Revenue Generated:
- Print Revenue
- Subscription Fees

FLYERZONE
flyerzone.co.uk
flyzerzone.ie
flyerzone.nl
flyerzone.fr

Drukland
drukland.nl
drukland.be

marqetspace
marqetspace.com

Franchise Partners
Design studios featuring the printing.com brand selling face to face and offering print management online.

Revenue Generated:
- Licence Fees
- Print Revenue
- Master Franchise Revenue

printing.com
Franchises
printing.com/uk
printing.com/fr
printing.com/ie
Master Licenses
us.printing.com
nz.printing.com

BrandDemand
branddemand.com
Available in UK, The Netherlands, New Zealand, Ireland and The United States

W3P Partners
Saas cloud based software for designers and printers offering web-2-print and other online tools.

Revenue Generated:
- Subscription Fees
- Print Revenue

w3p
w3p.com

w3 SHOP
w3shop.com

Software Solutions
A SaaS offering crowdsourced templated graphic design to other online printers via an application programming interface (API).

Revenue Generated:
- Subscription Fees
- Template Fees

TemplateCloud API
templatecloud.com

Les Wheatley
Chairman

CHAIRMAN'S STATEMENT

Progress during the year under review is reflected by the momentum gained with the Group's 'Software as a Service' (SaaS) offerings, which are now generating meaningful revenue and the grant of additional master licences to exploit the technology in overseas markets.

We are mindful, however, that the Printing.com franchise formula continues to contract. Indeed, this is the principal reason that the Company's earnings have not progressed during the year under review. To this end, via our two new initiatives (Marqetspace and Nettl), we believe we will be able to reverse the decline of franchisee numbers and UK print revenue during the current year.

Overall the process of developing the Group's new initiatives has taken longer than we had hoped and this has impacted on the Group's earnings. However, we believe we are at the point where the foundations are in place for the Group to move forward.

RESULTS

During the year turnover decreased by 5.9% to £19.44m *(2013: £20.66m).* EBITDA before exceptional costs contracted by 5.7% to £2.65m *(2013: £2.81m).* Operating profit, before exceptional costs, decreased by 27.0% to £0.81m *(2013: £1.11m).* Profit before tax reduced by 14.6% to £0.76m *(2013: £0.89m).*

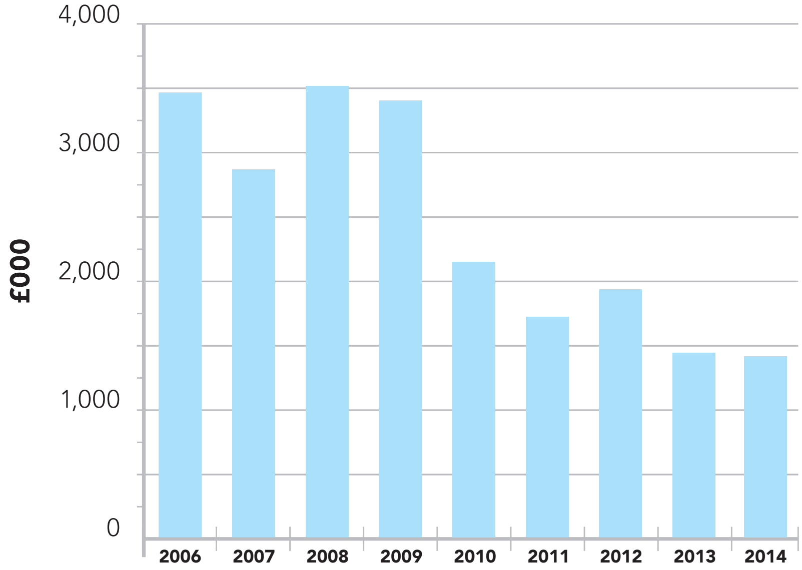
As in previous years the effective tax rate has been reduced through gaining Research & Development Relief. Indeed, this year the Group received a tax repayment of £0.11m versus a charge of £0.09m last year.

CASH

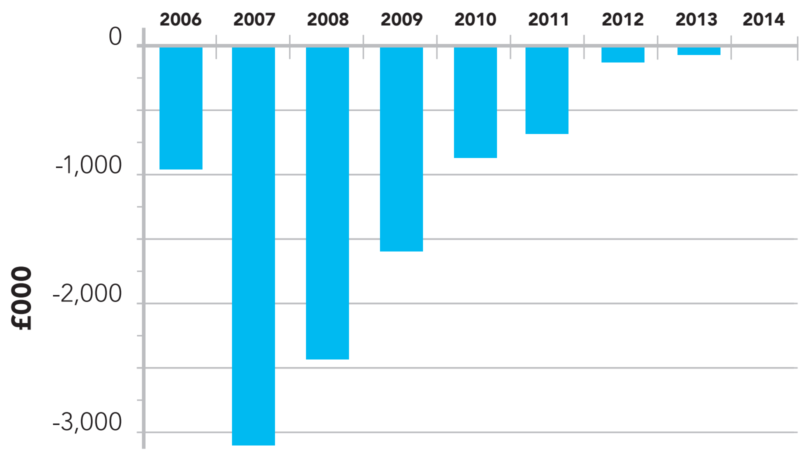
The Company has maintained its net cash position of £1.40m *(2013: £1.42m)* at the year end.

Capital investment totalled £1.16m *(2013: £1.56m)*, funded through operational cash flows. This principally reflected ongoing investment in the Group's SaaS offerings.

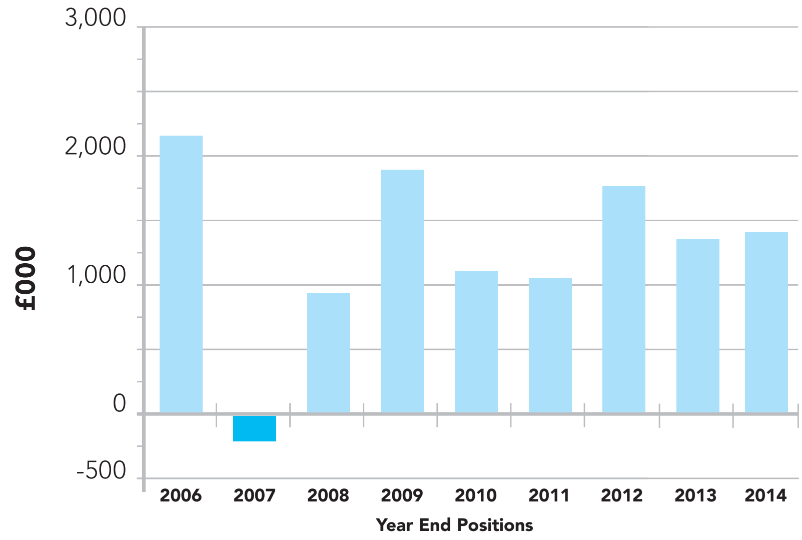
CASH



DEBT



NET FUNDS/DEBT



DIVIDEND AND SHARE PURCHASE

In line with the updated Dividend Policy set out in last year's annual report, the Board recommends a final dividend of 1p *(2013: 1.5p)* to be paid on 1 August 2014 to Shareholders on the register at the close of business on 4 July 2014. This would make a total dividend for the year of 1.33p (2013: 2.55p).

During the year under review, the Company also purchased 486,000 ordinary shares of 1p each at a price of 14.25p, with these shares currently held in Treasury. Given the underlying cash generation of the Company, and the absence of debt, the Directors may make further purchases as and when they believe it is prudent to do so.

PEOPLE AT GRAFENIA PLC

In the competitive marketplace in which we operate, year on year across the Group, we ask more of our people in terms of their effort and creativity, and I accordingly thank them for their endeavour and hard work.

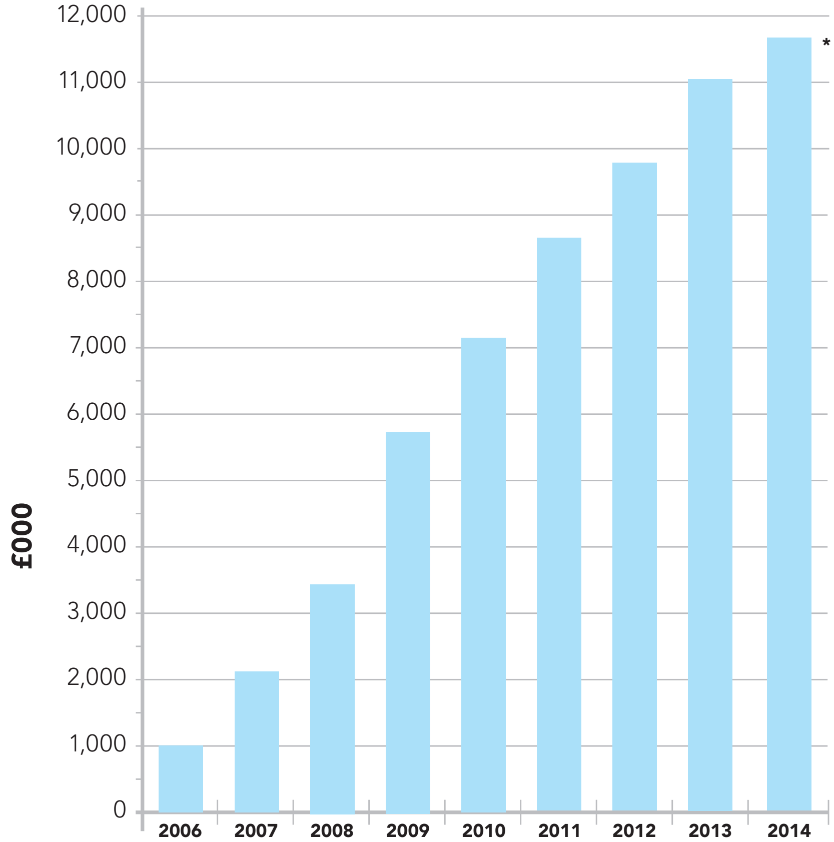
OUTLOOK

We now believe that the elements, centred on the Group's SaaS capability to generate licence fees and print revenue, are in place for Grafenia plc to move forward and generate shareholder value.

However, given that our printing markets remain competitive and our SaaS initiatives, whilst now revenue generating, are still developing, it is appropriate to caveat our optimism with an element of caution.

