

# 2006

## Walker Greenbank PLC

Annual Report and Accounts



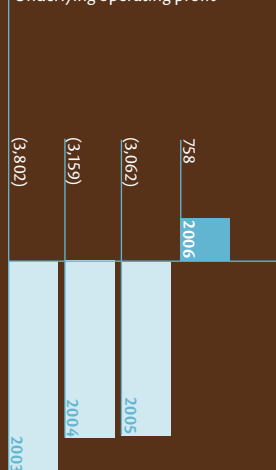
Walker Greenbank PLC is an international group of companies which design, manufacture, market and distribute wallcoverings, furnishing fabrics and associated products for the consumer market.

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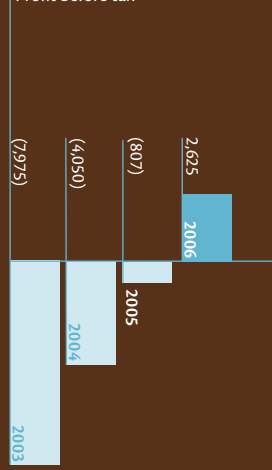
# Highlights

- Successful turnaround – pre-tax profit of £2.62 million (2005: loss £0.81m), marking the Company's first full year pre-tax profit since 2000
- Operating profit of £5.02 million (2005: loss £2.69m) with underlying growth – pre-exceptional operating profit for continuing operations of £0.76 million (2005: loss of £3.06m which included exceptional costs of £0.67m)
- Cashflow positive – net cash inflow from operating activities of £1.64 million (2005: outflow £4.06m)
- Pension deficit reduced – FRS 17 pension liability of £7.98 million at 31 January 2006 calculated after adoption of latest PA92 mortality tables (2005: £11.27m)
- Brand portfolio performed strongly and all parts of the business traded profitably including UK fabric printing and wallpaper factories
- Current financial year has started strongly – considerably ahead of last year and well ahead of internal projections

Underlying operating profit



Profit before tax



# Focus on our brands

Our brands are targeted at the mid to upper end of the premium market. They have worldwide distribution including prestigious showrooms at Chelsea Harbour, London and the D&D building, Manhattan, New York.

## HARLEQUIN



OVERVIEW

Harlequin has built a reputation as one of the leading companies in the home furnishings market offering quality contemporary fabrics and wallcoverings.

It has had great success with its recent collections such as 'Decadence' which has exceeded all expectations. Harlequin continues to develop a broad range of collections from different design sources and is firmly established as a fashion leader in the home furnishings market.

HIGHLIGHTS

- Sales growth of 13%
- Margins improved
- Doubling of profit contribution
- Relunched into the USA
- Wallpaper sales having strong growth

[www.harlequin.uk.com](http://www.harlequin.uk.com)

*Decadence Weaves Collection from Harlequin*

## SANDERSON



Sanderson is internationally recognised as a leading global brand in interior design and decorating.

The brand's reputation is built on its unrivalled history that goes back to 1860. In 1923, the company was awarded the Royal Warrant to supply wallpaper, paints and fabrics to King George V and continues to supply Her Majesty, the Queen today. Sanderson continues to forge ahead with quality market-driven designs.

- Sales growth 10%
- Margins improved
- Licence income grew by 22%
- Options 9 collection very successful
- Profit contribution more than doubled

[www.sanderson-uk.com](http://www.sanderson-uk.com)

*Aida Wallpaper Collection from Sanderson*

## MORRIS &amp; Co



The Morris & Co. business has a heritage that dates back to the mid 19th Century when it was founded by William Morris, the acclaimed designer.

Sanderson purchased the collection of printing blocks, stock and complete colour records, including both unique logbooks and print templates of this business in 1927. This important collection is contained within the Sanderson archive and they have carefully developed the product range to now include hand blocked and machine print wallpapers, fabrics and paints.

- Arts and craft revival fuelling growth in all major markets
- International sales growing with increased distribution in Europe
- The recently launched Morris IV collection (Autumn 2005) is the latest in a long line of successful ranges and is complemented by the opulence of the Morris Velvet collection. Current trends suggest it will become the top selling Morris collection in 2006

[www.william-morris.co.uk](http://www.william-morris.co.uk)

*Morris Volume IV from Morris & Co.*

## ZOFFANY



Zoffany offers a range of products of the highest quality including wallpaper, fabrics, trimmings, carpets, paint and furniture.

The designs are inspired by the rich traditions of the past, but look equally at home in contemporary interiors. Zoffany is also able to offer a bespoke custom design service on many of its products, collaborating with the designer and architect.

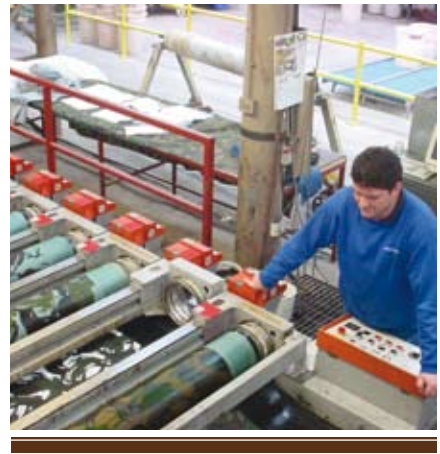
- Overall sales stable
- Export markets growing
- UK sales reduced
- Margins improved
- Cost reduction helped

[www.zoffany.uk.com](http://www.zoffany.uk.com)

*Chaumont Wallpaper Collection from Zoffany*

## Our manufacturing sites

Standfast and Anstey are both UK market leaders in their niche manufacturing processes and meet all of the Group's requirements for fabric-printing and wallpaper.



### Anstey

Anstey Wallpaper Company is the world's leading specialist commission printer of high-end wall coverings, offering a comprehensive range of paper and vinyl substrates and a diverse choice of different hand and machine printing techniques including block, flat screen, rotary screen, surface print, flexo and gravure. The customer profile is very similar to Standfast, and the company supplies most of the leading home furnishing brands in the UK and USA, plus several well-known high-street retail chains.

### Standfast

Standfast & Barracks is now the UK's largest fabric printer, specialising in high quality rotary and flat screen printing, using a wide variety of different dyestuffs and fabrics, including cotton, linen, silk, wool and velvet. Third party home furnishings customers include Osborne & Little and Designers Guild in the UK and Ralph Lauren in the United States. The company also supplies apparel prints to Liberty of London and hi-tech camouflage fabrics into the defence industry worldwide.

## Our showrooms

Our Group is represented in the UK at the prestigious Chelsea Harbour with two of our own showrooms showing all four brands. In the USA there is a national presence crowned by our showroom in Manhattan.



*Top left: Sanderson, Chelsea Harbour*

*Bottom left: Zoffany, Chelsea Harbour*

*Top right: Zoffany, New York*

*Bottom right: Harlequin, Chelsea Harbour*

### Chelsea Harbour

Our Brands full current product offerings can be viewed in two prestigious showrooms ideally situated on the ground floor of the central dome at Chelsea Harbour Design Centre. Currently nearing the end of major refurbishment, our dedicated showrooms in Chelsea Harbour represent the perfect environment in which to review our collections and provide easy access for the design community to develop decorative schemes at the heart of the nation's capital.

### Manhattan, New York

Located on Third Avenue, our premier US showroom is situated on the fourth floor of the largest design centre in the USA. Last autumn the showroom underwent a full refit and now promotes all of our brands in a truly spacious and elegant setting. In addition to our own brands we also host several important "guest/third party" brands such as Chase Erwin Silks, Sheila Coombes and Twil Grasscloth wallcoverings.

# Chairman's Statement

"These excellent financial results show that the restructuring of the Company is complete. The start of the current financial year continues to see all parts of the Company trading profitably and we are confident of continuing to develop the Company into an exciting, cash generative and highly profitable business. Your Board views the future with increasing confidence and looks forward to delivering substantial shareholder value."

## Overview

This has been a landmark year in the recent history of Walker Greenbank, and I am pleased to report that the Group has returned a full-year operating profit for the first time since the year 2000, following the considerable losses of the past five years. The encouraging return to operating profit that I reported at the half-year stage gathered momentum in the second half. This significant achievement underlines the Board's strategy of re-establishing the Group as a profitable and cash-generative business with an exciting and sustainable future.

The business is now fully benefiting from the total integration of Sanderson within the Group and the considerable investment in product that has taken place in this brand over the past two years. Profits have been further enhanced by the full-year effect of the considerable cost savings that have been achieved following the amalgamation of all the Group's brands under the control of one management structure and the exit of low margin non-core business.

