

# **Walker Greenbank PLC**

***Restatement of Financial Information under International  
Financial Reporting Standards***

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# 1. Introduction

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Walker Greenbank PLC and its subsidiaries ('the Group') have previously prepared consolidated financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). From 1 February 2007 the Group is required to prepare its consolidated financial statements in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') as adopted by the European Union (EU). Reference to IFRS throughout this document, which is unaudited, refers to the application of International Accounting Standards and International Financial Reporting Standards.

The Group's first accounting period under IFRS will be for the financial year ended 31 January 2008, and its first interim results will be for the six months ended 31 July 2007. The Group's date of transition to IFRS has been determined, in accordance with IFRS 1, First Time Adoption of International Financial Reporting Statements, as 1 February 2006.

This statement presents and explains how the Group's financial performance and position under IFRS differs from that reported under UK GAAP. Restated information is presented for:

- The consolidated balance sheet as at 1 February 2006 (the transition date)
- The consolidated income statement for the six month period ending 31 July 2006
- The consolidated income statement for the year ending 31 January 2007
- The consolidated balance sheet as at 31 July 2006
- The consolidated balance sheet as at 31 January 2007
- The consolidated cash flow statement for the six month period ending 31 July 2006
- The consolidated cash flow statement for the year ending 31 January 2007
- The consolidated statement of recognised income and expense

The adoption of IFRS represents an accounting policy change only and has no impact on the Group's business strategy, nor on the cash flows generated by the business and it does not change the underlying drivers of value of Walker Greenbank's business model.

The effect of the adoption of IFRS on the financial assets of the Group is minimal as can be seen from the table below:

		Six months to 31 July 2006		Year to 31 January 2007	
		UK GAAP	IFRS	UK GAAP	IFRS
Operating profit	£000	2,291	2,301	3,477	3,757
Profit before tax	£000	1,863	1,783	2,594	2,694
Profit for the year	£000	1,840	1,760	2,536	2,636
Earnings per share	p	3.26p	3.12p	4.49p	4.67p
Net assets	£000	10,432	10,356	12,847	12,943

# 2. Basis of preparation

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The financial information in this document has been prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretation Committee (IFRIC) interpretations and the IFRS accounting policies that the company expect to be applied in the accounts for the year ended 31 January 2008 as set out in section 4.

This restatement document has been prepared on the basis that the EU will have adopted all IFRSs that have been issued to date, and which are relevant to Walker Greenbank PLC and will be in force for the 2008 financial statements. Any changes to these standards, or the issue of further interpretations by the International Financial Reporting Interpretation Committee (IFRIC) or any failure by the EU to adopt all of these standards could result in the need to change the basis of accounting or presentation of certain financial information from that presented in this document.

In preparing this restatement financial information, Walker Greenbank PLC has not applied the following pronouncements for which adoption is not mandatory for the year ending 31 January 2007 and which have not yet been endorsed by the EU:

- IFRIC 11 'Group and treasury transactions'
- IFRIC 12 'Service concession agreements'
- IFRIC 13 'Customer loyalty programmes relating to IAS 18, Revenue'

## 2. Basis of preparation (continued)

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- IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRS 8 'Operating segments'
- IAS 23 (revised 2007) 'Borrowing costs'

The UK GAAP financial information contained in this document does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The auditors have issued an unqualified opinion on Walker Greenbank PLC's UK GAAP financial statements for the year ended 31 January 2007. The UK GAAP financial statements for the year ended 31 January 2007 have been delivered to the registrar of companies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed.

### Format of Primary Statements

The income statements and balance sheets included in this document are presented in accordance with IAS1 "Presentation of Financial Statements". However, where no definitive guidance on presentation exists, a UK GAAP approach has been followed in order to maintain consistency with prior years. The format and presentation may require modification in the event that further guidance is issued and as best practice develops.

### First time adoption of IFRS

The rules for first time adoption are set out in IFRS 1, First Time Adoption of International Financial Reporting Standards. IFRS 1 states that a company should establish its IFRS accounting policies for the year ending 31 January 2008 and apply them retrospectively as a general principle in deriving the opening balance sheet at the date of transition. However retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction is already known. IFRS 1, does however, allow a number of exemptions from the application of certain IFRSs to assist companies with the transition process. Walker Greenbank PLC has taken advantage of the following key exemptions:

- Goodwill and business combinations (IFRS 3): The Group has elected to take advantage of the exemption not to apply IFRS 3 retrospectively to business combinations occurring prior to the transition date to IFRS. Goodwill arising on such acquisitions has been frozen at its UK GAAP carrying value at 31 January 2006, having been satisfactorily tested for impairment at that date. Amortisation previously reported for the year ended 31 January 2007 is removed in the IFRS restated income statement. The operating profit impact for the year ended 31 January 2007 is a reduction in the amortisation charge of £39,000;
- Fixed Assets: On transition the Group has continued to measure tangible fixed assets using the historic cost basis;
- Cumulative translation differences: The Group has elected to reset the foreign currency translation reserve to zero at the transition date. Any gains and losses on subsequent disposals of foreign operations will exclude translation differences arising prior to the date of transition;
- Other available IFRS1 exemptions on first time adoption of IFRS have not been taken as they are not applicable to the circumstances of the Group.