Les Wheatley
Chairman
9 June 2014

CUMULATIVE RETURN TO SHAREHOLDERS



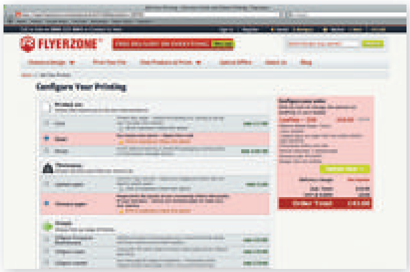
*** Including proposed final dividend**

The Manchester Production Hub

① Flyerzone.co.uk Home Page.

② Designs listed by business type.

③ End client edits their design using Fotolia library.



③ End client configures printing.

⑤ End client pays securely online.

⑥ Printed, finished, boxed and shipped.

Flyerzone.co.uk Editing and Ordering Process

CHIEF EXECUTIVE'S STATEMENT

Tony Rafferty
Chief Executive

OVERVIEW OF STRATEGY AND BUSINESS MODEL

The core capabilities of the Group are reflected in its online brands, the Manchester Production Hub, its supply chain expertise in the Netherlands, the Group's SaaS platforms and the interconnectivity of all of these elements.

Printing.com supplies SMEs with graphic design and printing services via its Franchise Network. W3P is a web-to-print SaaS solution utilised by other printers and graphic design agencies. Flyerzone and Drukland are online print businesses. BrandDemand provides print management services via online portals to other franchise networks.

The above channels are not isolated developments, but utilise a common core SaaS 'platform' which is adapted for each activity. The Group also licenses its entire platform to international partners wanting to exploit these elements in other markets.

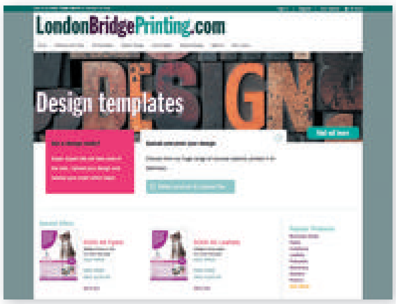
Our strategy is centred on maximising the commercial utilisation of the above. At the same time we are also developing additional elements where we believe the business case exists, the objective being that the incremental investment will open up new market segments for exploitation. The Group's new initiatives, Marqetspace.com and Nettl.com, reflect this endeavour.

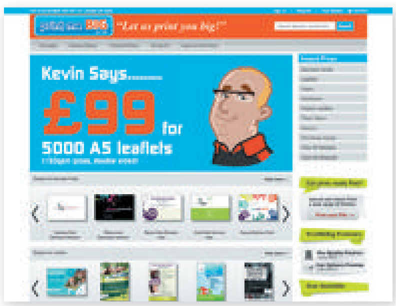
Moving forward, we will focus our development on the areas that give us the greatest economic return.

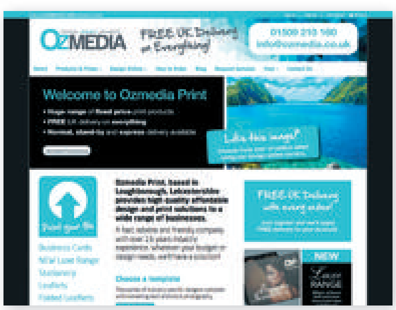
KPIs

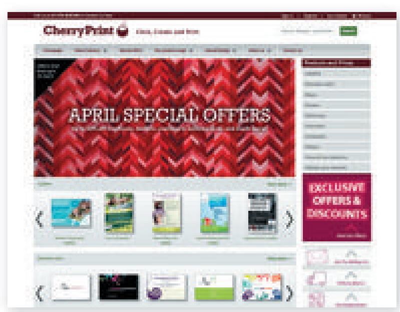
The Board monitors a variety of KPIs as set out in this report, covering the generation of print revenue, licence fees and the number of strategic partners (W3P/Printing.com) from the Group's various channels and geographic operations.

W3SHOPS









A selection of some of our w3shop partners

SALES OF PRINTING

Overall print revenues contracted from £19.8m to £18.4m.

The Printing.com Franchise Network in the UK and Ireland generated £8.2m *(2013: £10.8m)*. In part this reduction reflected the move of Franchisees who switched to the W3P format and accounted for an additional £0.61m *(2013: nil)*. At the close of the year under review, the Group had 156 Printing.com Franchisees, together with 72 that had converted to a W3P format.

New W3P partners generated print revenue of £0.31m *(2013: £0.01m)* in addition to SaaS licence fees. We anticipate this growing further during the current year.

The W3P format has enabled us to establish and indeed continue trading relationships with reseller partners who would otherwise have been unlikely to have joined or, in some instances, continued the Printing.com formula. We are also aware that many print resellers, particularly graphic and web designers, may not require the full functionality offered by W3P, or indeed be willing to pay the associated fees. We intend to grow print volumes with this type of client through our Marqetspace.com initiative.

Flyerzone.co.uk and Flyerzone.ie, the online only formulas, showed progress generating revenues of £0.92m *(2013: £0.68m)*. BrandDemand, the Group's online print management service, showed a slight increase in revenues to £0.62m *(2013: £0.58m)*.

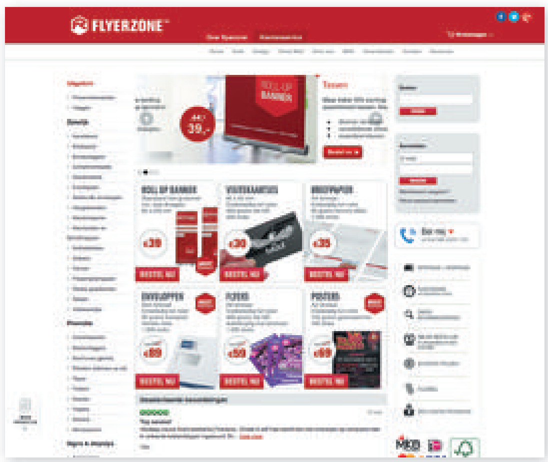
In the Netherlands and Belgium, the Group's revenues arise from the operation of online channels namely Flyerzone.nl, together with Drukland.nl and Drukland.be. Trading across these countries remains steady, albeit competition *remains strong, generating print revenues of £7.34m (2013: £7.33m)*.

Revenue from the Group's operations in France dropped back slightly to £0.54m *(2013: £0.57m)*.

LICENCE FEES

Overall revenues from licence fees increased to £0.98m *(2013: £0.88m)*.

W3P licence fees increased to £0.13m *(2013: £0.01m)*. This included fees from both new partners and partners switching from the Franchise, essentially in equal measure.



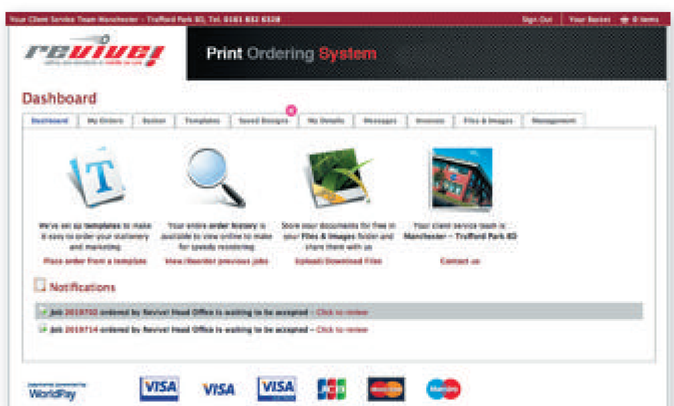
w3p®

w3p has evolved into two products for distinct needs:

w3SHOP®

Web to print SaaS targeting SME clients

w3Client



Web to print SaaS servicing corporate clients

The Group's W3P offering comprises two main products; W3Client and W3Shop, addressing the needs of the corporate and SME market respectively.

In addition to W3P partners who migrated from the Printing.com Franchise, W3P has now gained over 80 paying subscribers. In addition, some 26 Franchise partners have also elected to set up online print shops.

W3P partners pay a monthly fee in the range of £99 - £299 depending on the functionality required and the package subscribed for. Of late, new subscriptions have been skewed towards the higher end of this range.

During the year fees arising from International Master Licences of the W3P platform, and in some cases the use of the Printing.com brand, increased to £0.29m *(2013: £0.22m)*. Master Licence Agreements with the Group's partners in the US and New Zealand were renewed and extended to cover the new SaaS gamut. These agreements now contain the commitment to pay rising annual fees.

Towards the end of the year under review, an additional master licence was granted for Australia. Post the year end, an additional master licence has been granted in Europe with an established sizable print group. We believe that this bodes well for revenue growth of this type.

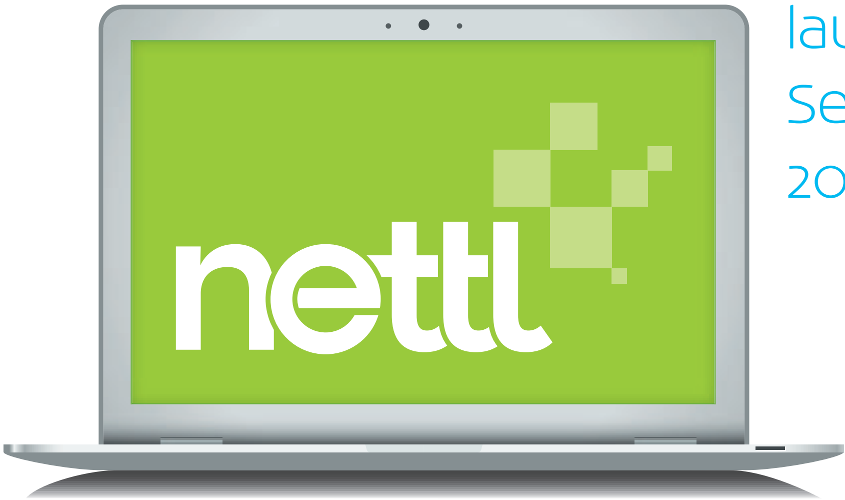
TEMPLATECLOUD

TemplateCloud 'crowdsources' graphic design and converts it into an online editable format. It is utilised on the Group's own channels, and also via licensees on a pay-per-design basis. TemplateCloud revenue increased to £0.16m *(2013: £0.01m)*.