All parts of the Group's business have traded profitably. After a difficult start to the year, Standfast, our fabric-printing factory, recovered strongly in the second half and posted a full-year profit. Significant progress has also been made at Anstey, our wallpaper factory, following the reorganisation and cost-reduction exercise that took place in the latter part of last year and the refocus of the business at the premium end of the market. This, combined with the return to popularity of wallpaper at the premium end of the market, as the fashion for minimalism has started to wane, has returned Anstey to profitability for the first time in six years.

Our brands have all performed strongly. Harlequin, our mid-market brand, is gaining real momentum through increasingly rapid sales growth, gains in market share and more than a doubling of its profits during the year. Harlequin and Sanderson are among the leading suppliers of home furnishings to the John Lewis Partnership. Sanderson has taken longer to reinvigorate than we anticipated at the time of acquisition. However, following the substantial investment in product of the past two years, significant profit growth has been achieved this year. Following the appointment of a new design director, and the refocusing of the Zoffany brand back to its core values, progress has been made in re-establishing the business as a leading brand at the premium end of the market.

In line with the Group's strategy of disposing of non-core assets, the sale of Borge Holding AS was successfully completed in June 2005.

## Results

The operating profit for the year was £5,018,000 (2005: operating loss £2,690,000). Turnover was up 0.8% from continuing operations, after the impact of the sale of the Sanderson retail activity and the exit from Anstey's low-margin Cirka business part way through last year. The operating profit from continuing operations was £758,000 (2005: operating loss £3,062,000). The profit on ordinary activities before tax was £2,625,000 (2005: loss £807,000). This was after charging the profit and loss in the current year with an exceptional loss on the sale of Borge Holding AS of £1,281,000, which included £1,908,000 for goodwill previously written off to reserves and after crediting the profit and loss with £4,076,000 from the successful outcome of the pension liability reduction exercise. Last year's pre-tax loss of £807,000 included an exceptional profit of £2,931,000 arising from sale of the Warner Archive and freehold property in Milton Keynes.

The profit per share for the year was 4.51p (2005: loss per share 1.48p).

The other finance charge for the year was £174,000 (2005: £205,000) as a result of the improved return on assets of the pension scheme.

## Pensions

During the year, the Group offered to buy out the right to non-statutory pension increases from its active and deferred pensioners. This proposal proved to be attractive to the members with a 70% acceptance rate. This has resulted in a reduction in the FRS 17 liability in the balance sheet of £5,634,000 and a benefit of £4,076,000 in the profit and loss, disclosed as an exceptional operating item. Additionally, the Board decided to take this opportunity to adopt the most up-to-date mortality tables in the FRS 17 calculation, which caused the deficit to increase by £3,196,000. The Financial Review contains more details of the changes to our FRS 17 pension deficit.

Since the year end, additional acceptances have been received from the members of the pension scheme that have reduced the pension deficit by a further £800,000.







*Chaumont Prints, Clarenbridge and Cantu Weaves from Zoffany*



*Otterlie Weave from Morris & Co.*

### Balance sheet

The net assets of the Group have increased by £1,527,000. This has been primarily driven by the reduction of the pension deficit following the settlement of liabilities which improved the net assets of the Group by £4,076,000, offset by the adoption of the most up-to-date mortality tables, with an impact of £3,196,000. The Group also disposed of Borge Holdings AS during the year for net proceeds of £1,498,000 and profit on sale of assets of £532,000.

The Group's net indebtedness reduced during the year by £1,389,000 to £9,357,000 (2005: £10,746,000). Cash inflow from operating activities was £1,643,000 (2005: outflow £4,060,000) after payments to pensioners of £950,000 as part of the settlement of liabilities. This cash inflow from operating activities was principally driven from the operating profit, working capital inflows and the Group's depreciation charge being significantly higher than capital expenditure. The proceeds of the sale of Borge Holdings AS reduced the total level of borrowings.

### Dividend

The Directors do not recommend the payment of a dividend at this point in the Group's recovery.

### People

During the period, Peter Harkness resigned as a Non-executive Director after more than four years' service. In July, Alan Dix was appointed Group Finance Director after spending seven months as Finance Director Designate.

I would like to take this opportunity to thank all our employees whose energy, ability and commitment have helped to restore the Group's fortunes.

### Outlook

The reorganisation of the Group and the integration of Sanderson is now fully complete. Our factories have been

restructured and are now both trading profitably. The substantial investment in product and creativity of our design teams have helped our brands to gain market share and to grow at a considerable pace.

We have gone a long way to addressing the structural issues on the balance sheet. The pension reduction liability exercise has already reduced the deficit by a significant amount. Our funding facility with Burdale Financial Ltd, part of the Bank of Ireland, has greatly supported us in creating the headroom within the business to invest strongly in our brands.

Our brands have gathered real momentum and are all at an exciting point in their development. There are many opportunities for continuing to leverage our brand portfolio through additional organic growth, expansion through investment in the contract and commercial markets and further exposure to the large North American market. The Group is also alert to the acquisition opportunities that can arise in a large, fragmented market that is ripe for consolidation.

The start of the current financial year continues to see all parts of the business trading profitably, considerably ahead of last year and well ahead of our own internal projections.

We are confident of continuing to develop the Group into an exciting, cash-generative and highly profitable business. Your Board views the future with increasing confidence and looks forward to delivering substantial shareholder value.

**Ian Kirkham**  
Chairman

10 April 2006

## Chief Executive's Review

“The restructuring of the Group and successful turnaround of a loss making business is now complete. This has helped to deliver a better quality of earnings on a stable turnover together with significant cost reductions leading to a corporate profit for the first time in 5 years. All parts of the Group are now trading profitably and there are considerable growth opportunities for the Group to exploit in the future.”

### The brands

#### Harlequin

Harlequin has continued to strengthen its position as the leading mid-market contemporary brand in the UK and has reinforced its position as one of the leading home furnishings suppliers to the John Lewis Partnership. It continues to expand its launches across a broad range of excellent products and to take market share from its competitors. This year has seen strong growth in its wallpaper sales for the first time in a number of years as the fashion trend for wallpaper at the premium end of the market feeds down into the mid-market. Decadence, a wallpaper collection launched at the start of the year, has become the single best-selling range within the brand's portfolio. With its increasingly strong product offer, Harlequin was relaunched in the US at the start of the year in a limited number of targeted states. The growth in the US is ahead of our expectations and on the back of this we will continue to further expand in the US in the current year. Overall sales gathered real momentum in the second half leading to year on year growth of 13%. Margins have improved and costs have been tightly controlled leading to more than a doubling of profits this year.

#### Zoffany

Zoffany overall has maintained its sales in line with last year. Sales in the UK have reduced very slightly compared with last year while export sales have continued to grow. Despite the flat sales, margins are slightly up and following the amalgamation of its back-office functions with Sanderson at a single site in Denham, the business has benefited from the full-year effect of considerable cost savings that have helped profit improve significantly over last year. With the appointment of a new design team at Zoffany in the second half of the year to January 2005, the business has been put onto a sound footing to refocus the brand back to its core values. The new collections for 2006 have been well received, but with most markets remaining tight, we see the current year as a year of consolidation before Zoffany returns to any significant upward trend in sales.

#### Arthur Sanderson & Sons incorporating the Morris & Co brand

This has been a very encouraging year for Sanderson. The considerable investment that has taken place over the last two

years has started to drive sales. The sales growth seen in the first half aided by the launch in the early part of the year of Options 9, Sanderson's flagship collection, has continued in the second half, helping Sanderson to gain year-on-year sales growth of 10%. Sales in the UK led the improvement in the year and export markets are now showing similar growth. Licensing revenues have grown 16%, driven by considerable growth from our bedding licensee, a partnership that was established during the previous year, and healthy growth from our established agreements in the Far East and Australasia. This progress has been augmented by new licence arrangements with a furniture and blind manufacturer. Margins have improved, so with the benefits of the restructuring that took place at the end of last year and the merging of the back-office activities with Zoffany, a more than doubling of profits has been achieved. The brand continues to gain momentum and we are confident that it will deliver continued profit growth in the future.

### Manufacturing

#### Anstey

Anstey has achieved the transformation into a profit-making business after six years of significant losses. This has been the direct result of refocusing the business to a producer at the mid to premium end of the market, significantly improving factory efficiencies and further cost reductions. There has been a 4% decline in headline revenues but this is due to the exiting of lower-margin business. Overall underlying sales for the year have remained static. However, sales in the second half have increased by 7% as Anstey starts to benefit from the considerable revival in trend for wallpaper at the upper end of the market. This move in fashion is now starting to filter down into the mid-market as demonstrated by Harlequin's recent wallpaper revival and this augurs well for the continued revival of Anstey.