Walker Greenbank PLC has applied the following mandatory exceptions:

- Hedge accounting: at the date of transition to IFRSs, an entity shall: measure all derivatives at fair value and eliminate all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities. An entity shall not reflect in its opening IFRS balance sheet a hedging relationship of a type that does not qualify for hedge accounting under IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; where the hedged item is a net position; or where the hedge covers interest risk in a held-to-maturity investment). However, if an entity designated a net position as a hedged item under previous GAAP, it may designate an individual item within that net position as a hedged item under IFRSs, provided that it does so no later than the date of transition to IFRSs. If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IAS 39 the entity shall apply paragraphs 91 and 101 of IAS 39 (as revised in 2003) to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges. Transitions entered into before the date of transition to IFRS shall not be retrospectively designated as hedges.

## 2. Basis of preparation (continued)

- Estimates: Estimates at the date of transition to IFRS shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any differences in accounting policies), unless there is objective evidence that those estimates were in error.

## 3. Summary of Impact

		Six months to 31 July 2006		Year to 31 January 2007	
		UK GAAP	IFRS	UK GAAP	IFRS
Operating profit	£000	2,291	2,301	3,477	3,757
Profit before tax	£000	1,863	1,783	2,594	2,694
Profit for the year	£000	1,840	1,760	2,536	2,636
Earnings per share	p	3.26p	3.12p	4.49p	4.67p
Net assets	£000	10,432	10,356	12,847	12,943

The changes having the most significant impact on the restated figures are as follows, and are explained in further detail below:

- The cessation of goodwill amortisation
- Capitalisation and subsequent amortisation of development costs
- Recognition of short term employee benefits
- Property, plant and equipment residual value reassessment
- Valuation of pension scheme assets

## 4. Review of changes arising from the transition from UK GAAP to IFRS

The information below explains how the Group's financial performance and position under IFRS differs from that reported under UK GAAP. The restated financial statements reconciling the changes from GAAP to IFRS can be found in the appendices i to VIII.

### **Goodwill and business combinations (IFRS 3)**

Under UK GAAP goodwill was amortised over its useful life, under IFRS 3 goodwill is subject to impairment reviews on at least an annual basis or more frequently if events or changes in circumstance indicate that the carrying value may have been impaired. The non-amortisation of goodwill results in an increase in the pre-tax profit and net assets of £19,500 in the 6 months ended 31 July 2006 and £39,000 in the year ended January 2007.

### **Intangible assets – Computer software (IAS 38)**

IAS 38 requires software costs that are not an integral part of the hardware of a computer to be capitalised as intangible fixed assets. This change in accounting rules means assets previously capitalised in property, plant and equipment have been reclassified under intangible fixed assets. Accordingly, £1,094,000 at 1 February 2006, £925,000 at 31 July 2006 and £775,000 at 31 January 2007 have been reclassified from property, plant and equipment to intangible fixed assets. The associated depreciation is reclassified as amortisation of intangible assets in the income statement but there is no impact on the operating profit as a result of the reclassification. New additions of computer software have been reclassified as purchases of intangible assets in the cash flow statement, £15,000 in the period ended 31 July 2006 and £52,000 in the year ended 31 January 2007.

### **Intangible assets - Collection design (IAS 38)**

Under UK GAAP internally generated assets were not allowed to be capitalised. Under IFRS it is mandatory to capitalise internally generated assets provided they meet certain criteria. The Group has assessed its internal designer costs incurred in the development of collections and to the extent that they meet the definition of an intangible asset have been capitalised. Costs assessed as research or not meeting the definition, continue to be recognised as an expense in the income statement. Collection design assets are amortised over the life of the asset at 25%. Assets are tested for impairment if any impairment trigger events are identified in accordance with IAS 36.