TemplateCloud®

TemplateCloud revenue increased to £0.16m (2013: £0.01m)

NEW INITIATIVES



launching
September
2014

Grafenia plc returns to its franchise roots with Nettl – a new cross-media franchise formula, launching in September 2014

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marqetspace®

Marqetspace targets trade buyers of printing services

launched
June
2014

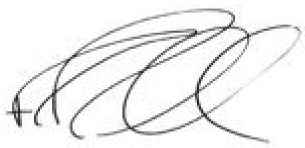
NETTL FRANCHISE

Nettl is a new cross-media franchise formula that the Group intends to launch in September 2014 to exploit the Group's core SaaS platform which has been extended to include websites, webshops and the like. We are launching Nettl because we believe the promotional needs of a typical SME, which was the cornerstone of the Printing.com formula, are today more broad.

By launching Nettl, we believe we can arrest the decline of Group Franchisee numbers via an innovative, up-to-date formula.

CURRENT TRADING

After two months of the current financial year, trading remains in line with the Company's internal budget and ahead of the same point in the prior year.



Tony Rafferty
Chief Executive
9 June 2014

Andrew Cester, CEO of Whirlwind Print
Graphenia plc's new W3P master licence partner in Australia

w3p and Marqetspace exhibited at IPEX in March 2014

FINANCIAL REVIEW

Alan Q Roberts
Finance Director

REVENUE

Group revenues decreased by 5.9% to £19.44m *(2013: £20.66m)*. Revenue from the Eurozone was 40.6% of the total *(2013: 38.2%)*, as disclosed in the Segmental Analysis.

GROSS PROFIT

The Group's simple definition of Gross Profit has been revenue less direct materials (including the cost of distribution when made direct to customers). MFG cost of sales included the manufacturing conversion cost, as they are supplied by third party commercial printers. Increased integration in the supply chain has meant that more MFG production was supplied by the UK Hub. This coupled with the increase in licence fee payments resulted in Gross Profit increasing as a percentage from 54.3% to 56.1% although it reduced in monetary terms to £10.90m *(2013: £11.21m)* in line with the decrease in revenue.

EBITDA

The Group define EBITDA as operating profit, before exceptional costs, plus depreciation and amortisation. The year showed a marginal decrease to £2.65m being 13.6% *(2013:£2.81m 13.6%)* of turnover. EBITDA, after exceptional costs, increased by 0.8% to £2.65m *(2013: £2.63m)*.

Operating Profit, before exceptional costs, decreased to £0.81m *(2013: £1.11m)*. No exceptional costs were incurred in the period *(2013: £0.18m)*.

PRE-TAX PROFIT

The Group recorded a pre-tax profit of £0.76m *(2013: £0.89m)*, being 3.9% *(2013: 4.3%)* of Group revenue.

Staff costs marginally decreased in the year to £4.80m *(2013: £4.83m)*, and rose as a percentage of revenue to 24.7% from 23.4%. The increase in staff costs as a percentage of revenue reflected the investment in the establishment and development of the new sales Channels. The depreciation and amortisation charge for the year was £1.84m *(2013: £1.70m)*. The most significant element remains the charge for the amortisation of Software Development.

INTEREST RECEIVED AND CHARGED

Interest received and charged in the period were negligible.

TAXATION

In the year the standard rate for tax was 23% *(2013: 24%)*. The current year has realised a net recovery of tax of £0.11m *(2013: charge of £0.09m or 9.7% of PBT)*. The repayment came about through the inclusion of enhanced tax relief on research and development expenditure.

EARNINGS PER SHARE (EPS)

Basic EPS achieved was 1.82p *(2013: 1.69p)*, based on a weighted average number of shares in issue of 47,479,060. Share options in issue at year end all had exercise prices higher than the average market price of ordinary shares during the period, therefore they are not treated as dilutive for the purposes of the earnings per share calculation.

The year closed with 47,557,835 ordinary shares in issue, of which 486,000 were held in Treasury by the Company, so there were 47,071,835 with voting rights.

CASH FLOW

At the year end the Group had cash balances of £1.40m *(2013: £1.42m)*. Net Funds were £1.38m *(2013: £1.39m)*. Operational cash inflow was £1.86m *(2013: £2.72m)*. Working Capital movement included a reduction in Trade Creditors of £0.98m, which is consistent with the Interim period £0.82m and reflects the change in supply from third parties in Holland to the Manchester Hub. The most significant cash outflow being dividends paid of £0.87m *(2013: £1.21m)*.

CAPITAL EXPENDITURE

The total capital expenditure for the year was £1.16m *(2013: £1.56m)* with the major item being Software Development for the online initiatives and computing infrastructure totalling £0.91m *(2013: £1.17m)*.

Manufacturing capacity at the Manchester Hub provides scope for growth without additional capital expenditure. Capital expenditure will therefore continue to be mainly incurred on software development and enhancement.

SHARE CAPITAL AND SHARE OPTIONS

No employee options were exercised or granted during the year.

During the year the Company purchased 486,000 of its own shares.

PRINCIPAL RISKS AND UNCERTAINTIES

The following are some of the principal risks relating to the Group's operations:

- The Group operates in extremely competitive marketplaces and could find that it becomes uncompetitive and loses significant revenue.

- A major catastrophe could impact the Group's UK Production Hub. Whilst a Hub disaster plan exists and such losses are insured against, there could be a significant impact in the short and medium term.

- In Benelux, the Group outsources a significant proportion of its print requirements to third party manufacturers. These manufacturers could become insolvent, unable to operate, or unwilling to continue to offer favourable pricing to the Group. The Group utilises appropriate service level agreements to mitigate this, but the risk still exists.

- Across the Group supply of print is the main stay of the Group revenues, and the principal application of this print is for businesses to advertise themselves. With the advent of online advertising, coupled with the proliferation of the use of Smartphones and Tablets, we cannot be certain that the demand for printing as a promotional media will be maintained at anything like its current levels. Were the demand for print, at a macro level, to be significantly reduced this would affect the viability of the Group in its current form.

- The operation of the Group is reliant on its SaaS platform for both its print operations and the generation of revenue from licence fees. Disaster recovery plans exist and the Group ensures that all reasonable operational contingency is embedded in its SaaS operations. However, a disaster could occur which could severely hamper operations in the short to medium term.

- The Group develops its own SaaS platform and where it utilises third party components it acts to ensure that the necessary rights exist for it to operate as it does. However, we cannot be absolutely certain that at some point in the future some party may assert, via whatever mode, that it owns, or is due a licence for, some element of our system.

- The Group generates revenue from its Franchisee resellers in the UK and this is material to the Group's operations. In the past few years, revenue from Printing.com has fallen. We cannot be certain if this revenue will fall further or faster than in previous years and we cannot be certain that revenue generating newer initiatives will offset this shortfall.

- We cannot be certain that the Group's new initiatives will be successful or indeed that we will recover the costs that we have made in developing them.

- The Group's activities are based upon being able to attract and retain people across a multitude of disciplines. Moving forward it may not be possible to find or retain such people.

- The Group carries out significant printing itself. The situation could exist where the Group's input costs significantly increase and yet we are unable to pass these on for commercial reasons to our clients. This could impact significantly on the Company's profitability.

- A proportion of the Group's income hails from the Eurozone. Exchange rates could vary to the extent that this has a material effect on the Group's income. To this end we believe that our position is to some extent hedged, as whilst the Group buys its paper and plates in sterling, the supply originates from the Eurozone and hence exchange rate variances should offset. However, we cannot be certain as to the certainty of this hedged position.

TREASURY POLICIES

Surplus funds are intended to support the Group's short term working capital requirements. These funds are invested through the use of short term deposits and the policy is to maximise returns as well as provide the flexibility required to fund on-going operations. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

Alan Q. Roberts
Finance Director
9 June 2014

DIRECTORS

Les Wheatley
Chairman

Les brings substantial expertise to the Board in the fields of corporate governance, finance, logistics, change management and affinity marketing gained with Newcastle United FC and Liverpool FC.

Les was Finance Director at Liverpool FC until January 2009, a position he took in 2000, moving from a similar post with Newcastle United FC.

Les gained his logistics and change management expertise with Ernst & Young before going on to lead the employee buy-out of GM Buses where he was subsequently appointed MD. A successful exit followed, via a trade sale to Stagecoach Group plc in 1996.

Les joined the Group in September 2000 and is Chairman of the Audit Committee. Age 61.

Tony Rafferty
Chief Executive

Tony studied Electronics and Electrical Engineering at Sheffield University from 1987, developing an interest in marketing and promotional activity whilst managing Student Union entertainments. He worked in First Leisure's Superbowl division briefly in 1990 before operating as a self-employed print broker. In 1992 he founded a printing company which subsequently became Printing.com Europe Ltd and which was acquired by the Company shortly before its admission to Ofex in 2000. He has shaped the Group over the past decade and devised its business and sales models. He also designed and developed the Flyerlink® system which defines the Group's work flow. Age 46.

Peter Gunning MA
Chief Technology Officer

After obtaining his Masters Degree in Accountancy and Finance from Heriot-Watt University in 1997, Peter established The Design Foundry Scotland Limited and was a client of the business. Since joining the Group in 1998, he has been responsible for developing the Printing.com Store concept associated marketing and operations infrastructure.

Peter was appointed to the Board in June 2001. Age 38.

Alan Q Roberts FCMA
Finance Director

Alan qualified as a Chartered Management Accountant in 1981 whilst company accountant of Moon Brothers Engineering. He then moved to the Edward Billington Group as divisional accountant and from there he joined Dalgety as group accountant for the Merseyside production facilities. Moving to CQR in 1987 (acquired by Expamet International in 1988) as management accountant, he was subsequently appointed financial director & company secretary in 1991. The company was sold to Channel Holdings in 1995 and in 1997 he was appointed operations director by which time the company had turnover of c£20m per annum.

Alan joined the Group in June 1999. Age 58.

Pavel Begun
Non-Executive Director

Pavel is based in Toronto, Canada and has global financial and operational expertise having worked in equity research for Fiduciary Asset Management and A.G.Edwards & Sons. He graduated with Honours from the University of Chicago with an M.B.A. in Accounting and Finance and is also a Chartered Financial Analyst and a member of the Toronto Society of Financial Analysts. Pavel is currently a managing partner of 3G Capital Management LLC, a global value-oriented investment vehicle which he co-founded operating from Toronto and Chicago. Pavel is also a Non-Executive Director of AlarmForce Industries Inc. (TSX: AF), a leading North American residential alarm monitoring company.

Pavel was appointed to the Board in November 2012. Age 35.

DIRECTORS' REPORT

The Directors present their report and the financial statements of Grafenia plc and its subsidiary companies for the financial year ended 31 March 2014.

RESEARCH AND DEVELOPMENT

All research costs are written off as incurred.