#### Standfast

Sales at Standfast have increased year on year by 4%. The difficult trading conditions of the first quarter were not repeated during the remainder of the year and the ground lost in that period was more than made up in the second half.







Lagoon from Harlequin



Zoffany Paint

Margins have been broadly maintained despite significantly higher energy costs. Overhead costs have been tightly controlled leading to an overall improvement in profitability.

### Overseas

#### USA

Sales have reduced 5% in local currency year-on-year, following the cessation of low-margin third-party distribution business. As a consequence of this, margins have risen and this, combined with the full-year effect of the overhead reduction following the amalgamation of the Sanderson and Zoffany businesses last year, returned the business to profitability. Sales have benefited from the relaunch of the Harlequin brand in a limited number of states. This has performed ahead of our expectations and the relaunch will be further extended in the coming year.

The withdrawal from a third-party distribution arrangement with a furniture manufacturer has allowed us to amalgamate our Zoffany and Sanderson showrooms into a single, prestigious 6,000ft showroom promoting all our brands within the D&D building in Manhattan, New York. This, combined with continued investment in the American market, will present the business with considerable growth opportunities in the future.

#### Europe

Borge Holding AS in Norway was sold during the year generating a profit on sale of £532,000 and a release of the FRS 17 pension provision of £95,000. Goodwill previously written off to reserves of £1,908,000 was charged through the profit and loss account. Borge Holding AS had contributed £184,000 operating profit during the year.

Our distribution businesses for Zoffany in Rome and Sanderson in Paris broadly broke even in line with expectations, although they do not represent a large part of the Group.

### Summary

The restructuring of the Group and successful turnaround of a loss-making business is now complete. This has helped to deliver a better quality of earnings on a stable turnover together with significant cost reductions leading to a corporate profit for the first time in five years.

All parts of the Group are now trading profitably and there are considerable growth opportunities for the Group to exploit in the future.

**John Sach**  
Group Chief Executive

10 April 2006

# Financial Review

## Profit and loss

The profit and loss account has been set out in a columnar format this year. This presentation has been adopted in order to reflect more clearly the successful impact of the pension deficit reduction exercise and disposal during the year of Borge Holdings AS. More importantly, this disclosure clearly demonstrates the improvement in the profitability of the continuing business over last year. Full details of the pension deficit reduction and Borge Holdings AS disposal are disclosed in note 3 and note 4, respectively.

## Disposals

During the year, the Group sold the non-core business of Borge Holding AS and its subsidiary John O Borge AS. There was a profit on disposal after related costs of £532,000. Under FRS 17, the Group accounts showed a pension liability associated with the John O Borge business, although under Norwegian accounting rules there was a small pension surplus. As a consequence of the sale this liability, £95,000 is no longer required and has been released. Goodwill previously written off to reserves was expensed in the profit and loss as required by FRS 10. The goodwill was directly credited back to reserves as seen in the Reconciliation of Movements in Shareholders' Funds.

## Operating cash flow

There has been a cash inflow from operating activities during the period of £1,643,000 due to the operating profit, the depreciation charge during the period continuing to be greater than required capital expenditure and a reduction in working capital.

Net cash receipts from the sale of Borge Holding AS and its subsidiary John O Borge AS of £1,498,000 have helped to reduce the Group's borrowings.

The Group made payments to the pension schemes of £799,000 to reduce the deficit, and this is part of the ongoing planned reduction. There were also payments made to the majority of active and deferred pensioners of £950,000 as these pensioners accepted an offer from the Group to buy out the right to non-statutory pension increases. At the year end there were liabilities of £608,000 associated with the pension

reduction exercise. These covered the tax that had been held on payments made to pensioners during the year awaiting tax clearance, and acceptances received in January 2006 and paid in February together with associated fees. Since the year end tax clearance has been received and payments made of tax withheld.

As a consequence, net debt in the Group has reduced by £1,389,000 to £9,357,000 (2005: £10,746,000).

## Pension deficit

The pension deficit has reduced significantly this year. The major factor was the reduction arising from the settlement of liabilities of £5,634,000. Contributions from the Company further reduced the liability by £799,000. The Group has adopted the PA92 mortality tables when computing the FRS 17 liability, and this has led to an increase in the deficit of £3,196,000.

	2006 £000
Deficit at beginning of period	(11,269)
Current service cost	(167)
Other finance cost	(174)
Contributions	799
Reduction of deficit following settlement of liabilities	5,634
Release due to sale of subsidiary	95
Impact of PA 92 mortality tables	(3,196)
Actuarial gain	297
Deficit at end of period	(7,981)

## Gearing

The gearing level for the Group remained similar to last year, being 56.4% at January 2006 compared to 58.4% at January 2005, after adjusting for the pension liability. The Group's balance sheet remains underpinned by freehold properties valued at £5 million.

## Funding

The Group utilises a facility provided by Burdale Financial Ltd part of the Bank of Ireland. It is a three-year facility that commenced on 23 July 2004 with a limit of £18.5m. A significant element of the facility is linked to working capital levels, which allows the Group to manage its cash more

effectively during the seasonal fluctuations in working capital associated with the industry in which the Group operates.

All of the bank's facilities remain secured by first fixed and floating charges over the Group's assets.

#### Interest

The Group has continued to maintain its debt in floating rate instruments in order to benefit from the lower rates available. This policy remains constantly under review to ensure interest rate risk is minimised.

#### Taxation

The Group tax charge continues to reflect the amounts borne in foreign territories. This is constantly under review to ensure every opportunity is considered to minimise the amount incurred. In the UK, the Group has substantial brought forward tax trading losses and, as a consequence, does not anticipate paying UK corporation tax in the foreseeable future. It will be the Group's intention to reflect a deferred tax asset in the future as the Group demonstrates its continuing improving profitability.

#### Treasury policy

The Group's treasury policy is controlled centrally in accordance with procedures approved by the Board. It is run prudently as a central Group function, providing services to the other Group companies and adopts a risk adverse strategy.

The main risks covered by this policy are interest rate risk, foreign currency risk and liquidity risk.

#### Interest rate risk

During the year, the Group has reduced its fixed rate finance lease borrowings from £251,000 to nil, thereby eliminating the proportion of fixed rate borrowings used by the Group. All other borrowings are on a floating rate. The viability of hedging instruments that would limit the impact of interest rate movements will continue to be reviewed based on the Board's perception of future rate increases.

#### Foreign currency risk

All foreign currencies are bought and sold centrally on behalf of the Group. Regular reviews take place of the foreign currency cash flows and any unmatched exposures are covered by forward contracts wherever economically practical.

The Group does not trade in financial instruments and hedges are only used for known cash flows. This has resulted in there being no significant gains and losses.

#### Liquidity risk

The Group ensures that it has adequate facilities available to cover both its short-term and medium-term commitments. These are fully disclosed in note 23 on pages 34 to 36.

#### Going concern

The Directors are confident, after having made appropriate enquiries, that the Group and Company have adequate resources to continue in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### Restatement

In prior year the Group had charged amortisation of issue costs of finance of £32,000 against operating profit. In the year, this has been reclassified to net interest payable requiring restatement of the prior year comparatives.

#### IFRS

The Group will adopt IFRS for the year ending 31 January 2008, and its first reporting under the new accounting rules will be for the interim period ending 31 July 2007. The Board commenced a project during the year to ensure the successful implementation of IFRS accounting rules for the year ending 31 January 2008.



**Alan Dix**  
Group Finance Director

10 April 2006

# Directors and Advisers

## Directors

### Ian Kirkham (56)

#### Non-executive Chairman (A,R,N)

Ian joined the board in April 2002 and was elected Chairman. In November 2003 Ian moved from non-executive to executive Chairman. He has considerable experience in manufacturing businesses and in the development of consumer brands. He was for seven years the Chief Executive of Headlam Plc and is currently the Chief Executive of Latium Management Services and Chairman of the Everest Group, a manufacturing business in the building industry.

### Charles Gray (63)

#### Non-executive Director (A,R,N)

Charles joined the board as a non-executive Director in December 2004. He is a Chartered Accountant with extensive experience in the field of textile manufacture and engineering. He is currently a director of Yorklyde Plc.

### John Sach (50)

#### Chief Executive Officer

John joined the Group in 1994 as Group Financial Controller and was appointed to the board as Group Finance Director in 1999.

He was appointed Chief Executive Officer in May 2004.

### David Smallridge (50)

#### Executive Director

David joined the Group in 2002 with a wide experience as a managing director in the consumer products services. He was appointed to the board in December 2004 following his appointment as Managing Director of the Group's three main fabric and wallcovering brands, Harlequin, Sanderson and Zoffany.