## 4. Review of changes arising from the transition from UK GAAP to IFRS (continued)

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In previous UK GAAP accounts external design costs were included within inventory and trade and other receivables, these costs have now also been reclassified as intangible assets £82,000 at 1 February 2006, £105,000 at 31 July 2006 and £169,000 at 31 January 2007. The capitalisation of the internal design costs increases the net assets by £114,000 at 1 February 2006, £146,000 at 31 July 2006 and £166,000 at 31 January 2006. The capitalisation and amortisation of internal collection design assets has resulted in an increase in the pre-tax profit for the 6 months ended 31 July 2006 of £32,000 and £52,000 for the year ended 31 January 2007. Additions of design costs of £99,000 in the period ended 31 July 2006 and £224,000 in the year ended 31 January 2007 have been reclassified as purchases of intangible assets in the cash flow statement.

### **Property, plant and equipment (IAS 16)**

IAS 16 requires residual values to be based on forecast residual values at the balance sheet date, whereas under UK GAAP residual values are based on prices prevailing at the date of acquisition. The Group's assessment of the residual values of its property, plant and equipment under IFRS has resulted in the increase in residual values of some of its plant and equipment. Consequently the depreciation charged on these assets after transition to IFRS is reduced. This increases the pre-tax profit and net assets for the 6 months ended 31 July 2006 by £8,000 and £16,000 for the year ended 31 January 2007.

### **Cumulative translation differences (IAS 21)**

The Group has utilised the exemption available in IFRS 1 whereby cumulative translation differences are deemed to be zero at the date of transition to IFRS; the profit or loss on all subsequent disposals will therefore exclude any translation differences arising prior to 1 February 2006. IAS 21 states the exchange differences arising on consolidation on the translation of overseas subsidiaries are required to be recognised as a separate equity reserve. A foreign equity reserve has been set up in the balance sheet reclassifying net translation losses of £5,000 at 31 July 2006 and £17,000 at the year ended 31 January 2007 from retained earnings.

### **Employee benefits - Pension schemes (IAS 19)**

IAS 19 requires retirement and other benefits to be accounted for inline with IAS 19, 'Employee Benefits'. IAS 19 is similar to FRS 17 'Retirement Benefits' except that the opening deficit is slightly higher as assets are valued at a bid price rather than a middle market valuation. The impact of adoption of IAS 19 is to recognise an additional net liability of £52,000 at the transition date, bringing the total liability to £8,033,000 and an increase in the liability at the year ended 31 January 2007 of £60,000 bringing the liability to £5,518,000. Changes in the valuation of the assets are shown in the statement of recognised income and expense.

Under IAS 19 administration costs associated with the pension scheme can be offset against the finance income. Cost of £90,000 have been reclassified at 31 July 2006 and £180,000 at 31 January 2007.

### **Employee benefits - Short term benefits (IAS 19)**

IAS 19 requires holiday pay to be accrued recognising the employee benefits to be paid in exchange for that service during the accounting period. This results in the recognition of a provision of £58,000 on transition to IFRS and a reduction in the pre-tax profit in the 6 months to July 2006 of £140,000 and £7,000 for the year ended 31 January 2007. Net assets at 31 July 2006 are reduced by £198,000 and at 31 January 2007 by £65,000.

### **Deferred tax asset (IAS 12)**

Unlike FRS 17 'Retirement Benefits', IAS 19 'Employee Benefits' requires the pension deficit to be shown gross under long term liabilities rather than net of deferred tax. We will continue to recognise a deferred tax asset of £1,637,000 at 31 January 2007 but it will now be reported within non-current deferred tax assets.

### **Revenue – royalty income (IAS 18)**

Royalty income was previously disclosed as other operating income, IAS 18 requires royalty income to be disclosed as revenue. This requirement means the reclassification of royalty income of £542,000 in the 6 months to 31 July 2006 and £1,042,000 in the year to 31 January 2007.

## 5. Summary of accounting policies

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The significant accounting policies applied in the preparation of Walker Greenbank's IFRS consolidated financial statements are set out below:

### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations under the historical cost convention as modified by the revaluation of financial assets (including derivative instruments) at fair value through the income statement.

The following accounting policies have been prepared on the basis that the EU will have adopted all IFRS's that have been issued to date, and which are relevant to Walker Greenbank PLC and will be in force for the 2008 financial statements. Any changes to these standards, or the issue of further interpretations by the International Financial Reporting Interpretation Committee (IFRIC) or any failure by the EU to adopt all of these standards could result in the need to change the basis of accounting or presentation of certain financial information from that presented in this document.