Development costs are also charged to profit and loss in the year of expenditure, except when individual projects satisfy the following criteria:

- The project is clearly defined and related expenditure is separately identifiable.
- The project is technically feasible and commercially viable.
- Current and future costs will be exceeded by future sales.
- Adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over time in all cases over a period not exceeding five years commencing in the year when the Group begins to benefit from the expenditure.

DIRECTORS

The following Directors have held office since 1 April 2013:

L A WHEATLEY	Non executive Chairman
A RAFFERTY	Chief Executive
P R GUNNING	Chief Technology Officer
A Q ROBERTS	Finance Director
P BEGUN	Non executive Director
DR C H DECKART	Non executive – Resigned 19 July 2013

All the Directors are subject to re-election at intervals of no more than 3 years.

A Rafferty and P R Gunning retire by rotation in accordance with the articles of association. A Rafferty and P R Gunning being eligible, offer themselves up for re-election.

Details of Directors' interests in the share capital of the Company as shown in the register, together with details of share options granted and awards made to the Directors, are included in the Report on Directors' Remuneration on pages 24 to 26.

From 3 April 2008 the Company has maintained cover for its Directors under a directors' liability insurance policy, as permitted by the Companies Act 2006.

EMPLOYEES

The employment policies of the Group embody the principles of equal opportunity and the Group does not discriminate against anyone on any grounds. The Group ensures that every consideration is given to applications of employment from disabled persons. If an employee became disabled, every effort would be made to offer suitable alternative employment within the Group and assistance with retraining.

The Group keeps employees informed via the Company's Intranet and by periodic staff meetings and internal announcements and takes account of any comments and feedback provided by employees in the formulation of its policies and procedures.

HEALTH AND SAFETY

Emphasis is placed upon providing a safe and healthy working environment for employees, customers and suppliers. The Group ensures that regular risk assessments are carried out and that plant and machinery is properly maintained. Working practices are developed to embody safe systems of work and the Group ensures that employees receive ongoing instruction, training and supervision for working and health and safety issues.

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

The Board considers social, environmental and ethical matters in all aspects of the business of the Group. They and senior management review and assess the significant risks to the Group's short and long term value as impacted upon by social, environmental and ethical issues. The Group comply with environmental laws and regulations and work with suppliers and customers to improve the effectiveness of environmental management.

Through the period the Group maintained its ISO14001 environmental accreditation.

PRINCIPLES OF CORPORATE GOVERNANCE

The Directors' Statement of Corporate Governance can be viewed on the Company's web site at www.grafenia.com.

SUBSTANTIAL SHAREHOLDERS

In addition to the Directors' interests noted in the Directors' Remuneration Report, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 28 June 2013:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	9,111,868	19.36
3G Capital	2,740,000	5.82
R G Hardie	1,674,574	3.56
HS Invest Holdings BV	1,596,990	3.39

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday 18 July 2014 at the Premier Inn, Sir Alex Ferguson Way, Trafford Park, Manchester, M17 1WS.

In addition to the ordinary business the Company will also propose a number of resolutions which will be dealt with as special business. Details are contained in the Notice of the Annual General Meeting.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

AUDITORS

KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as Auditor will be proposed at the next Annual General Meeting.

By order of the Board

A Q Roberts
Director
9 June 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE

The Company has an established Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Les Wheatley and Pavel Begun who are both independent Non-executive Directors, Les Wheatley chairs the Committee.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive, Tony Rafferty, about its proposals. The Committee also sources reports from the Company's various advisers.

REMUNERATION POLICY

The policy of the Committee is to reward Executive Directors in line with the current remuneration of directors in comparable businesses taking into consideration the advice of independent bodies in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for Executive Directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual cash bonus payments which cannot exceed 30% of basic salary, with the exception of the Chief Executive in which case it is 40%;
- Share option incentives; and
- Pension arrangements.

BASIC PENSIONABLE SALARY

Basic pensionable salary is reviewed annually in March with increases, if awarded, taking effect from 1 April. In addition to basic salary, the Executive Directors also receive certain benefits in kind, principally a car and private medical insurance.

ANNUAL CASH BONUS

The Committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward Executive Directors and other senior employees for achieving above average performance which also benefits shareholders. The maximum performance related bonus that can be paid is 40% of basic salary. No incentive payments have been made for the financial year ended 31 March 2014.

PENSION ARRANGEMENTS

The Company contributes to individual money purchase schemes for the Executive Directors.

DIRECTORS' CONTRACTS

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice, The Chief Executive has a twelve month notice period. There are no special provisions for compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of any early termination and determine compensation payments accordingly.

NON-EXECUTIVE DIRECTORS

The fees of each Non-executive Director are determined by the Board as a whole, excluding the Non-executive being reviewed, having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors do not receive pension contributions.

Non-executive Director's contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION (AUDITED)
Year ended 31 March 2013:

	Basic salary £	Fees £	Benefits £	Bonuses £	2014 Total £	2014 Pension £
L A Wheatley	**-**	**30,115**	**-**	**-**	**30,115**	**-**
Dr C H Deckart	**-**	**6,154**	**-**	**-**	**6,154**	**-**
P Begun	**-**	**20,077**	**-**	**-**	**20,077**	**-**
A Rafferty	**170,905**	**-**	**975**	**-**	**171,880**	**22,725**
P R Gunning	**170,905**	**-**	**305**	**-**	**171,210**	**15,525**
A Q Roberts	**85,177**	**-**	**18,965**	**-**	**104,142**	**8,485**
	426,987	**56,346**	**20,245**	**-**	**503,578**	**46,735**

Year ended 31 March 2013:

	Basic salary £	Fees £	Benefits £	Bonuses £	2013 Total £	2013 Pension £
L A Wheatley	-	26,962	-	-	26,962	-
Dr C H Deckart	-	15,385	-	-	15,385	-
P Begun	-	6,923	-	-	6,923	-
A Rafferty	170,250	-	1,139	-	171,389	20,700
P R Gunning	153,729	-	326	10,000	164,055	10,350
A Q Roberts	82,507	-	18,589	6,000	107,096	7,346
R G Hardie	-	9,230	-	-	9,230	-
H Scheffer	198,622	-	-	-	198,622	-
	605,108	58,500	20,054	16,000	699,662	38,396

DIRECTORS' INTERESTS

At 31 March 2014, the Directors had the following beneficial interests in the Company's shares and options to subscribe for shares:

	Ordinary shares of 1p each				Share options	
	31 March 2014	31 March 2013		**Exercise Price**	**31 March 2014**	31 March 2013
A Rafferty	**8,662,222**	8,662,222		-	**-**	-
P R Gunning	**684,646**	684,646	a)	32.5p	**300,000**	300,000
A Q Roberts	**320,000**	320,000	a)	32.5p	**300,000**	300,000
L A Wheatley	**-**	-		-	**-**	**-**
P Begun	**-**	-		-	**-**	-

From the end of the year until 9 June 2014 there have been no changes in the above interests.

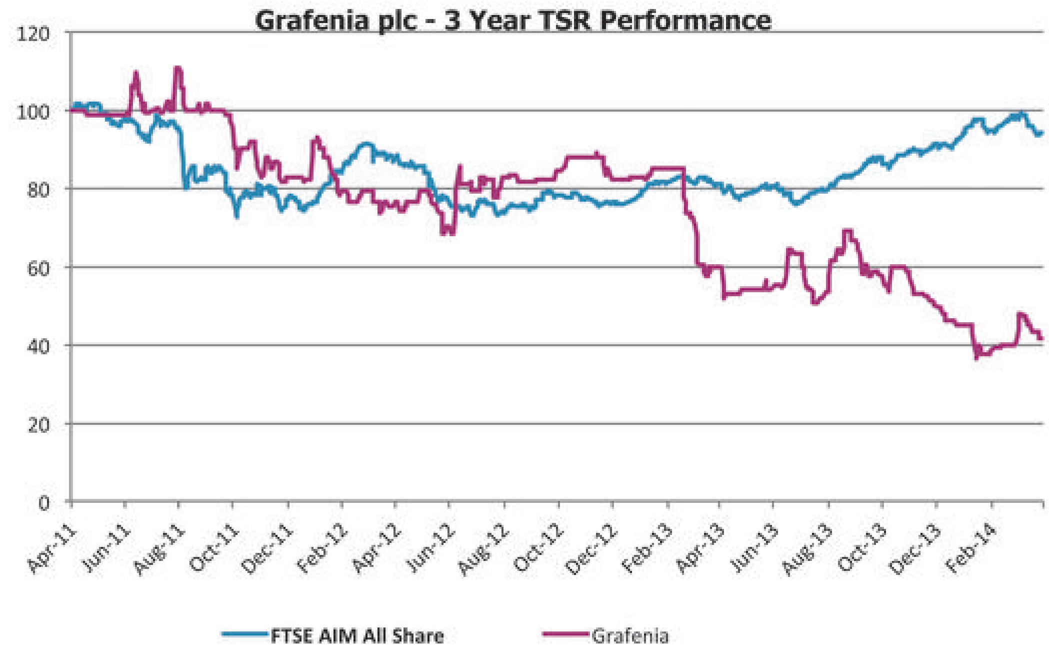
No Directors, including family interests, had any interests in the deferred share capital of the Company.

SHARE OPTIONS (AUDITED)

The options granted under a) above to Directors, Peter Gunning and Alan Roberts, were granted under the terms of the Company's Key Employee EMI Share Option Scheme, established 6 August 2004.

The Options impose performance criteria with individual targets for the employee and are subject to 'trigger' price points based on the mid market price of Ordinary Shares over 200 consecutive day periods and are exercisable in tranches of 75,000 ordinary shares. The contractual life of the options runs until 6 August 2014.

The Group's share price performance for the period under review charted with the AIM all share is shown below. The market price of shares as at 31 March 2014 was 15.25pence *(2013: 21.75pence)*. The range during 2014 was 13.25pence to 25.25pence.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAFENIA PLC

We have audited the financial statements of Grafenia plc for the year ended 31st March 2014, set out on pages 29 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

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 and, in respect of the separate opinion in relation to the Directors' Remuneration Report on terms that have been agreed. 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, in respect of the separate opinion in relation to the Directors' Remuneration Report, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at HYPERLINK "http://www.frc.org.uk/auditscopeukprivate" www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 AND UNDER THE TERMS OF OUR ENGAGEMENT

In our opinion:

the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company; and

the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit 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.