### Alan Dix (47)

#### Group Finance Director

In July 2005, Alan Dix was appointed Group Finance Director after spending seven months as Finance Director Designate. He is a Chartered Accountant with experience from a broad range of industries.

A – Audit Committee

R – Remuneration Committee

N – Nominations Committee

## Advisers

### Stockbrokers and Advisers

#### Teather & Greenwood Ltd

Beaufort House  
15 St Botolph Street  
London EC3A 7QR

### Auditors

#### PricewaterhouseCoopers LLP

10 Bricket Road  
St Albans  
Hertfordshire AL1 3JX

### Tax Advisers

#### Chiltern Plc

3 Sheldon Square  
Paddington  
London W2 6PS

### Public Relations

#### Buchanan Communications Ltd

107 Cheapside  
London EC2V 6DN

### Solicitors

#### DLA Piper

Princes Exchange  
Princes Square  
Leeds LS1 4BY

### Registrars

#### Capita Registrars

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Bankers

#### Royal Bank of Scotland

280 Bishopsgate  
London EC2M 4RB

# Report of the Directors

The Directors submit their annual report together with the audited financial statements of the Group for the year ended 31 January 2006.

## Principal activities and review of the business

The principal activities of the Group are the design, manufacture, marketing and distribution of wallcoverings, furnishing fabrics and associated products for the consumer market. Further information on the business and future prospects of the Group is included in the Chairman's Statement on page 6, the Chief Executive's Review on page 10 and the Financial Review on page 14.

## Group result

The profit before taxation amounted to £2,625,000 (2005: loss £807,000). The Directors do not recommend payment of a final ordinary dividend (2005: no dividend paid), which leaves a surplus of £2,545,000 to be transferred to reserves (2004: £(834,000)).

## Directors and their interests

The Directors in office at 31 January 2006 and their interests in the shares of the Company were as follows:

	1p ordinary shares 31 January 2006 Number	1p ordinary shares 31 January 2005 Number
I Kirkham	680,000	150,000
C Gray	60,000	–
J D Sach	160,000	50,000
D H Smallridge	60,000	–
A N Dix – appointed 21 July 2005	30,000	–

The share price on 1 February 2005 was 9.5p and on 31 January 2006 was 19.5p.

## Interests in share options

	At start and end of the year Number	Option price Pence	Exercise dates	
			Earliest	Latest
J D Sach	50,000	69.5p	06.11.1999	05.11.2006
	40,000	66.0p	23.04.2000	22.04.2007
Total	90,000			

None of the Directors' share interests changed between 31 January 2006 and the signing of the accounts.

Peter Harkness resigned as a Director on 19 July 2005.

The biographical details of the Board of Directors are set out on page 16.

At the forthcoming Annual General Meeting ('AGM') John Sach will retire by rotation and, being eligible, will offer himself for re-election.

## Executive share option schemes

During the year, no options over ordinary shares were exercised or granted and options over 55,000 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 2006 are as shown below.

Date granted	Number of shares	Subscription price	Exercise dates	
			From	To
1 May 1996	30,000	98.0p	01.05.99	30.04.06
6 November 1996	50,000	69.5p	06.11.99	05.11.06
23 April 1997	70,000	66.0p	23.04.00	22.04.07
	150,000			

## Directors' interests in material contracts

None of the Directors had any material interest in any contract during the year which was significant to the business of the Group.

## Pensions

The Group operates defined benefit and defined contribution schemes in the UK and overseas for all qualifying employees. Further information on the schemes and details of the valuations are given in note 31 to the accounts.

## Report of the Directors *continued*

### Employees

The Group keeps its employees informed on matters affecting them and on the progress of the Group by way of informal meetings and consultation with employees' representatives. All Group businesses apply the principles of equal opportunity in recruitment, career progression and remuneration. Disabled persons are given full and fair consideration for employment where an appropriate vacancy occurs, with regard to their particular aptitudes and abilities. Whenever possible, arrangements are made for the continuing employment of persons who have become disabled during service and for appropriate training of all disabled employees, who are given equal consideration with all other employees in promotion and career development.

### Substantial shareholdings

At 11 April 2006, the Company had been notified of the following substantial shareholdings in its ordinary share capital: Gartmore Investment Management 14.91%, Promethean plc 15.05%, Walker Greenbank EBT 4.32%, British Airways Pension Trustees Ltd 4.17% and AXA Framlington One Thousand Smallest Company's Trust PLC 3.39%.

### Special business

At the AGM on 25 July 2006, items 4, 5, 6 and 7 will be proposed as Special Business. Details of the business can be found in the Notice of the AGM.

### Payments to suppliers

The Group agrees terms and conditions for its business transactions with suppliers and makes payment in accordance with those terms and conditions subject to the supplier meeting its obligations. The amount of trade creditors shown in the consolidated balance sheet at 31 January 2006 represents 60 days (2005: 61 days) of average purchases during the year for the Group.

The Company is a holding company and has no meaningful equivalent of creditor days.

### Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the AGM.

By order of the Board

### Julian Wilson

Company Secretary

10 April 2006

### Registered Office

Bradbourne Drive  
Tilbrook Milton Keynes  
Buckinghamshire MK7 8BE

### Registered number

61880

## Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed; and
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to presume the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website, and legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.

The Directors confirm that they have prepared these financial statements under the above requirements.

# Independent Auditor's Report to the Members of Walker Greenbank PLC

We have audited the Group and parent company financial statements (the "financial statements") of Walker Greenbank Plc for the year ended 31 January 2006, which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of Directors, the Chairman's Statement, Chief Executive's Review and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

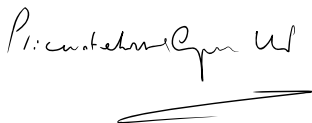
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 January 2006 and of the Group's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

East Midlands

10 April 2006

# Group Profit and Loss Account

Year ended 31 January 2006

	note	Before exceptional items £000	Exceptional items £000	Total	
				2006 £000	2005 (restated) £000
Turnover					
Continuing operations	2,3	46,361	–	<b>46,361</b>	46,013
Discontinued operations	2,3	2,031	–	<b>2,031</b>	4,598
		48,392	–	<b>48,392</b>	50,611
Operating profit/(loss)					
Continuing operations	3	758	4,076	<b>4,834</b>	(3,062)
Discontinued operations	3	184	–	<b>184</b>	372
		942	4,076	<b>5,018</b>	(2,690)
Profit on sale of subsidiary	4	–	532	<b>532</b>	–
Pension provision (FRS 17) release on sale of subsidiary		–	95	<b>95</b>	–
Goodwill previously written off to reserves		–	(1,908)	<b>(1,908)</b>	–
Net loss on sale of subsidiary	4	–	(1,281)	<b>(1,281)</b>	–
Profit on sale of properties	5	–	–	–	1,461
Profit on sale of Warner Archive	6	–	–	–	1,470
Profit on ordinary activities before interest		942	2,795	<b>3,737</b>	241
Net interest payable					
Interest payable	10			<b>(872)</b>	(811)
Amortisation of issue costs	10			<b>(66)</b>	(32)
				<b>(938)</b>	(843)
Other finance charge	11			<b>(174)</b>	(205)
Profit/(loss) on ordinary activities before taxation	2,7			<b>2,625</b>	(807)
Tax on profit/(loss) on ordinary activities	12			<b>(80)</b>	(27)
Profit/(loss) on ordinary activities after taxation				<b>2,545</b>	(834)
Dividends	20			–	–
Profit/(loss) for the year				<b>2,545</b>	(834)
Profit/(loss) per share – basic and diluted	13			<b>4.51p</b>	(1.48p)
Profit/(loss) per share – basic and diluted from continuing operations	13			<b>6.46p</b>	(1.77p)
Dividend per ordinary share	20			–	–

There is no material difference between the profit/(loss) on ordinary activities above and their historical cost equivalent.