In preparing these financial statements Walker Greenbank PLC has not applied the following pronouncements for which adoption is not mandatory for the year ending 31 January 2007 and which have not yet been endorsed by the EU:

- IFRIC 11 'Group and treasury transactions'
- IFRIC 12 'Service concession agreements'
- IFRIC 13 'Customer loyalty programmes relating to IAS 18, Revenue'
- IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRS 8 'Operating segments'
- IAS 23 (revised 2007) 'Borrowing costs'

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed.

### **Basis of Consolidation**

The consolidated financial information incorporates the financial statements of the company and all its subsidiary undertakings made up to 31 January each year. Subsidiaries are entities where the company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the group.

All intra-company transactions, balances and unrealised gains on transactions are eliminated in consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, equity instruments issued by the Group, in exchange for control of the acquirer. The assets, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS5 'Non Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at costs, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

### **Intangible Assets - Goodwill**

Goodwill arising on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquired entity's identifiable assets and liabilities at the date of acquisition.

## 5. Summary of accounting policies (continued)

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Goodwill is not amortised, but reviewed for impairment annually, any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

On disposal of a subsidiary or cash generating unit the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **Intangible Assets - Archive**

The Arthur Sanderson and William Morris archive comprises of a historic record of unique designs that are used to generate a significant royalty income in the business. The archive is valued at historic cost, the directors believe that the archive has an indefinite useful life and is therefore not subject to amortisation. The carrying value of this asset will be reviewed annually and provision made for any impairment in the carrying value if required.

### **Intangible Assets - Computer software**

Acquired computer software licences are capitalised at the cost incurred to bring the asset into use. The costs are amortised over their estimated useful life.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will generate economic benefits beyond one year are capitalised. Costs include the employee costs incurred as a result of developing software. Computer software development costs recognised as assets are amortised over their estimated useful lives at 33%. Development costs are tested annually for impairment in accordance with IAS 36.

### **Intangible Assets – Collection design**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design of new launches) are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible assets so that it will be available for use or sale;
- Management intends to complete the intangible asset and use it or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs recognised as an expense in previous periods are not recognised as an asset in a subsequent period. Capitalised development costs are recognised as intangible assets and are amortised at 25% on a straight line basis over the life of the asset. Development costs are tested for impairment if any impairment trigger events are identified in accordance with IAS 36.

### **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost comprises the purchase price and costs directly incurred in bringing the asset into use. The assets residual values and useful lives are reviewed annually and adjusted if appropriate, at each balance sheet date.

Depreciation is charged on a straight line basis on the original costs (excluding freehold land) after deduction of any estimated residual value. The principle annual rates are:

Freehold buildings	2%
Leases	Over the length of the lease
Plant, equipment and vehicles	between 5% and 33%
Computer assets	33%

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, on a first-in, first-out basis, and direct labour, plus attributable production overheads based on a normal level of activity. Net realisable value is based on estimated selling prices less anticipated costs of disposal. Provision is made for any slow moving and obsolete inventory.

## 5. Summary of accounting policies (continued)

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### **Trade and other receivables**

Trade and other receivables are stated at fair value, being costs less provision for impairment where there is evidence that not all amounts will be collectable under the original terms of the receivable.

### **Impairment of assets**

Intangible assets with finite useful lives and property, plant and equipment are tested for impairments if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test, is conducted, the recoverable amount is assessed by reference to the higher of the 'net present value of expected future cash flows of the relevant cash generating unit' or the 'fair value less cost to sell'.

Goodwill and other intangible fixed assets with an indefinite useful life are tested for impairment at least annually.

If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

### **Cash & cash equivalents**

Cash and cash equivalents represent only liquid assets with original maturity of 90 days or less. Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts that cannot be offset against other cash balances are shown within borrowings in current liabilities on the balance sheet.

### **Borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are included within the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is considered material.

### **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets used by the Group which have been funded through finance leases are capitalised in fixed assets and the resulting lease obligations are included in creditors. The assets are depreciated over their useful lives and the interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease. Rent free periods receivable on entering an operating lease are released on a straight-line basis over the term of the lease.

### **Employee benefits – *pension obligations***

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out on an annual basis and a full valuation triennially.

A full actuarial valuation is carried out annually at each year end by a qualified independent actuary. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised service cost, and as reduced by the fair value of the scheme assets. Any asset resulting from this calculation is limited to past service cost, plus present value of available refunds and reductions in future contributions to the plan.

## 5. Summary of accounting policies (continued)

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### **Employee benefits – share based payments**

The Group issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become conditionally entitled to the awards, subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest.

### **Financial instruments**

The group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with currency rate fluctuations. Such derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction; or
- Hedges of a net investment in a foreign operation.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the recognition of an asset or a liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedge item affect net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedge is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separated derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses in the income statement.