MICK DAVIES (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
KPMG LLP
Chartered Accountants
St James Square
Manchester
M2 6DS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014	Note	2014 £000	2013 £000
Revenue	2	**19,443**	20,664
Raw materials and consumables used		**(8,539)**	(9,453)
Gross profit		**10,904**	11,211
Staff costs	4	**(4,803)**	(4,825)
Other operating charges		**(3,451)**	(3,577)
Depreciation and amortisation		**(1,839)**	(1,698)
Total expenses		**(10,093)**	(10,100)
Operating profit before exceptional costs	3	**811**	1,111
Exceptional costs	3	**-**	(183)
Operating profit		**811**	928
Financial income		**3**	13
Financial expenses		**(59)**	(50)
Net financing expense		**(56)**	(37)
Profit before tax		**755**	891
Taxation	5	**108**	(86)
Profit for the year		**863**	805
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**863**	805
Basic earnings per share	14	**1.82p**	1.69p
Diluted earnings per share	14	**1.82p**	1.69p

The notes on pages 33 to 54 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONSOLIDATED AND COMPANY

GROUP – YEAR ENDED 31 MARCH 2013

	Share Capital £000	Share premium £000	Merger reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2012	475	4,079	838	919	6,311
Profit and total comprehensive income for the year	-	-	-	805	805
Capital Reorganisation*	-	(4,079)	-	4,079	-
Dividends paid*	-	-	-	(1,213)	(1,213)
Total movement in equity	-	(4,079)	-	3,671	(408)
Balance at 31 March 2013	475	-	838	4,590	5,903

GROUP – YEAR ENDED 31 MARCH 2014

Profit and total comprehensive income for the year	**-**	**-**	**-**	**863**	**863**
Own Shares acquired*	**-**	**-**	**-**	**(69)**	**(69)**
Dividends paid*	**-**	**-**	**-**	**(870)**	**(870)**
Loan Notes	**-**	**-**	**-**	**(16)**	**(16)**
Total movement in equity	**-**	**-**	**-**	**(92)**	**(92)**
Balance at 31 March 2014	**475**	**-**	**838**	**4,498**	**5,811**

COMPANY – YEAR ENDED 31 MARCH 2013	Share Capital £000	Share premium £000	Merger reserve £000	Retained Earnings £000	Total £000
Balance 31 March 2012	475	4,079	627	784	5,965
Profit and total comprehensive income for the year	-	-	-	939	939
Dividends paid*	-	(4,079)	-	4,079	-
Shares issued*	-	-	-	(1,213)	(1,213)
Total movement in equity	-	(4,079)	-	3,805	(274)
Balance at 31 March 2013	475	-	627	4,589	5,691

COMPANY – YEAR ENDED 31 MARCH 2014

Profit and total comprehensive income for the year	**-**	**-**	**-**	**752**	**752**
Own Shares acquired*	**-**	**-**	**-**	**(69)**	**(69)**
Dividends paid*	**-**	**-**	**-**	**(870)**	**(870)**
Loan Note*	**-**	**-**	**-**	**(16)**	**(16**
Total movement in equity	**-**	**-**	**-**	**(203)**	**(203)**
Balance at 31 March 2014	**475**	**-**	**627**	**4,386**	**5,488**

* Transaction with owners recorded directly in equity

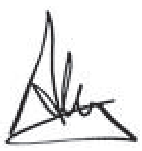
The notes on pages 33 to 54 form part of these financial statements

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014

	Note	**Group 2014 £000**	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Non-current assets					
Property, plant and equipment	7	**1,499**	1,976	**-**	-
Investments in subsidiaries	8	**-**	-	**2,416**	2,416
Intangible assets	8	**4,406**	4,681	**-**	-
Deferred tax assets	6	**-**	2	**-**	-
Other receivables	9	**53**	-	**1,000**	1,000
Total non-current assets		**5,958**	6,659	**3,416**	3,416
Current assets					
Inventories		**168**	183	**-**	-
Trade and other receivables	9	**2,244**	2,543	**2,125**	2,324
Cash and cash equivalents	10	**1,401**	1,417	**1**	1
Total current assets		**3,813**	4,143	**2,126**	2,325
Total assets		**9,771**	10,802	**5,542**	5,741
Current liabilities					
Other interest-bearing loans and borrowings	11	**-**	(23)	**-**	-
Trade and other payables	12	**(1,793)**	(2,826)	**(5)**	(12)
Current tax payable	5	**(282)**	(157)	**-**	-
Accruals and deferred income	12	**(1,147)**	(1,075)	**(49)**	(38)
Other liabilities	12	**(375)**	(365)	**-**	-
Total current liabilities		**(3,597)**	(4,446)	**(54)**	(50)
Non-current liabilities					
Deferred tax liabilities	6	**(363)**	(453)	**-**	-
Total non-current liabilities		**(363)**	(453)	**-**	-
Total liabilities		**(3,960)**	(4,899)	**(54)**	(50)
Net assets		**5,811**	5,903	**5,488**	5,691
Equity attributable to equity holders of the parent					
Share capital	14	**475**	475	**475**	475
Share premium		**-**	-	**-**	-
Merger reserve		**838**	838	**627**	627
Retained earnings		**4,498**	4,590	**4,386**	4,589
Total equity		**5,811**	5,903	**5,488**	5,691

These financial statements were approved by the board of directors on 9 June 2014 and were signed on its behalf by:



A Q ROBERTS
Director

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 MARCH 2014

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from operating activities					
Profit for the year		**863**	805	**752**	939
Adjustments for:					
Depreciation, amortisation and impairment		**1,839**	1,698	**-**	-
(Profit) on sale of property, plant and equipment		**(7)**	-	**-**	-
Net finance expense / (income)		**56**	37	**(647)**	(1,177)
Foreign exchange (loss)/gains		**(59)**	(45)	**(6)**	(12)
Tax (income)/ expense		**(108)**	86	**-**	-
Operating cash flow before changes in working capital and provisions		**2,584**	2,581	**99**	(250)
Change in trade and other receivables		**246**	355	**199**	291
Change in inventories		**15**	(36)	**-**	-
Change in trade and other payables		**(983)**	(181)	**4**	(17)
Cash generated from Operations		**1,862**	2,719	**302**	24
Interest paid		**(8)**	(5)	**-**	-
Income tax received /(paid)		**145**	(324)	**-**	-
Net cash inflow from operating activities		**1,999**	2,390	**302**	24
Cash flows from investing activities					
Proceeds from sale of plant and equipment		**76**	-	**-**	-
Interest received		**11**	13	**1**	1
Acquisition of plant and equipment	7	**(214)**	(303)	**-**	-
Capitalised development expenditure	8	**(440)**	(574)	**-**	-
Acquisition of other intangible assets	8	**(506)**	(687)	**-**	-
Dividends received		**-**	-	**652**	1,188
Net cash (used in) / generated by investing activities		**(1,073)**	(1,551)	**653**	1,189
Cash flows from financing activities					
Proceeds from the issue of share capital	14	**-**	-	**-**	-
Purchase of own shares		**(69)**	-	**(69)**	-
Proceeds from new finance lease		**52**	-	**-**	-
Payment of finance leases		**(20)**	-	**-**	-
Repayment of bank loans		**(23)**	(80)	**-**	-
Repayment of loan notes		**(16)**	-	**(16)**	-
Dividends paid	14	**(870)**	(1,213)	**(870)**	(1,213)
Net cash used in financing activities		**(946)**	(1,293)	**(955)**	(1,213)
Net decrease in cash and cash equivalents		**(20)**	(454)	**-**	-
Exchange (loss)/gain on cash and cash equivalents		**4**	(3)	**-**	-
Cash and cash equivalents at start of year		**1,417**	1,874	**1**	1
Cash and cash equivalents at 31 March	10	**1,401**	1,417	**1**	1

The notes on pages 33 to 54 form part of these financial statements

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

Grafenia plc (the "Company") is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group has considerable financial resources and the opportunities open to the Group continue to grow. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, including a consideration of reasonable sensitivities, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Cash flow forecasts indicate continuing cash inflows to ensure that sufficient cash is available for future trading and dividends. The Group's external funding is made up of a supplier agreement which totalled £23,000 against cash balances of £1,401,000 at the year end. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Further information regarding the Group's business activities together with the factors likely to affect its future development, performance and position is set out in the Chief Executive's Statement on pages 7 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 15 & 17. In addition, note 15 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 its exposures to credit risk and liquidity risk.

STATEMENT OF COMPLIANCE

Both the parent company financial statements and the Group financial statements have been prepared by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and under the historical cost convention. On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income statement and related notes that form a part of these approved financial statements.

The financial statements were approved by the Board of Directors on 9 June 2014.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. To improve the clarity of the financial statements a number of policies are presented alongside the relevant accounting note.

BASIS OF CONSOLIDATION

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

Accounting policies are consistently applied throughout the Group. Intercompany balances and transactions have been eliminated. Profits from intercompany sales, to the extent that they are not yet realised outside the Group, have also been eliminated.

1. ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

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

- fair value of the consideration transferred; plus
- recognised amount of any non-controlling interests in the acquiree; plus
- fair value of the existing equity interest in the acquiree; less
- net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

INVESTMENTS

Investments in subsidiaries are stated at cost. Where in the opinion of the Directors an impairment of the investment has arisen, the value of the investment will be written down to the recoverable amount in accordance with IAS 36 'Impairment of Assets'.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and is valued at purchased cost. Net realisable value is based on estimated selling price less additional costs to completion and necessary costs to make the sale. Inventories are made up of raw materials of £165,000 *(2013: £180,000)* and work in progress of £3,000 *(2013: £3,000).*

INTEREST BEARING BORROWINGS

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

IMPAIRMENT OF ASSETS

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

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

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

1. ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASE PAYMENTS

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

FINANCE LEASE PAYMENTS

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

FINANCING COSTS

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit and loss on the date the entity's right to receive payments is established.