# Balance Sheets

At 31 January 2006

	note	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
Fixed assets					
Intangible assets	14	<b>4,859</b>	4,898	–	–
Tangible assets	15	<b>10,205</b>	11,376	<b>4,595</b>	4,692
Investment in subsidiaries	16	–	–	<b>33,250</b>	19,000
		<b>15,064</b>	16,274	<b>37,845</b>	23,692
Current assets					
Stocks	17	<b>11,539</b>	12,879	–	–
Debtors	18	<b>9,137</b>	11,346	<b>15,823</b>	30,655
Cash at bank and in hand		<b>1,530</b>	1,149	<b>77</b>	–
		<b>22,206</b>	25,374	<b>15,900</b>	30,655
Creditors: amounts falling due within one year	19	<b>(10,403)</b>	(11,657)	<b>(9,440)</b>	(7,886)
Net current assets		<b>11,803</b>	13,717	<b>6,460</b>	22,769
Total assets less current liabilities		<b>26,867</b>	29,991	<b>44,305</b>	46,461
Creditors: amounts falling due after more than one year	21	<b>(10,289)</b>	(11,310)	<b>(1,225)</b>	(1,500)
Provisions for liabilities and charges	24	–	(342)	–	(44)
Net assets excluding pension liability		<b>16,578</b>	18,339	<b>43,080</b>	44,917
Pension liability	31	<b>(7,981)</b>	(11,269)	–	–
Net assets		<b>8,597</b>	7,070	<b>43,080</b>	44,917
Capital and reserves					
Share capital	25	<b>590</b>	590	<b>590</b>	590
Share premium account	26	<b>457</b>	457	<b>457</b>	457
Profit and loss account	26	<b>(32,957)</b>	(34,484)	<b>145</b>	1,982
Other reserves	26	<b>40,507</b>	40,507	<b>41,888</b>	41,888
Equity shareholders' funds		<b>8,597</b>	7,070	<b>43,080</b>	44,917



I Kirkham, Director



J D Sach, Director

These accounts were approved by the Directors on 10 April 2006.

# Group Cash Flow Statement

Year ended 31 January 2006

	note	2006 £000	2006 £000	2005 £000	2005 £000
Net cash inflow/(outflow) from operating activities	28		<b>1,643</b>		(4,060)
Returns on investment and servicing of finance					
Interest received		<b>12</b>		4	
Interest paid		<b>(878)</b>		(772)	
Interest element of finance lease payments		–		(43)	
			<b>(866)</b>		(811)
Taxation			<b>(184)</b>		(278)
Capital expenditure					
Purchase of tangible fixed assets		<b>(710)</b>		(1,187)	
Proceeds from assets held for resale		–		325	
Proceeds from disposal of property		–		4,564	
			<b>(710)</b>		3,702
Acquisitions and disposals					
Net proceeds from disposal of operations		<b>1,498</b>		–	
Disposal of Warner Archive		–		1,672	
Sale of Sanderson retail division		–		675	
			<b>1,498</b>		2,347
Equity dividends paid			–		–
Cash inflow before use of liquid resources and financing			<b>1,381</b>		900
Management of liquid resources			–		–
Financing					
Proceeds from new loans		<b>655</b>		11,744	
Principal repayments of finance lease obligations		<b>(251)</b>		(463)	
Repayment of borrowings		<b>(1,414)</b>		(4,487)	
			<b>(1,010)</b>		6,794
Increase in cash	29,30		<b>371</b>		7,694

## Statement of Total Recognised Gains and Losses

Year ended 31 January 2006

	Group	
	2006 £000	2005 £000
Profit/(loss) for the financial year	2,545	(834)
Actual less expected return on pension scheme assets	3,817	822
Experience gains and losses arising on pension scheme liabilities	425	(531)
Change in actuarial assumptions	(7,141)	(1,401)
Currency translation differences	(27)	132
Total recognised gains and losses since the last annual report	<b>(381)</b>	(1,812)

## Reconciliation of Movements in Shareholders' Funds

Year ended 31 January 2006

	Group	
	2006 £000	2005 £000
Profit/(loss) for the financial year	2,545	(834)
Dividends	–	–
Profit/(loss) for the year	2,545	(834)
Other recognised losses relating to the year	(2,926)	(978)
Goodwill previously set off to reserves in respect of the disposal of operations	1,908	202
Net increase/(reduction) to shareholders' funds	1,527	(1,610)
Opening shareholders' funds	7,070	8,680
Closing shareholders' funds	<b>8,597</b>	7,070

# Notes to the Accounts

## 1 Accounting policies

### Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and with the Companies Act 1985.

### Basis of consolidation

The Group accounts consolidate the financial statements of the parent and its subsidiary undertakings for the year ended 31 January 2006. Transactions arising on trading between Group undertakings are excluded.

No profit and loss account is presented for Walker Greenbank PLC as provided by Section 230 of the Companies Act 1985. A loss of £1,837,500 (2005: profit £1,466,000) has been dealt with in the accounts of the parent company.

### Goodwill and intangible assets

For acquisitions made before 1 February 1998, goodwill representing the excess of the cost of acquisition of a business over the fair value of the net assets at the date of acquisition was written off to reserves. On subsequent disposal of all or part of these businesses, the appropriate proportion of goodwill is charged to the profit and loss account on disposal.

For acquisitions since 1 February 1998, goodwill representing the excess of the cost of acquisition of a business over the fair value of the net assets at the date of acquisition is capitalised and amortised over a period not exceeding 20 years.

In the opinion of the Directors, the Arthur Sanderson and William Morris archive has an indefinite economic life and is not, therefore, subject to annual amortisation. The carrying value of this asset will be reviewed annually and provision made for any impairment in the carrying value if required.

### Fixed assets

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

Freehold buildings	2%
Short leaseholds	Over the unexpired period of the lease
Plant, equipment and vehicles	Between 5% and 33%
Computer assets	Between 12.5% and 33%

Land and buildings are stated at cost less provision for impairment.

### Impairment of fixed assets and goodwill

Fixed assets and goodwill are subject to review for impairment in accordance with Financial Reporting Standard No.11. Any impairment is recognised in the profit and loss account in the year in which it occurs.

### Financial instruments

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the date of transaction or, if hedged, at the forward contract rate. All differences are taken to the profit and loss account. Full disclosure of the Group's treasury policy is detailed on page 15.

### Foreign currency

The balance sheets of overseas subsidiary undertakings are translated at the rates of exchange ruling at the balance sheet date. The profit and loss accounts are translated at the average rates of exchange applicable to the accounting period. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are dealt with through reserves.

### Employee share option plan

Under UITF 38, interest in own shares are reclassified from fixed asset investments to profit and loss reserves.

### Turnover

The Group turnover represents the invoiced value of sales to external customers excluding VAT and is recognised at the point of despatch of goods.

### Royalty income

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

### Stocks

Stocks and work in progress 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 items.

# Notes to the Accounts *continued*

## 1 Accounting policies *continued*

### Pensions

The Group operates both defined benefit and defined contribution schemes. The cost of providing retirement pensions and related benefits is charged to the profit and loss account in the period in accordance with Financial Reporting Standard No.17, any surplus or deficit of assets over liabilities is recognised at the balance sheet date.

### Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the profit and loss account 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 profit and loss account as they are incurred.

### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, that give rise to an obligation to pay more tax in the future or a right to pay less. No provision has been made for any further liability arising from the distribution of past earnings of subsidiary undertakings. Deferred tax assets are recognised in the accounts, when it is more likely than not that they will be recovered in the foreseeable future.

The deferred tax provision has been calculated using the average rates that are expected to apply when the timing differences reverse and the liability has not been discounted.

## 2 Segmental analysis

### (a) Classes of business

	Turnover	
	2006 £000	2005 (restated) £000
Continuing operations:		
Fabrics	<b>30,062</b>	29,969
Wallcoverings	<b>12,415</b>	12,492
Other	<b>3,884</b>	3,552
	<b>46,361</b>	46,013
The other category includes furniture, paint and trimmings.		
Discontinued operations:		
Fabrics	<b>511</b>	1,157
Wallcoverings	<b>1,520</b>	3,441
	<b>2,031</b>	4,598
Group	<b>48,392</b>	50,611

The comparative classes of business have been restated to better reflect the nature of the business.

## 2 Segmental analysis continued

### (b) Geographical segments

	Turnover		Profit/(loss) before taxation		Net assets	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
<b>By origin on continuing operations:</b>						
United Kingdom	38,902	38,498	2,377	(993)	9,414	6,045
Continental Europe	1,198	1,016	(86)	(29)	(1,003)	(920)
North America	6,261	6,499	154	(24)	186	89
	<b>46,361</b>	46,013	<b>2,445</b>	(1,046)	<b>8,597</b>	5,214
<b>By origin on discontinued operations:</b>						
Continental Europe	2,031	4,598	180	239	–	1,856
By origin Group operations	<b>48,392</b>	50,611	<b>2,625</b>	(807)	<b>8,597</b>	7,070
<b>By destination on continuing operations:</b>						
United Kingdom	29,476	30,887				
Continental Europe	6,145	5,587				
North America	7,937	8,024				
Rest of the World	2,803	1,515				
	<b>46,361</b>	46,013				
<b>By destination on discontinued operations:</b>						
Continental Europe	2,031	4,598				
By destination Group operations	<b>48,392</b>	50,611				

The Group has not disclosed segmental analysis by brand and manufacturing for turnover, operating profit and net assets as it regards the information as commercially sensitive.