### **Share capital**

Ordinary shares are classified as equity. Costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

### **Foreign currencies**

For the purpose of the consolidated financial statements, the results and financial position are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date. All exchange differences are recognised in the income statement for the period.

## 5. Summary of accounting policies (continued)

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The assets and liabilities of the Group's overseas subsidiaries on consolidation are translated at the rates of exchange ruling at the balance sheet date. The income and expenses are translated at the weighted average rate during the period. Differences on translation are recognised as a separate equity reserve. On disposal of an overseas subsidiary, the cumulative exchange differences for that subsidiary are recognised in the income statement as part of the profit or loss on disposal.

### **Revenue**

The Group revenue represents the invoiced value of sales to external customers excluding VAT and is recognised at the point of despatch of goods. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

### *Royalty Income*

Royalties are received from licence holders under the terms of various agreements. Royalties are recognised as revenue as they fall due.

### **Exceptional items**

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the financial statements are referred to as Exceptional Items and disclosed within their relevant income statement category.

### **Taxation including deferred tax**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profits differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit not the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Segmental reporting**

Walker Greenbank is a designer, manufacturer and distributor of furnishings, fabrics and wallpaper. The Group manages its operations as a single vertically integrated business.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

## 6. Consolidated Income statement

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	6 months to 31 July 2006 £000	Year to 31 Jan 2007 £000
Revenue	26,345	54,369
Profit from operations - before exceptional items	1,025	2,481
- exceptional items	1,276	1,276
Operating profit	2,301	3,757
Finance charge	(56)	(99)
Finance costs	(429)	(898)
Amortisation of issue costs	(33)	(66)
	(518)	(1,063)
Profit before taxation	1,783	2,694
Taxation	(23)	(58)
Profit for the period	1,760	2,636
Earnings per share - Basic and diluted	3.12p	4.67p

## 7. Consolidated Balance Sheet

	1 February 2006 £000	31 July 2006 £000	31 January 2007 £000
<b>Non-current assets</b>			
Intangible assets	6,149	6,035	5,969
Property, plant & equipment	9,111	8,953	8,864
Deferred income tax assets	-	-	1,637
Trade and other receivables	275	270	265
	15,535	15,258	16,735
<b>Current assets</b>			
Inventories	11,509	12,569	13,404
Trade and other receivables	8,810	10,457	9,982
Cash and cash equivalents	1,530	1,702	2,065
	21,849	24,728	25,451
<b>Total assets</b>	37,384	39,986	42,186
<b>Current liabilities</b>			
Bank overdrafts	(2)	-	-
Borrowings	(596)	(596)	(596)
Trade and other payables	(9,863)	(11,978)	(13,056)
	(10,461)	(12,574)	(13,652)
<b>Net current assets</b>	11,388	12,154	11,799
<b>Non-current liabilities</b>			
Borrowings	(10,289)	(11,032)	(10,073)
Retirement benefit obligation	(8,033)	(6,024)	(5,518)
	(18,322)	(17,056)	(15,591)
<b>Total liabilities</b>	(28,783)	(29,630)	(29,243)
<b>Net assets</b>	8,601	10,356	12,943
<b>Equity</b>			
Share capital	590	590	590
Share premium account	457	457	457
Foreign currency translation	-	(5)	(17)
Retained earnings	(32,953)	(31,193)	(28,594)
Other reserves	40,507	40,507	40,507
<b>Total Equity</b>	8,601	10,356	12,943

## 8. Consolidated Statement of Recognised Income and Expense

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	6 months to 31 July 2006 £000	Year to 31 Jan 2007 £000
Actual less expected return on pension scheme assets	-	(1,216)
Experience gains and losses arising on pension scheme liabilities	-	(13)
Changes in actuarial assumptions	-	1,203
Currency translation differences	(5)	(17)
Deferred tax	-	1,637
Net (expense)/income recognised directly in equity	(5)	1,594
Profit for the period	1,760	2,636
Total recognised income for the period	1,755	4,230

## 9. Consolidated Cash flow statement

	6 months to 31 July 2006 £000	Year to 31 Jan 2007 £000
<b>Cash flows from operating activities</b>		
Cash generated from operations	642	3,219
Interest paid	(432)	(913)
Interest received	3	20
Income tax paid	(62)	(50)
	151	2,276
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(114)	(276)
Purchase of property, plant & equipment	(567)	(1,168)
	(681)	(1,444)
<b>Cash flows from financing activities</b>		
Increase/(decrease) in borrowings	710	(282)
	710	(282)
Net increase in cash, cash equivalents and bank overdrafts	180	550
<b>Cash, cash equivalents and bank overdrafts at beginning of period</b>	<b>1,528</b>	<b>1,528</b>
Exchange losses on cash and bank overdrafts	(6)	(13)
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<b>1,702</b>	<b>2,065</b>