SHARE BASED PAYMENTS

The share option programme allows Group employees to acquire shares in the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The fair value of share options granted to employees of subsidiary companies is recorded as an increase in the investment carrying value in that subsidiary company.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. At each Balance Sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the Balance Sheet date. Translation differences on monetary items are taken to profit and loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

The financial statements of overseas subsidiaries are translated into sterling at the exchange rate ruling at the Balance Sheet date; income and expenses are translated at exchange rates at the date of transaction. The resulting surpluses and deficits are taken directly to the cumulative translation differences reserve and are reported in the consolidated statement of changes in shareholders' equity

On disposal of a foreign subsidiary any cumulative exchange differences held in shareholders' equity are transferred to the Consolidated Statement of Comprehensive Income.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

Intangibles – capitalisation of software and development costs

The Board hold that the Group's key differentiators stem from its proprietary software, operationally W3P Flyerlink and that developed to support BrandDemand, Templating and Online initiatives. It is essential to continue investing in these assets. Projects are agreed with user forums to improve functionality for partners. Separate projects are defined for international expansion and for new initiatives as they are identified. Development costs are capitalised where a project has been defined, tested and successfully implemented. Programming is carried out by third parties who work to a detailed specification and schedule. The Group's policy is to amortise these costs over 5 years whilst the software in question remains in use.

Recoverability of receivables

The Group review outstanding loan balances and overdue trade debtors on a regular basis and make provisions against those balances considered most at risk. In estimating the bad debt provision management will consider the level of debt over 90 days overdue, agreement and compliance with payment plans and the ability to offset the risk against related payables.

NEW STANDARDS AND INTERPRETATIONS THAT HAVE BEEN ENDORSED, BUT WHICH ARE NOT YET EFFECTIVE AND NOT EARLY ADOPTED:

Standards, amendments and interpretations adopted during the period

The Group has adopted the following standards, amendments and interpretations which have not had a significant impact on the Group's results:

Presentation of items of Other Comprehensive Income (amendments to IAS 1)

- IAS 19 'Employee benefits'
- IFRS 13 'Fair value measurement'

STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective, and therefore have not yet been adopted by the Group. These are not expected to have a material impact on the Group's accounts when adopted.

REVENUE AND SEGMENTAL INFORMATION

Revenue represents the invoiced amount, net of Value Added Tax, of goods sold and services provided to customers outside the Group and is recognised as follows:-

- For printing services revenue is recognised on completion of the print run at the fair value of the consideration receivable net of any discounts or commissions as the risks and rewards of the inventory pass to the Customer upon completion of printing. Revenue recognised relates only to amounts invoiced to Customers rather than the full amount paid by the end client. Where printing is undertaken by a supplier, revenue is recognised when the supplier dispatches the goods.

- Licence fees are receivable as an initial fee raised at the start of the Agreements and a secondary fee payable annually on the anniversary of the agreement. Initial fees relate to specific services provided at the start of Agreements (training and set-up) and the ongoing use of the Printing.com brand and in some instances entitlement to territories. Revenue in relation to the services provided at the start of Agreements are recognised on completion of the services as detailed in the Agreement and represents the fair value of those services. The ongoing use of the Printing.com brand is spread over the period to the anniversary of the licence agreement (normally a twelve month period) representing the period over which the rights are made available.

- Secondary fees primarily relate to the ongoing use for the renewal period of the Printing.com brand and network and for Territory Franchisees preserving their entitlement to the territory. The element of the fee in relation to ongoing use of the Printing.com brand and network and entitlement to the territory is spread over the period to the next anniversary date of the licence agreement (normally a twelve month period) representing the period over which the rights are made available.

As in the prior year the Group's primary operating segments are geographic being UK& Ireland, Europe and others. The segmental analysis by nature of service is also consistent with the prior year being conventional printing services, online printing services and licence income.

This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Of the Group revenue of £19,443,000, £10,957,000 was generated in the UK *(2013: £13,389,000*). Revenue generated outside the UK is primarily attributable to Holland & Belgium £7,336,000 *(2013: £7,327,000)*, France £559,000 *(2013: £566,000)* and Republic of Ireland £337,000 *(2013: £333,000*). No single customer provided the Group with over 10% of its revenue.

Of the Group's non-current assets (excluding deferred tax) of £5,958,000, £5,775,000 are located in the UK. Non-current assets located outside the UK are in Holland £159,000, *(2013: £207,000)*, France £24,000, *(2013: £93,000)* and the Republic of Ireland £Nil, *(2013: £1,000).*

2. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

ANALYSIS BY LOCATION OF SALES

	UK & Ireland	**Europe**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
Period ended 31 March 2014				
Segment revenues	**11,294**	**7,895**	**254**	**19,443**
Operating Expenses				**(18,632)**
Results from operating activities				**811**
Exceptional expense				**-**
Net finance expense				**(56)**
Profit before tax				**755**
Tax				**108**
Profit for the period				**863**
Assets – Unallocated net assets				**5,811**

	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Period ended 31 March 2013				
Segment revenues	12,549	7,893	222	20,664
Operating Expenses				(19,553)
Results from operating activities				1,111
				(183)
Net finance income				(37)
Profit before tax				891
Tax				(86)
Profit for the period				805
Assets - Unallocated net assets				5,903

ANALYSIS BY TYPE

	Printing services – online sales	**Printing services**	**Licence Income**	**Total**
	£000	**£000**	**£000**	**£000**
Period ended 31 March 2014				
Segment revenues	**9,465**	**9,003**	**975**	**19,443**
Operating Expenses				**(18,632)**
Results from operating activities				**811**
Exceptional expense				**-**
Net finance income				**(56)**
Profit before tax				**755**
Tax				**108**
Profit for the period				**863**
Unallocated net assets				**5,811**

2. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

ANALYSIS BY TYPE

Printing services	Printing services – online sales £000	Printing services £000	Licence Income £000	Total £000
Period ended 31 March 2013				
Segment revenues	8,755	11,031	878	20,664
Operating Expenses				(19,553)
Results from operating activities				1,111
				(183)
Net finance income				(37)
Profit before tax				891
Tax				(86)
Profit for the period				805
Unallocated net assets				5,903

3. PROFIT BEFORE TAXATION AND AUDITORS' REMUNERATION

Included in profit are the following:

	2014 £000	2013 £000
Operating lease rentals	**386**	472
Amortisation of intangible assets	**1,198**	1,197
Depreciation	**641**	501
Loss on foreign currency transactions	**(59)**	(45)

There were no exceptional costs in the financial year *(2013: £183,000)* which in the main related to severance payments for an MFG director).

Auditors' remuneration:

	2014 £000	2013 £000
Audit of these financial statements	**15**	15
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**31**	31
Tax compliance services	**10**	9
Other tax advisory services	**10**	10
Review of interim financial statements	**6**	6
Other assurance services	**2**	3

The 2013 auditors' remuneration for statutory audit services and non-audit services relate solely to amounts paid to KPMG Audit Plc. The 2014 amounts relate solely to amounts paid to KPMG LLP.

Amounts paid to the Group's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. STAFF NUMBERS AND COSTS

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

Number of employees	**Group 2014**	Group 2013	**Company 2014**	Company 2013
Administration	**25**	27	**2**	2
Sales and distribution	**66**	64	**-**	-
Production	**62**	64	**-**	-
	153	155	**2**	2

The aggregate payroll costs of all employees, including Directors, were as follows:

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Wages and salaries	**4,185**	4,213	**51**	59
Social security costs	**488**	503	**5**	5
Other pension costs	**130**	109	**-**	-
	4,803	4,825	**56**	64

Defined contribution plan

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The amounts charged to the Consolidated Statement of Comprehensive Income represent the contributions payable to the scheme in respect of the accounting period. In the year ended 31 March 2014 £130,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2013: £109,000)*. As at 31 March 2014 £1,000 *(2013: £9,000)* of contributions were outstanding on the balance sheet.

KEY MANAGEMENT REMUNERATION:

	2014 £000	2013 £000
Key managements' emoluments	**447**	501
Share based payments (see note 13)	**-**	-
Company contributions to money purchase pension plans	**47**	38
Amounts paid to third parties in respect of directors services	**-**	199
	494	738

The Group considers the key management to be the Directors of the Group. Information covering Directors' remuneration is set out in full in the 'Elements of remuneration' section of the Directors Remuneration Report on page 10.

The aggregate of emoluments for the highest paid Director was £172,000 *(2013: £171,000)*, and Company pension contributions of £23,000 *(2013: £21,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes amounted to 3 *(2013: 3)*.

5. TAXATION

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

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

Recognised in profit and loss

	2014	2013
	£000	£000
Current tax expense		
Current year	**306**	292
Foreign tax	**109**	158
Adjustments for prior years	**(435)**	(341)
	(20)	109
Deferred tax expense		
Origination and reversal of temporary differences (see note 6)	**(216)**	(181)
Movement due to change in rate of tax	**(87)**	(27)
Adjustment in respect of prior year	**215**	185
Total tax in profit and loss	**(108)**	86

The adjustment in the tax expense for prior years is primarily due to R&D tax reclaims. These amounts are only recognised by the Group when the claims have been completed and cash received. The amounts reclaimed differ from the development costs capitalised under IAS and therefore the difference is not recognised as part of the tax base of these assets.

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2013: lower)* than the standard rate of corporation tax in the UK of 23% *(2013: 24%)*. The differences are explained below:

	2014	2013
	£000	£000
Profit for the period	**755**	891
Tax using the UK corporation tax rate of 23% *(2013:24%)*	**173**	214
Effects of:		
Permanent differences	**24**	19
Overseas tax losses not recognised	**5**	2
Difference in overseas tax rate	**(10)**	27
Losses carried forward	**(26)**	-
Adjustments in respect of prior periods – current tax	**(435)**	(341)
Adjustments in respect of prior periods – deferred tax	**215**	185
Movement due to change in tax rate	**(54)**	(20)
Total tax (repayment)/expense	**(108)**	86

The Group Tax Creditor amounts to £282,000 *(2013:£157,000)*. The deferred tax assets and liabilities as at 31 March 2014 have been calculated using the tax rate of 20% which was substantively enacted at the balance sheet date.

The UK corporation tax rate has been progressively reduced over the last 4 years. The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement.

6. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

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

Recognised deferred tax assets and liabilities	**Assets 2014 £000**	Assets 2013 £000	**Liabilities 2014 £000**	Liabilities 2013 £000
Property, plant and equipment	**-**	-	**349**	399
Intangible assets	**-**	-	**14**	54
Other	**-**	(2)	**-**	-
Tax (assets)/liabilities	**-**	(2)	**363**	453

Movement in deferred tax during the year.	31 March 2013	**Adjustment for prior years**	**Recognised in income**	**Recognised in income due to tax rate change**	**31 March 2014**
	£000	**£000**	**£000**	**£000**	**£000**
Property, plant and equipment	399	**215**	**(183)**	**(82)**	**349**
Intangible assets	54	**-**	**(33)**	**(7)**	**14**
Other timing differences	(2)	**-**	**-**	**2**	**-**
	451	**215**	**(216)**	**(87)**	**363**

Movement in deferred tax during the year.	31 March 2012	Adjustment for prior years	Recognised in income	Recognised in income due to tax rate change	31 March 2013
	£000	£000	£000	£000	£000
Property, plant and equipment	403	158	(139)	(23)	399
Intangible assets	73	27	(42)	(4)	54
Other timing differences	(2)	-	-	-	(2)
	474	185	(181)	(27)	451

COMPANY

The Company had no deferred tax assets or liabilities as at 31 March 2014 *(2013: £nil).*

7. PROPERTY, PLANT AND EQUIPMENT – GROUP

Property, plant and equipment is stated at cost less accumulated depreciation and impairments.