## 3 Analysis of operating profit/(loss)

	2006			2005		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	(restated) £000
Turnover	46,361	2,031	48,392	46,013	4,598	50,611
Cost of sales	(20,562)	(957)	(21,519)	(21,711)	(2,258)	(23,969)
Gross profit	25,799	1,074	26,873	24,302	2,340	26,642
<b>Net operating expenses:</b>						
Distribution costs	(11,650)	(305)	(11,955)	(11,465)	(601)	(12,066)
Administrative expenses	(14,489)	(583)	(15,072)	(16,878)	(1,372)	(18,250)
Other operating income	1,098	(2)	1,096	979	5	984
Operating profit before exceptionals	758	184	942	(3,062)	372	(2,690)
Reduction of pension deficit following settlement of liabilities	4,076	–	4,076	–	–	–
Operating profit/(loss)	<b>4,834</b>	<b>184</b>	<b>5,018</b>	(3,062)	372	(2,690)

The comparative analysis of administration and distribution has been restated to better reflect the costs of the business.

### Exceptional items

During the year the Group bought out the right to non-statutory pension increases from its active and deferred pensioners. This has resulted in a reduction of the FRS 17 liability in the balance sheet of £5,634,000 and a benefit of £4,076,000 in the profit and loss account.

The operating loss in the year ended 31 January 2005 included £670,000 of items of a one-off non-recurring nature relating to the integration of the Sanderson business within the Group. This comprised £191,000 redundancy costs incurred in combining the Zoffany and Sanderson US operations, £295,000 redundancy costs relating to the combining of the Sanderson and Zoffany UK divisions onto one site, £127,000 removal costs and costs of terminating a property lease at the Zoffany UK site, and £57,000 of cost incurred in transferring Sanderson stock to the Group's warehouse at Tilbrook.

## Notes to the Accounts *continued*

### 4 Loss on sale of Borge Holding AS and John O Borge AS

In June 2005, the wholly owned Norwegian subsidiaries Borge Holding AS and John O Borge AS were sold for a consideration before costs of £1,881,000. A profit of £532,000 was generated on the sale before goodwill previously written off to reserves and the adjustment to FRS 17 provision. Goodwill previously written off to reserves of £1,908,000 was charged through the profit and loss account. A net loss on sale of £1,281,000 has been recorded. Net proceeds of £1,498,000 were received as detailed in the table below:

	2006 £000
Sale of John O Borge AS and Borge Holdings AS:	
The disposal comprised the following:	
Tangible fixed assets	60
Stock	681
Debtors	745
Creditors	(520)
Profit on disposal	532
Net cash inflow from the disposal of John O Borge AS and Borge Holding AS	1,498

The tax effect of the disposal was £nil.

### 5 Profit on sale of properties

In February 2004, the land and buildings at Bradbourne Drive, Tilbrook, Milton Keynes, were sold under a sale and leaseback agreement. A consideration before costs of £4,670,000 was received, and a profit of £1,461,000 was generated on the sale. The tax effect of the disposal was nil.

### 6 Profit on sale of Warner Archive

	2006 £000	2005 £000
Profit on sale of Warner Archive	–	1,470
	–	1,470

In May 2004, the Warner Archive of designs was sold for a consideration before costs of £2,000,000, generating a profit on disposal of £1,470,000.

### 7 Profit/(loss) on ordinary activities before taxation

	2006 £000	2005 £000
<b>Profit/(loss) on ordinary activities before taxation is stated after charging:</b>		
Auditors' remuneration:		
Audit fee – Group auditors	112	112
– other auditors	–	2
Non audit fee	16	–
Depreciation of owned assets	1,864	1,741
Amortisation of goodwill	39	135
Depreciation of assets held under finance leases and hire purchase contracts	–	492
Hire of motor vehicles and plant and machinery	410	369
Other operating leases	1,312	1,600

Auditors' remuneration for audit services to the Group includes £28,400 (2005: £25,000) in respect of the Company.

### 8 Emoluments of Directors

	Salary £000	Bonus £000	Benefits £000	Pension £000	2006 Total £000	2005 Total £000
<b>Executive Directors:</b>						
J D Sach	196	81	3	23	303	258
D H Smallridge	140	30	–	5	175	25
A N Dix (appointed 21 July 05)	57	15	–	2	74	–
<b>Non-executive Directors:</b>						
I Kirkham	54	–	–	–	54	51
C Gray	22	–	–	–	22	4
P Harkness (resigned 19 July 05)	11	–	–	–	11	21
P Gyllenhammar (resigned 9 November 04)	–	–	–	–	–	20
	480	126	3	30	639	379

Within the bonus figure of £81,000, J Sach received a bonus of £28,000 during this financial year relating to targets associated with the prior year.

## 8 Emoluments of Directors *continued*

In both years, retirement benefits were accruing to one Director under a defined benefit scheme, who is the highest paid Director. Accrued pension benefits at the year end were £18,920 (2005: £17,567). There is also a defined contribution scheme under which amounts of £23,000 (2005: £nil) is payable in respect of the highest paid Director.

Benefits are accruing under defined contribution schemes for three Directors (2005: one Director).

## 9 Employee information

	Group	
	2006 £000	2005 £000
Wages and salaries	13,831	15,072
Social security costs	1,351	1,601
Other pension costs	587	580
	<b>15,769</b>	17,253

### The average monthly number of employees (including Directors) during the year

	Number	Number
Sales, warehousing and administration	296	369
Manufacturing	240	244
	<b>536</b>	613

	Company	
	2006 £000	2005 £000
Wages and salaries	1,086	870
Social security costs	94	89
Other pension costs	105	75
	<b>1,285</b>	1,034

### The average monthly number of employees (including Directors) during the year

	Number	Number
Administration	14	12

## 10 Net interest payable

	2006 £000	2005 (restated) £000
<b>Interest receivable:</b>		
Bank and other short-term deposit interest receivable	12	4
<b>Interest payable:</b>		
Amortisation of issue costs of loan	(66)	(32)
Bank and other short-term interest on loans and overdrafts wholly repayable within five years	(884)	(772)
Finance charges payable under finance leases and hire purchase contracts	–	(43)
	<b>(950)</b>	(847)
Net interest payable	<b>(938)</b>	(843)

Amortisation of issuing costs of arranging the loan have been recategorised from administration to net interest payable in the year, £32,000 of administration expenses have been recategorised to net interest payable in the prior year.

## 11 Other finance charge

	2006 £000	2005 £000
Expected return on pension scheme assets	2,260	2,153
Interest on pension scheme liabilities	(2,434)	(2,358)
Net charge	<b>(174)</b>	(205)

## Notes to the Accounts *continued*

### 12 Taxation

	2006 £000	2005 £000
<b>UK Corporation tax charge</b>		
at 30% (2005: 30%) – current year	–	–
– prior years	–	–
Overseas taxation – current year	<b>124</b>	116
– prior years	–	–
Total current tax	<b>124</b>	116
Deferred tax – current year	<b>(44)</b>	29
– prior years	–	(118)
Total deferred tax	<b>(44)</b>	(89)
Tax on profit/(loss) on ordinary activities	<b>80</b>	27

The difference between the profit/(loss) on ordinary activities at the corporation tax rate of 30% ruling in the UK and the actual current tax shown above is explained below:

	2006 £000	2005 £000
Profit/(loss) on ordinary activities before taxation	<b>2,625</b>	(807)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	<b>787</b>	(242)
Expenses not deductible for tax purposes	<b>872</b>	873
Non-taxable income	<b>(1,733)</b>	(16)
Utilisation of prior years losses	<b>(486)</b>	(967)
Depreciation in excess of capital allowances	<b>494</b>	556
Losses not recognised	<b>295</b>	–
Other timing differences	<b>(105)</b>	(88)
Total current tax	<b>124</b>	116

### 13 Profit/(loss) per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the year, excluding those held in the employee share trust (note 26), which are treated as cancelled.