## Appendix

### I. Consolidated statement of changes in equity under IFRS

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<b>For the year ended 31 January 2006</b>	£000
Intangible assets – collection design IAS 38	114
Short term employee benefits IAS 19	(58)
Long term employee benefits IAS 19	(52)
	4
Equity at 1 February 2006 - IFRS	8,601
Equity at 31 January 2006 - UK GAAP	8,597

<b>For the period ended 31 July 2006</b>	£000
Intangible assets – goodwill IAS 38	20
Intangible assets – collection design IAS 38	146
Property, plant & equipment IAS 16	8
Short term employee benefits IAS 19	(198)
Long term employee benefits IAS 19	(52)
	(76)
Equity at 31 July 2006 - IFRS	10,356
Equity at 31 July 2006 - UK GAAP	10,432

<b>For the year ended 31 January 2007</b>	£000
Intangible assets – goodwill IAS 38	39
Intangible assets – collection design IAS 38	166
Property, plant & equipment IAS 16	16
Short term employee benefits IAS 19	(65)
Long term employee benefits IAS 19	(60)
	96
Equity at 31 January 2007 - IFRS	12,943
Equity at 31 January 2007 - UK GAAP	12,847

## Appendix

### II. Reconciliation of Balance Sheet at 1 February 2006

	UK GAAP £000	Intangible assets - computer software IAS 38 £000	Intangible assets - collection design IAS 38 £000	Short term employee benefits IAS 19 £000	Long term employee benefits IAS 19 £000	IFRS £000
<b>Non-current assets</b>						
Intangible assets	4,859	1,094	196	-	-	6,149
Property, plant & equipment	10,205	(1,094)	-	-	-	9,111
Deferred income tax assets	-	-	-	-	-	-
Trade and other receivables	275	-	-	-	-	275
	15,339	-	196	-	-	15,535
<b>Current assets</b>						
Inventories	11,539	-	(30)	-	-	11,509
Trade and other receivables	8,862	-	(52)	-	-	8,810
Cash and cash equivalents	1,530	-	-	-	-	1,530
	21,931	-	(82)	-	-	21,849
<b>Total assets</b>	37,270	-	114	-	-	37,384
<b>Current liabilities</b>						
Bank overdrafts	(2)	-	-	-	-	(2)
Borrowings	(596)	-	-	-	-	(596)
Trade and other payables	(9,805)	-	-	(58)	-	(9,863)
	(10,403)	-	-	(58)	-	(10,461)
<b>Net current assets</b>	11,528	-	(82)	(58)	-	11,388
<b>Non-current liabilities</b>						
Borrowings	(10,289)	-	-	-	-	(10,289)
Retirement benefit obligation	(7,981)	-	-	-	(52)	(8,033)
	(18,270)	-	-	-	(52)	(18,322)
<b>Total liabilities</b>	(28,673)	-	-	(58)	(52)	(28,783)
<b>Net assets</b>	8,597	-	114	(58)	(52)	8,601
<b>Equity</b>						
Share capital	590	-	-	-	-	590
Share premium account	457	-	-	-	-	457
Foreign currency translation	-	-	-	-	-	-
Retained earnings	(32,957)	-	114	(58)	(52)	(32,953)
Other reserves	40,507	-	-	-	-	40,507
<b>Total Equity</b>	8,597	-	114	(58)	(52)	8,601

## Appendix

### III. Reconciliation of Income for six months ended 31 July 2006

	UK GAAP £000	Goodwill IAS 38 £000	Property, plant & equipment IAS 16 £000	Intangible assets- collection design IAS 38 £000	Short term employee benefits IAS 19 £000	Long term employee benefits IAS 19 £000	Revenue – royalty income IAS 18 £000	IFRS £000
Revenue	25,803	-	-	-	-	-	542	26,345
Profit from operations – before exceptional items	1,015	20	8	32	(140)	90	-	1,025
Profit from operations – exceptional items	1,276	-	-	-	-	-	-	1,276
Operating Profit	2,291	20	8	32	(140)	90	-	2,301
Finance income	34	-	-	-	-	(90)	-	(56)
Finance costs	(429)	-	-	-	-	-	-	(429)
Amortisation of issue costs	(33)	-	-	-	-	-	-	(33)
	(428)	-	-	-	-	(90)	-	(518)
Profit before taxation	1,863	20	8	32	(140)	-	-	1,783
Taxation	(23)	-	-	-	-	-	-	(23)
Profit for the period	1,840	20	8	32	(140)	-	-	1,760
Earnings per share – Basic and diluted	3.26p							3.12p