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

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

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows

Depreciation

Fixtures and fittings	- 20% - 33% straight line	Plant and equipment	- 10% - 30% straight line
Domain name	- 5% straight line	Leasehold improvements	- over remaining lease life

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
Balance at 31 March 2012	656	6,711	31	762	8,160
Additions	-	142	30	131	303
Disposals	-	(24)	-	(110)	(134)
Effect of movement in foreign exchange	-	-	-	1	1
Balance at 31 March 2013	656	6,829	61	784	8,330
Balance at 31 March 2013	656	6,829	61	784	8,330
Additions	-	60	-	154	214
Disposals	(80)	-	-	(27)	(107)
Effect of movements in foreign exchange	-	-	-	(3)	(3)
Balance at 31 March 2014	**576**	**6,889**	**61**	**908**	**8,434**
Depreciation and impairment					
Balance at 31 March 2012	477	5,075	17	418	5,987
Depreciation charge for the year	64	275	9	153	501
Disposals	-	(24)	-	(110)	(134)
Effect of movements in foreign exchange	-	-	-	-	-
Balance at 31 March 2013	541	5,326	26	461	6,354
Balance 31 March 2013	541	5,326	26	461	6,354
Depreciation charge for the year	54	427	13	147	641
Disposals	(31)	-	-	(25)	(56)
Effect of movements in foreign exchange	-	-	-	(4)	(4)
Balance at 31 March 2014	**564**	**5,753**	**39**	**579**	**6,935**

7. PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

	Land and buildings	Plant and equipment	Motor Vehicles	Fixtures and Fittings	Total
	£000	£000	£000	£000	£000
Net book value					
At 31 March 2012	179	1,636	14	344	2,173
At 31 March 2013	115	1,503	35	323	1,976
At 31 March 2014	**12**	**1,136**	**22**	**329**	**1,499**

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2014 Group had a leased asset with a carrying value of £32,000 *(2013: nil).*

8. INTANGIBLE ASSETS AND INVESTMENTS

RESEARCH AND DEVELOPMENT COSTS

All research costs are written off as incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed. In such circumstances the costs are carried forward and amortised over time in all cases over a period not exceeding five years commencing in the year when the asset is available for use.

Amortisation on patents, trademarks and development costs is charged to profit and loss on a straight-line basis over the useful economic life of the asset.

Patents and trademarks	-	20 years
Capitalised development costs	-	3 - 5 years

Reviews of impairment indicators in relation to the carrying value of development expenditure are undertaken annually.

SOFTWARE

External expenditure on computer systems and software is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the useful economic life of the asset, which is expected to be no more than five years.

CUSTOMER LISTS AND TERRITORY RIGHTS

Intangible assets include customer lists purchased on the buy-back of Stores from existing Franchisees. Customer lists are stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight line basis over a three year period.

Intangible assets also include Territory Rights purchased on the buyback of Territory Franchises. Territory Rights are valued at cost less accumulated amortisation and impairment losses. Amortisation is on a straight line basis over a five year period.

8. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

Group	Domain name £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2012	445	2,445	1,025	2,133	1,280	38	7,366
Acquisitions – internally developed	-	-	574	-	-	-	574
Acquisitions – externally purchased	6	598	-	3	-	80	687
Disposals	-	(259)	-	(350)	-	-	(609)
Foreign exchange movement	-	2	-	-	-	-	2
Balance at 31 March 2013	451	2,786	1,599	1,786	1,280	118	8,020
Balance at 31 March 2013	451	2,786	1,599	1,786	1,280	118	8,020
Acquisitions – internally developed	-	-	440	-	-	-	440
Acquisitions – externally purchased	12	469	-	-	-	25	506
Disposals	-	(560)	(302)	(747)	-	-	(1,609)
Foreign exchange movement	-	(4)	-	-	-	(1)	(5)
Balance at 31 March 2014	**463**	**2,691**	**1,737**	**1,039**	**1,280**	**142**	**7,352**
Amortisation and impairment							
Balance at 31 March 2012	229	1,138	410	958	-	16	2,751
Amortisation for the year	37	481	178	498	-	3	1,197
Foreign exchange movement	-	(259)	-	(350)	-	-	(609)
Balance at 31 March 2013	266	1,360	588	1,106	-	19	3,339
Balance at 31 March 2013	266	1,360	588	1,106	-	19	3,339
Amortisation for the year	38	519	264	359	-	18	1,198
Disposals	-	(556)	(302)	(729)	-	(1)	(1,591)
Balance at 31 March 2014	**304**	**1,323**	**550**	**736**	**-**	**33**	**2,946**
Net book value							
At 31 March 2012	216	1,307	615	1,175	1,280	22	4,615
At 31 March 2013	185	1,426	1,011	680	1,280	99	4,681
At 31 March 2014	**159**	**1,368**	**1,187**	**303**	**1,280**	**109**	**4,406**

AMORTISATION AND IMPAIRMENT CHARGE

The amortisation charge of £1,198,000 (2013: £1,197,000) is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2013: £nil)* was recognised during the year.

GOODWILL

Goodwill of £1,280,000 arose on the acquisition of Media Facility Group BV (MFG) in November 2010 because of the operational synergies and the opportunities for the expanded Group to exploit access to a wider market through a combination of the technology in Grafenia with the expertise in online sales of MFG. None of the goodwill is deductable for tax purposes.

8. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

TRADE AND ASSETS OF FRANCHISES

During the year the Group acquired no Franchise trade and assets *(2013: £3,000).*

IMPAIRMENT TESTING

Goodwill

The recoverable amount of goodwill is determined from value in use calculations. The key assumptions for value in use calculations are those regarding budgeted and forecast sales growth through on-line channels. Sales growth assumptions are dependent on volumes sold through the established websites and successfully setting up websites in new territories.

The Group prepares cash flow forecasts derived from budgets and two year business plans. For the purposes of impairment testing inflationary growth of 2% is assumed beyond this period. The sales growth relates to online sales using templating technology in existing and new territories which are expected to significantly increase in the next three years. The growth rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites.

A pre tax discount factor of 10% *(2013: 12%)* was applied.

Other intangibles

Development expenditure and external software costs are allocated to specific projects and revenue streams. Value in use calculations are made to justify carrying values and Amortisation policy, impairment risk is reviewed by the Board. This also applies to templating technology..

Customer lists in intangible assets relate to the value placed upon customer lists of Stores and those acquired on acquisition of MFG. Applying IAS36 Stores customer lists are being amortised over three to five years and are tested bi-annually on a store by store basis for indications of impairment.

No reasonably possible change in any of the assumptions noted above would lead to an impairment charge being required.

Investments - Company

	Shares in Subsidiary undertakings £000	**Total £00**
Cost		
Balance at 1 April 2012	2,416	2,416
Balance at 31 March 2013	2,416	2,416
Balance at 31 March 2014	**2,416**	**2,416**

The Company owns the whole of the issued ordinary share capital of the following undertakings:

Subsidiary undertaking	**Nature of business**
Grafenia Operations Limited	Printing
Media Facility Group BV	Print Provision
Printing.com (UK Franchise) Limited	Franchise contracts
Printing.com Franchise Limited	Franchise contracts
Printing.com France SA	Franchise contracts
PDC.SA	Holding Intellectual Property
Creative Enterprise Support Limited	Enterprise Support
TemplateCloud Limited	Template Provision
W3P Limited	Software

9. TRADE AND OTHER RECEIVABLES

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Other receivables due from subsidiary companies	**-**	-	**2,124**	2,307
Trade receivables and prepayments	**2,186**	2,527	**-**	-
Other receivables	**58**	16	**1**	17
	2,244	2,543	**2,125**	2,324

At 31 March 2014 trade receivables are shown net of an allowance for doubtful debts of £267,000 *(2013: £312,000).*

An analysis of impairment losses recognised in the year is given in note 15.

Trade and other receivables denominated in currencies other than sterling comprise £376,000 *(2013: £537,000)* of trade receivables and £nil *(2013: £nil)* of other receivables denominated in Euro.

Non-current assets included the following amounts falling due after more than one year.

	Group 2014 £000	Company 2013 £000	**Company 2014 £000**	Company 2013 £000
Other receivables due from subsidiary companies	**-**	-	**1,000**	1,000
Other receivables	**53**	-	**-**	-

10. CASH AND CASH EQUIVALENTS

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Cash and cash equivalents	**1,401**	1,417	**1**	1

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments. Cash denominated in currencies other than Sterling comprise £447,000 *(2013: £423,000)* all in Euro.

11. OTHER INTEREST-BEARING LIABILITIES

This note provides information about the contractual terms of the Group and Company's interest-bearing liabilities. For more information on the Group and Company's exposure to interest rate and foreign currency risk, see note 15.

Non-current liabilities	**Group 2014 £000**	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Current liabilities				
Current portion of bank loans	**-**	23	**-**	-

Bank loans

	Minimum loan payments 2014 £000	**Interest 2014 £000**	**Principal 2014 £000**	Minimum loan payments 2013 £000	Interest 2013 £000	Principal 2013 £000
Group						
Less than one year	**-**	**-**	**-**	23	-	23

12. TRADE AND OTHER PAYABLES

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Other trade payables	**1,793**	2,826	**5**	12
Accruals and deferred income	**1,147**	1,075	**49**	38
Other liabilities	**375**	365	**-**	-
	3,315	4,266	**54**	50

Other trade payables denominated in currencies other than Sterling comprise £225,000 *(2013: £562,000)* denominated in Euro.

13. EMPLOYEE BENEFITS

SHARE-BASED PAYMENTS

The share based payment charge for the current and prior year is not material and therefore abbreviated rather than full disclosure of share options are set out below.