	2006			2005		
	Earnings £000	Weighted average number of shares (000s)	Per share amount pence	Earnings £000	Weighted average number of shares (000s)	Per share amount pence
<b>Basic and diluted EPS:</b>						
Earnings attributable to ordinary shareholders	<b>2,545</b>	<b>56,457</b>	<b>4.51</b>	(834)	56,457	(1.48)
<b>Earnings per share from continuing operations:</b>						
Basic and diluted EPS	<b>2,545</b>	<b>56,457</b>	<b>4.51</b>	(834)	56,457	(1.48)
Loss on sale of subsidiary	<b>1,281</b>	–	<b>2.27</b>	–	–	–
Pre-tax profit from discontinued operation	<b>(180)</b>	–	<b>(0.32)</b>	(239)	–	(0.42)
Tax relating to discontinued operations	–	–	–	75	–	0.13
Basic and diluted EPS from continuing operations	<b>3,646</b>	<b>56,457</b>	<b>6.46</b>	(998)	56,457	(1.77)
<b>Earnings per share from discontinued operations:</b>						
Basic and diluted EPS	<b>(1,281)</b>	<b>56,457</b>	<b>(2.27)</b>	–	56,457	–
Loss on sale of subsidiary	<b>180</b>	–	<b>0.32</b>	239	–	0.42
Tax relating to discontinued subsidiary	–	–	–	(75)	–	(0.13)
Basic and diluted EPS from discontinued operations	<b>(1,101)</b>	<b>56,457</b>	<b>(1.95)</b>	164	56,457	0.29

## 14 Intangible assets

	Group	
	2006 £000	2005 £000
a) Goodwill	559	598
b) Arthur Sanderson and William Morris archive	4,300	4,300
	<b>4,859</b>	4,898

## (a) Goodwill

	£000
<b>Cost:</b>	
At 1 February 2005 and 31 January 2006	1,400
<b>Amortisation:</b>	
At 1 February 2005	802
Amortisation for the year	39
<b>At 31 January 2006</b>	<b>841</b>
<b>Net book amount at 31 January 2006</b>	<b>559</b>
Net book amount at 31 January 2005	598

## (b) Arthur Sanderson and William Morris archive

The Arthur Sanderson and William Morris archive was purchased as part of the acquisition of Arthur Sanderson & Sons on 29 August 2003. It comprises an historic record of unique designs that are used to generate a significant royalty income in the business. The Directors believe that the valuation of this asset is substantially in excess of the £4,300,000; however, it has been capped at this level, in accordance with FRS 10, to avoid the creation of negative goodwill on acquisition.

	£000
<b>Cost:</b>	
At 1 February 2005 and 31 January 2006	4,300
<b>Net book amount at 31 January 2006</b>	<b>4,300</b>
Net book amount at 31 January 2005	4,300

## 15 Tangible fixed assets

Group	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
<b>Cost:</b>				
1 February 2005	6,270	15,351	6,456	28,077
Additions	11	673	73	757
Disposals	–	(2,206)	(91)	(2,297)
Currency movements	–	44	–	44
<b>31 January 2006</b>	<b>6,281</b>	<b>13,862</b>	<b>6,438</b>	<b>26,581</b>
<b>Depreciation:</b>				
1 February 2005	1,597	10,359	4,745	16,701
Charge	99	1,756	9	1,864
Disposals	–	(2,154)	(78)	(2,232)
Currency movements	–	43	–	43
<b>31 January 2006</b>	<b>1,696</b>	<b>10,004</b>	<b>4,676</b>	<b>16,376</b>
<b>Net book amount:</b>				
<b>31 January 2006</b>	<b>4,585</b>	<b>3,858</b>	<b>1,762</b>	<b>10,205</b>
31 January 2005	4,673	4,992	1,711	11,376

## Notes to the Accounts *continued*

### 15 Tangible fixed assets *continued*

	2006 £000	2005 £000
<b>The net book amount of land and buildings comprises:</b>		
Freehold land	450	450
Freehold buildings	4,135	4,223
<b>Net book value</b>	<b>4,585</b>	<b>4,673</b>

The market value of the land and buildings is not materially different from the net book value.

The value of assets providing funding under the Burdale facility was property of £4,585,000 (2005: £4,673,000) and plant and equipment of £3,094,000 (2005: £nil).

	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
<b>Company</b>				
<b>Cost:</b>				
1 February 2005	5,353	255	410	6,018
Additions	11	–	–	11
<b>31 January 2006</b>	<b>5,364</b>	<b>255</b>	<b>410</b>	<b>6,029</b>
<b>Depreciation:</b>				
1 February 2005	680	237	409	1,326
Charge	99	9	–	108
<b>31 January 2006</b>	<b>779</b>	<b>246</b>	<b>409</b>	<b>1,434</b>
<b>Net book amount:</b>				
<b>31 January 2006</b>	<b>4,585</b>	<b>9</b>	<b>1</b>	<b>4,595</b>
31 January 2005	4,673	18	1	4,692

	2006 £000	2005 £000
<b>The net book amount of land and buildings comprises:</b>		
Freehold land	450	450
Freehold buildings	4,135	4,223
<b>Net book value</b>	<b>4,585</b>	<b>4,673</b>

Included in the amounts above are the following amounts relating to assets held under finance leases:

	Group		Company	
	Plant, equipment and vehicles £000	Computer assets £000	Plant, equipment and vehicles £000	Computer assets £000
<b>Net book amount:</b>				
<b>31 January 2006</b>	–	–	–	–
31 January 2005	1,333	630	–	–

### 16 Investments

	Company £000
<b>Shares in subsidiary undertakings</b>	
<b>Cost:</b>	
1 February 2005	30,367
Capitalisation of loan to Abaris Holdings Limited	15,000
Disposal of shares in Borge Holding AS	(750)
<b>31 January 2006</b>	<b>44,617</b>
<b>Provision for impairment at 1 February 2005 and 31 January 2006</b>	<b>11,367</b>
<b>Net book amount at 31 January 2006</b>	<b>33,250</b>
Net book amount at 1 February 2005	19,000

## 16 Investments continued

The principal Group operating companies that traded during the year and are wholly owned are as follows:

Abaris Holdings Limited	– registered in England and Wales
John O Borge A.S.*	– incorporated in Norway
Walker Greenbank Inc*	– incorporated in the USA
Arthur Sanderson & Sons Inc*	– incorporated in the USA
Arthur Sanderson & Sons SARL*	– incorporated in France
Whittaker & Woods SRL	– incorporated in Italy

Investments in Group companies are ordinary shares.

\*Shares held by subsidiary company.

The principal activities of the Group are design, manufacture, marketing and distribution of wallcoverings, furnishing fabrics and associated products for the consumer market.

## 17 Stocks

	Group	
	2006 £000	2005 £000
Raw materials	1,053	1,230
Work in progress	1,511	1,519
Finished goods	8,975	10,130
	<b>11,539</b>	12,879

The value of stocks providing funding under the Burdale facility was £7,800,000 (2005: £7,048,000).

The Company does not hold stock.

## 18 Debtors

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade debtors	7,340	8,478	–	–
Amounts owed by subsidiary undertakings	–	–	11,426	28,222
Other debtors	790	1,347	3,930	2,007
Prepayments	1,007	1,521	467	426
	<b>9,137</b>	11,346	<b>15,823</b>	30,655

The value of trade debtors providing funding under the Burdale facility was £5,862,000 (2005: £6,982,000).

Included within Company and Group, other debtors is an amount repayable after one year of £276,000 (2005: £287,000). Amounts owed by subsidiary undertakings to the Company include long-term loans recoverable after more than one year of £1,000,000 (2005: £1,000,000).

Unamortised loan issue costs have been deducted from loans in the year.

## 19 Creditors: due within one year

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Loans (note 23)	596	400	445	400
Bank overdrafts	2	–	56	214
Obligations under finance leases and hire purchase contracts (note 23)	–	251	–	–
Trade creditors	6,454	7,948	188	348
Amounts owed to subsidiary undertakings	–	–	7,623	6,708
Corporation tax	39	57	–	–
Other taxes and social security	585	732	11	19
Other creditors	201	239	48	5
Accruals	2,526	2,030	1,069	192
	<b>10,403</b>	11,657	<b>9,440</b>	7,886

There is a set off arrangement for bank accounts held with the UK clearing bank. The loans were secured by a fixed and floating charge over the assets of the Group's UK operations.

## Notes to the Accounts *continued*

### 20 Dividends

The Directors do not propose a final dividend in respect of the year ended 31 January 2006 (2005: no dividend proposed).