# Appendix

## IV. Reconciliation of Balance Sheet at 31 July 2006

	UK GAAP £000	Intangible assets – computer software IAS 38 £000	Intangible assets – goodwill IAS 38 £000	Intangible Assets- collection design IAS 38 £000	Property plant & equipment IAS 16 £000	Short term employee benefits IAS 19 £000	Long term Employee Benefits IAS 19 £000	Foreign exchange IAS 21 £000	IFRS £000
<b>Non-current assets</b>									
Intangible assets	4,839	925	20	251	-	-	-	-	6,035
Property, plant & equipment	9,870	(925)	-	-	8	-	-	-	8,953
Deferred income tax assets	-	-	-	-	-	-	-	-	-
Trade and other receivables	270	-	-	-	-	-	-	-	270
	14,979	-	20	251	8	-	-	-	15,258
<b>Current assets</b>									
Inventories	12,620	-	-	(51)	-	-	-	-	12,569
Trade and other receivables	10,511	-	-	(54)	-	-	-	-	10,457
Cash and cash equivalents	1,702	-	-	-	-	-	-	-	1,702
	24,833	-	-	(105)	-	-	-	-	24,728
<b>Total assets</b>	39,812	-	20	146	8	-	-	-	39,986
<b>Current liabilities</b>									
Bank overdrafts	-	-	-	-	-	-	-	-	-
Borrowings	(596)	-	-	-	-	-	-	-	(596)
Trade and other payables	(11,780)	-	-	-	-	(198)	-	-	(11,978)
	(12,376)	-	-	-	-	(198)	-	-	(12,574)
<b>Net current assets</b>	12,457	-	-	(105)	-	(198)	-	-	12,154
<b>Non-current liabilities</b>									
Borrowings	(11,032)	-	-	-	-	-	-	-	(11,032)
Retirement benefit obligation	(5,972)	-	-	-	-	-	(52)	-	(6,024)
	(17,004)	-	-	-	-	-	(52)	-	(17,056)
<b>Total liabilities</b>	(29,380)	-	-	-	-	(198)	(52)	-	(29,630)
<b>Net assets</b>	10,432	-	20	146	8	(198)	(52)	-	10,356
<b>Equity</b>									
Share capital	590	-	-	-	-	-	-	-	590
Share premium account	457	-	-	-	-	-	-	-	457
Foreign currency translation	-	-	-	-	-	-	-	(5)	(5)
Retained earnings	(31,122)	-	20	146	8	(198)	(52)	5	(31,193)
Other reserves	40,507	-	-	-	-	-	-	-	40,507
<b>Total Equity</b>	10,432	-	20	146	8	(198)	(52)	-	10,356

## Appendix

### V. Reconciliation of Cash flows for the period ended 31 July 2006

	UK GAAP £000	Intangible assets - computer software IAS 38 £000	Intangible assets- collection design IAS 38 £000	IFRS £000
<b>Cash flows from operating activities</b>				
Cash generated from operations	543	-	99	642
Interest paid	(432)	-	-	(432)
Interest received	3	-	-	3
Income tax paid	(62)	-	-	(62)
	52	-	99	151
<b>Cash flows from investing activities</b>				
Purchase of intangible fixed assets	-	(15)	(99)	(114)
Purchase of property, plant & equipment	(582)	15	-	(567)
	(582)	-	(99)	(681)
<b>Cash flows from financing activities</b>				
Increase in borrowings	710	-	-	710
	710	-	-	710
Net increase in cash, cash equivalents and bank overdrafts	180	-	-	180
<b>Cash, cash equivalents and bank borrowings at beginning of period</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>1,528</b>
Exchange losses on cash and bank overdrafts	(6)	-	-	(6)
<b>Cash, cash equivalents and bank borrowings at end of period</b>	<b>1,702</b>	<b>-</b>	<b>-</b>	<b>1,702</b>