GROUP EMPLOYEES

The Group established an EMI Share Option Scheme on 6 August 2004 it imposes performance criteria with individual employee targets subject to 'trigger' price points based on the mid-market price of Ordinary Shares over 200 consecutive day periods.

There were no movements on options during this or the prior year and the number and weighted average exercise prices of employee share options are as follows:

Options	**Weighted average exercise price**	**Number of options**	Weighted average exercise price	Number of Options
	2014	**2014**	2013	2013
Outstanding at the end of the period	**32.5p**	**1,625,000**	32.5p	1,625,000

The total expense recognised for the period arising from share based payments in respect of employees was £nil *(2013: £nil).*

THIRD PARTIES

The Company established share option schemes for Franchisees to incentivise them to drive the Printing.com business forward and to align their interests with the Company and its Shareholders. Options were granted to Franchises when they entered their Territory Franchise Agreements. Once granted the Options only vest in tranches when pre-defined challenging revenue targets are met and exercised when the market price of Ordinary Shares has exceeded certain levels for a period of not less than 200 days.

The number and weighted average exercise prices of share options issued to third parties, principally Franchisees, are as follows:

Options	**Weighted average exercise price**	**Number of options**	Weighted average exercise price	Number of Options
	2014	**2014**	2013	2013
Outstanding at the beginning of the period	**32.46**	**434,000**	33.80	660,000
Forfeited during the period	**-**	**-**	36.37	(226,000)
Outstanding at the end of the period	**32.46**	**434,000**	32.46	434,000

The total expenses recognised for the period arising from share based payments in respect of Franchisees was £nil *(2013: £nil).*

14. SHARE CAPITAL

SHARE CAPITAL - GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2014**	Ordinary shares 2013
On issue at 31 March 2013	**47,558**	47,558
Purchased by the Company and held in Treasury	**(486)**	-
Shares on the market at 31 March 2014 – fully paid	**47,072**	47,558

	£000	£000
Allotted, called up and fully paid		
47,557,835 *(2013: 47,557,835)* ordinary shares of £0.01 each	**475**	475
63 deferred shares of £0.10 each	**-**	-
	475	475

EARNINGS PER SHARE

The calculations of earnings per share are based on the following profits and numbers of shares.

	2014 £000	2013 £000
Profit after taxation for the financial year	**863**	805

Weighted average number of shares

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**47,479,060**	47,557,835
Exercise of share options	**-**	52,611
For diluted earnings per ordinary share	**47,479,060**	47,610,446

Share options in issue at year end all had exercise prices higher than the average market price of ordinary shares during the period, therefore they are not treated as dilutive for the purposes of the earnings per share calculation.

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.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity which was 19% *(2013: 21%)* at the year end. The Board of Directors have adopted the policy that dividends proposed are covered by earnings.

At present employees hold 23% of ordinary shares, assuming that all outstanding share options are exercised.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

14. SHARE CAPITAL (CONTINUED)

Dividends	**2014** **£000**	2013 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**713**	713
Interim dividends paid in respect of the current year	**157**	500
Total dividend paid in the year	**870**	1,213

After the balance sheet date dividends of £471,000/1.00p per qualifying ordinary share *(2013: £713,000/1.50p per qualifying ordinary share)* were proposed by the Directors. The dividends have not been provided for.

15. FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found on page 6. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and finance leases.

The Group's policy during the financial year ended 31 March 2014 and 31 March 2013 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of significant fixed assets through finance leases.

Credit risk

Group

The Group's credit risk is primarily attributable to trade and other receivables both current and non-current. Trade receivables are included in the balance sheet net of doubtful receivables, estimated by the Group's management. The maximum credit risk in respect of the Group's and Company's financial assets at the year end is represented by the balance outstanding on trade receivables and other receivables due from Franchisees as shown below.

During the year the Group has continued to use the Pay As You Go (PAYG) model to manage debtors and mitigate the credit risk through structured payments. This model ensures that total debts do not increase while continuing to serve the customer base. Interest of between 3.5% and 5.5% was charged on PAYG debts during the year. Repayment plans have been entered into separately for certain PAYG debtors and make up £747,000 *(2013: £747,000)* of total gross debtors. The Group retains the right to re-call debts ahead of the payment plans agreed.

The ageing of trade receivables and other receivables (not including prepayments) due from Franchisees at the reporting date was:

	31 March 2014 **Total** **£000**	**31 March 2014** **Impairment** **£000**	31 March 2013 Total £000	31 March 2013 Impairment £000
Not past due	**1,276**	**-**	1,252	-
Past due 0 – 30 days	**290**	**-**	405	-
Past due 31 – 90 days	**241**	**-**	261	-
Past due 90 days and over	**492**	**(267)**	494	(312)
	2,299	**(267)**	2,412	(312)

15. FINANCIAL INSTRUMENTS (CONTINUED)

IMPAIRMENT

	£000
Balance at 31 March 2012	363
Impairment loss recognised	(94)
Increase in impairment allowance	44
Balance at 31 March 2013	313
Impairment loss recognised	(49)
Increase in impairment allowance	3
Balance at 31 March 2014	**267**

Of the total impairment provision £195,000 relates to Franchises that have ceased trading.

COMPANY

The Company did not have trade receivables at the year end.

INTEREST RATE RISK

The Group and the Company do not have a material exposure to interest rates.

LIQUIDITY RISK

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting agreements:

31 MARCH 2014

	Carrying amount £'000	**Contractual cash flows £'000**	**6 months or less £'000**	**6-12 months £000**	**1-2 years £000**	**2-5 years £000**
Trade and other payables	**3,283**	**3,283**	**3,283**	**-**	**-**	**-**
Bank Loans	**-**	**-**	**-**	**-**	**-**	**-**
Finance lease liability	**32**	**32**	**12**	**11**	**9**	**-**
	3,315	**3,315**	**3,295**	**11**	**9**	**-**

31 MARCH 2013

	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6-12 months £000	1-2 years £000	2-5 years £000
Trade and other payables	4,104	4,104	4,104	-	-	-
Bank Loans	23	23	23	-	-	-
	4,127	4,127	4,127	-	-	-

All trade receivables are contractually due within 6 months.

15. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

GROUP

The Group transacts some business in foreign currency, principally Euro, and therefore incurs some transaction risk. The risk does not warrant hedging activity by the Group to defend against the impact of exchange rate movements.

The Group's exposure to foreign currency risk denominated in GBP was as follows:-

	31 March 2014 Euro £000	**31 March 2014 GBP £000**	31 March 2013 Euro £000	31 March 2013 GBP £000
Trade receivables	**376**	**2,172**	537	2,317
Cash and cash equivalents	**447**	**954**	423	994
Trade payables	**(225)**	**(1,568)**	(562)	(2,264)
Bank Loans	**-**	**-**	(23)	-
	598	**1,558**	375	1,047

SENSITIVITY ANALYSIS

Where the Group operate in Europe both revenues and costs are in the local currency therefore the level of exchange risk is low. In the Eurozone the Group have a presence in Holland, Belgium, France, and Ireland. In managing interest rate and currency risks the Company and Group aims to reduce the impact of short-term fluctuations on the Company and Group's earnings.

At 31 March 2014, it is estimated that a general increase of one percentage point in the value of the Euro would increase the Group's profit before tax by approximately £7,000 *(2013: £4,000)* with an equal adjustment to equity.

FAIR VALUES

There is no difference of *(2013: £2,000)* between fair values and carrying amounts on the balance sheet arising solely on Bank Loans *(2013: Bank Loans, Loan Notes and Finance lease liability).*

DETERMINATION OF FAIR VALUES

All fair value measurements are deemed to be level 1 as per the definitions in IFRS 13. There have been no movements between levels during the year. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

TRADE PAYABLES

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

FINANCE LEASE LIABILITY / BANK LOANS

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest for finance leases is determined by reference to similar lease agreements.

16. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2014	Group 2013	**Company 2014**	Company 2013
	£000	£000	**£000**	£000
Plant and machinery				
Less than one year 26	**27**	-	**-**	
Between one and five years	**8**	35	**-**	-
Land and buildings				
Less than one year	**337**	406	**-**	-
Between one and five years	**665**	298	**-**	-
More than five years	**66**	14	**-**	-
	1,102	780	**-**	-

The most significant lease in Land and buildings is that of the Manchester Production Hub and Head Office.

GROUP

During the year £386,000 *(2013: £472,000)* was recognised as an expense in profit and loss in respect of operating leases.

17. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the yearend *(2013: £nil).*

18. CONTINGENCIES

Neither the Group nor the Company had contingencies at the yearend *(2013: £nil).*

19. RELATED PARTIES

The Company receives dividends from its subsidiaries Grafenia Operations Limited and Media Facility Group BV. In the year ended 31 March 2014 dividends of £652,000 were received *(2013: £1,188,000).* Total sales to subsidiary undertakings were £nil *(2013: £nil)* and total expenses incurred from subsidiary undertakings were £nil *(2013: £nil).* The amounts outstanding at the year-end from subsidiary undertakings are shown in note 9.

Transactions with key management personnel

Directors of the Company control 26.36 per cent of the voting shares of the Company.

The compensation of the Directors, who are the key management personnel, is disclosed in the Directors Remuneration Report see pages 24 to 26.

ADVISERS AND COMPANY INFORMATION

Registered Office
Third Avenue
The Village
Trafford Park
MANCHESTER
M17 1FG

Company Number
03983312 (England and Wales)

Website Address
www.printing.com

Company Secretary
Alan Q Roberts, FCMA

Financial Adviser, Nominated Adviser and Broker to the Company
N+1 Singer
West One
114 Wellington Street
LEEDS
LS1 1BA

Solicitors to the Company
Gateley (Manchester) LLP
Ship Canal House
98 Kings Street
MANCHESTER
M2 4WU

Auditors to the Company
KPMG LLP
St. James' Square
MANCHESTER
M2 6DS

Registrars and Receiving Agents to the Company
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
HUDDERSFIELD
HD8 0LA

Bankers to the Group
The Royal Bank of Scotland plc
1 Spinningfields Square
MANCHESTER
M3 3AP

Opuleaf Luxe Gold, Opuleaf Luxe Silver and Embossini Luxe products were all introduced to the printing.com range in 2014

GRAFENIA plc

Third Avenue > The Village > Trafford Park > Manchester > M17 1FG

t: **+44 (0)161 848 5700** > e: **investors@grafenia.com**

WWW.GRAFENIA.COM

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Registered office: Third Avenue, The Village, Trafford Park, Manchester M17 1FG. VAT Registration No. GB 764 5390 08

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