## Appendix

### VI. Reconciliation of Income for the year ended 31 January 2007

	UK GAAP £000	Intangible assets – goodwill IAS 38 £000	Intangible assets – collection design IAS 38 £00	Property plant & equipment IAS 16 £000	Short term employee benefits IAS 19 £000	Long term employee benefits IAS 19 £000	Revenue – royalty income IAS 18 £000	IFRS £000
Revenue	53,327	-	-	-	-	-	1,042	54,369
Profit from operations – before exceptional items	2,201	39	52	16	(7)	180	-	2,481
Profit from operations – exceptional items	1,276	-	-	-	-	-	-	1,276
Operating profit	3,477	39	52	16	(7)	180	-	3,757
Finance income	81	-	-	-	-	(180)	-	(99)
Finance costs	(898)	-	-	-	-	-	-	(898)
Amortisation of issue costs	(66)	-	-	-	-	-	-	(66)
	(883)	-	-	-	-	(180)	-	(1,063)
Profit before taxation	2,594	39	52	16	(7)	-	-	2,694
Taxation	(58)	-	-	-	-	-	-	(58)
Profit for the year	2,536	39	52	16	(7)	-	-	2,636
Earnings per share – Basic and diluted	4.49p							4.67p

## Appendix VII. Reconciliation of Balance Sheet at 31 January 2007

	UK GAAP £000	Intangible assets – computer software IAS 38 £000	Intangible assets – goodwill IAS 38 £000	Intangible assets- collection design IAS 38 £000	Property plant & equipment IAS 16 £000	Short term employee benefits IAS 19 £000	Long term employee benefits IAS 19 £000	Foreign exchange IAS 21 £000	IFRS £000
<b>Non-current assets</b>									
Intangible assets	4,820	775	39	335	-	-	-	-	5,969
Property, plant & equipment	9,623	(775)	-	-	16	-	-	-	8,864
Deferred income tax assets	-	-	-	-	-	-	1,637	-	1,637
Trade and other receivables	265	-	-	-	-	-	-	-	265
	14,708	-	39	335	16	-	1,637	-	16,735
<b>Current assets</b>									
Inventories	13,476	-	-	(72)	-	-	-	-	13,404
Trade and other receivables	10,079	-	-	(97)	-	-	-	-	9,982
Cash and cash equivalents	2,065	-	-	-	-	-	-	-	2,065
	25,620	-	-	(169)	-	-	-	-	25,451
<b>Total assets</b>	40,328	-	39	166	16	-	1,637	-	42,186
<b>Current liabilities</b>									
Borrowings	(596)	-	-	-	-	-	-	-	(596)
Trade and other payables	(12,991)	-	-	-	-	(65)	-	-	(13,056)
	(13,587)	-	-	-	-	(65)	-	-	(13,652)
<b>Net current assets</b>	12,033	-	-	(169)	-	(65)	-	-	11,799
<b>Non-current liabilities</b>									
Borrowings	(10,073)	-	-	-	-	-	-	-	(10,073)
Retirement benefit obligation	(3,821)	-	-	-	-	-	(1,697)	-	(5,518)
	(13,894)	-	-	-	-	-	(1,697)	-	(15,591)
<b>Total liabilities</b>	(27,481)	-	-	-	-	(65)	(1,697)	-	(29,243)
<b>Net assets</b>	12,847	-	39	166	16	(65)	(60)	-	12,943
<b>Equity</b>									
Share capital	590	-	-	-	-	-	-	-	590
Share premium account	457	-	-	-	-	-	-	-	457
Foreign currency translation	-	-	-	-	-	-	-	(17)	(17)
Retained earnings	(28,707)	-	39	166	16	(65)	(60)	17	(28,594)
Other reserves	40,507	-	-	-	-	-	-	-	40,507
<b>Total Equity</b>	12,847	-	39	166	16	(65)	(60)	-	12,943

## Appendix

### VIII. Reconciliation of Cash flows for the year ended 31 January 2007

	UK GAAP £000	Intangible assets- computer software IAS 38 £000	Intangible assets- collection design IAS 38 £000	IFRS £000
<b>Cash flows from operating activities</b>				
Cash generated from operations	2,995	-	224	3,219
Interest paid	(913)	-	-	(913)
Interest received	20	-	-	20
Income tax paid	(50)	-	-	(50)
	2,052	-	224	2,276
<b>Cash flows from investing activities</b>				
Purchase of intangible fixed assets	-	(52)	(224)	(276)
Purchase of property, plant & equipment	(1,220)	52	-	(1,168)
	(1,220)	-	(224)	(1,444)
<b>Cash flows from financing activities</b>				
Decrease in borrowings	(282)	-	-	(282)
	(282)	-	-	(282)
Net increase in cash, cash equivalents and bank overdrafts	550	-	-	550
<b>Cash, cash equivalents and bank borrowings at beginning of period</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>1,528</b>
Exchange losses on cash and bank overdrafts	(13)	-	-	(13)
<b>Cash, cash equivalents and bank borrowings at end of period</b>	<b>2,065</b>	<b>-</b>	<b>-</b>	<b>2,065</b>