### 21 Creditors: due after more than one year

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Loans (note 23)	<b>10,289</b>	11,244	<b>1,225</b>	1,500
Overseas tax	–	66	–	–
	<b>10,289</b>	11,310	<b>1,225</b>	1,500

### 22 Operating lease commitments

Annual commitments due under non-cancellable operating leases are as follows:

	Group 2006 Land and buildings £000	Group 2006 Other £000	Group 2005 Land and buildings £000	Group 2005 Other £000
	<b>Operating leases which expire:</b>			
Within one year	<b>19</b>	<b>73</b>	101	75
Between one and five years	<b>830</b>	<b>225</b>	469	195
Over five years	<b>237</b>	–	1,030	5
	<b>1,086</b>	<b>298</b>	1,600	275

	Company 2006 Land and buildings £000	Company 2006 Other £000	Company 2005 Land and buildings £000	Company 2005 Other £000
	<b>Operating leases which expire:</b>			
Within one year	<b>12</b>	–	–	6
Between one and five years	<b>387</b>	–	–	–
Over five years	–	–	387	–
	<b>399</b>	–	387	6

### 23 Financial instruments

A discussion of treasury policy is given in the Financial Review on page 15. Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

#### Financial assets

	Group	
	2006 £000	2005 £000
Cash at bank and in hand	<b>1,530</b>	1,149

#### Borrowings

	Group	
	2006 £000	2005 £000
Finance leases	–	251
Bank overdrafts	<b>2</b>	–
<b>Loans:</b>		
<b>Secured</b>		
Burdale property loan	<b>1,671</b>	1,900
Burdale plant and equipment loan	<b>337</b>	–
Burdale sterling loan	<b>8,802</b>	9,485
Burdale euro loan	<b>75</b>	259
<b>Total loans</b>	<b>10,885</b>	11,644
<b>Total borrowings</b>	<b>10,887</b>	11,895

23 Financial instruments *continued*

	Group	
	2006 £000	2005 £000
<b>Repayment of total borrowings</b>		
Between two and five years:		
Finance leases	–	–
Loans	816	10,844
Between one and two years:		
Finance leases	–	–
Loans	9,473	400
After more than one year:		
Finance leases	–	–
Loans	10,289	11,244
Within one year:		
Finance leases	–	251
Bank overdrafts	2	–
Loans	596	400
<b>Total borrowings</b>	<b>10,887</b>	<b>11,895</b>

The loans in the UK operations are secured by a fixed and floating charge over the assets of the Group's UK operations.

## Interest rate and currency profile of financial net assets

Currency	Floating rate assets	
	2006 £000	2005 £000
Sterling	374	867
US dollar	969	334
Euro	185	(165)
Norwegian krone	–	112
Other	2	1
	<b>1,530</b>	<b>1,149</b>

Floating rate cash earns interest based on the relevant national base rate equivalents.

The bank facilities have a right of offset of currency accounts.

## Interest rate and currency profile of financial liabilities

At 31 January 2006

Currency	Total £000	Floating rate borrowings £000	Fixed rate borrowings £000	Weighted average interest rate %	Fixed rate borrowings weighted average time until maturity Years
Sterling	10,812	10,812	–	–	–
Euro	75	75	–	–	–
	<b>10,887</b>	<b>10,887</b>	–	–	–

Interest is charged at 2.2% above one month Libor on floating rate borrowings.

## Notes to the Accounts *continued*

### 23 Financial instruments *continued*

#### Interest rate and currency profile of financial liabilities

At 31 January 2005

Currency	Total £000	Floating rate borrowings £000	Fixed rate borrowings £000	Weighted average interest rate %	Fixed rate borrowings weighted average time until maturity Years
Sterling	11,621	11,385	236	7.50	0.46
Euro	259	259	–	–	–
Norwegian krone	15	15	–	–	–
	11,895	11,659	236	7.50	0.46

#### Net foreign monetary assets/(liabilities)

The following summary shows the Group's currency exposures that give rise to currency gains and losses recognised in the profit and loss account, resulting from exposures where monetary assets and liabilities (including intercompany trading balances) at the balance sheet date are denominated in currencies other than the functional currency of each operation.

At 31 January 2006

	Sterling £000	US dollar £000	Euro £000	Norwegian krone £000	Other £000	Total £000
<b>Functional currency of entity</b>						
Sterling	–	866	(462)	–	138	542
	–	866	(462)	–	138	542

At 31 January 2005

	Sterling £000	US dollar £000	Euro £000	Norwegian krone £000	Other £000	Total £000
<b>Functional currency of entity</b>						
Sterling	–	126	(798)	(161)	2	(831)
Norwegian krone	38	(2)	(124)	–	(3)	(91)
	38	124	(922)	(161)	(1)	(922)

#### Borrowing facilities

In July 2004, the Group agreed terms for a new facility from Burdale Financial Limited replacing the HSBC overdraft. The three year facility comprises a loan secured on the Group's freehold property of £2 million which is being repaid on a five year profile and a facility capped at £18.5 million that will fluctuate depending on the level of the UK debtors and stock against which it is secured. In May 2005 the Group agreed an additional facility from Burdale Financial Limited secured on manufacturing plant and equipment of £655,000, which is being repaid on a five year profile. The utilisation of the facility at the year end was £10,198,000 (2005: £11,644,000).

The fair value of short-term deposits, loans and overdrafts approximates to the carrying value due to all borrowings being subject to a floating rate.

#### Gains and losses on hedges

There were no significant unrecognised or deferred gains and losses on hedges at 31 January 2006 or 31 January 2005.

## 24 Provisions for liabilities and charges

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Deferred taxation	–	19	–	44
Other provisions	–	323	–	–
	–	342	–	44

## Deferred taxation

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
<b>Deferred taxation provided in the accounts is as follows:</b>				
Depreciation in excess of capital allowances	<b>(68)</b>	(405)	–	44
Other timing differences	<b>68</b>	424	–	–
	–	19	–	44

	Group £000	Company £000
	<b>Deferred taxation movement for the year:</b>	
1 February 2005	19	44
Current year charge	(44)	(44)
Movement on disposal of subsidiary	25	–
<b>31 January 2006</b>	–	–

	Group	
	2006 £000	2005 £000
Deferred taxation unprovided:		
Depreciation in excess of capital allowances	<b>(874)</b>	(479)
Other timing differences	<b>68</b>	32
Tax losses	<b>(6,758)</b>	(7,354)
	<b>(7,564)</b>	(7,801)

It will be the Group's intention to reflect a deferred tax asset as the Group demonstrates its continuing improving profitability.

## Other provisions

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
1 February 2005	<b>323</b>	200	–	–
Fair value adjustment	–	904	–	–
Utilised in the year	<b>(323)</b>	(781)	–	–
31 January 2006	–	323	–	–

# Notes to the Accounts *continued*

## 25 Share capital

	Number of shares	£
<b>Ordinary shares of 1p each:</b>		
<b>Authorised share capital:</b>		
1 February 2005 and 31 January 2006	85,000,000	850,000
<b>Allotted, called up and fully paid:</b>		
1 February 2005 and 31 January 2006	59,006,162	590,062

### Executive share option schemes

During the year, no options over ordinary shares were exercised or granted and options over 55,000 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 2006 are as shown below:

	Number of shares	Subscription price	Exercisable from	Exercisable to
Date granted:				
1 May 1996	30,000	98.0p	01.05.99	30.04.06
6 November 1996	50,000	69.5p	06.11.99	05.11.06
23 April 1997	70,000	66.0p	23.04.00	22.04.07
	150,000			

## 26 Reserves

	Share premium account £000	Profit and loss account £000	Other reserves		
			Capital reserve £000	Merger reserve £000	Total £000
<b>Group</b>					
1 February 2005	457	(34,484)	43,457	(2,950)	40,507
Profit for the year	–	2,545	–	–	–
Actuarial loss on pension scheme	–	(2,899)	–	–	–
Currency translation movements	–	(27)	–	–	–
Goodwill previously set off to reserves in respect of the disposal of operations	–	1,908	–	–	–
<b>31 January 2006</b>	<b>457</b>	<b>(32,957)</b>	<b>43,457</b>	<b>(2,950)</b>	<b>40,507</b>

	Share premium account £000	Profit and loss account £000	Other reserves		
			Capital reserve £000	Merger reserve £000	Total £000
<b>Company</b>					
1 February 2005	457	1,982	41,888	–	41,888
Loss for the year	–	(1,837)	–	–	–
<b>31 January 2006</b>	<b>457</b>	<b>145</b>	<b>41,888</b>	<b>–</b>	<b>41,888</b>

Capital reserve represents:

	Group £000	Company £000
Share premium of companies acquired and accounted for under merger accounting principles	1,276	–
Capital reserve arising on consolidation	293	–
Capital redemption reserve for deferred shares	1,003	1,003
Capital redemption reserve for 'B' shares	40,885	40,885
	43,457	41,888

The Walker Greenbank Plc Employee Benefit Trust holds 2,549,146 shares (2005: 2,549,146) with a cost of £601,202 (2005: £601,202) and a market value at 31 January 2006 of £497,083 (2005: £242,169).

The cumulative amount of goodwill which has been written off to the profit and loss account reserve in respect of existing Group companies is £2,410,000 (2005: £4,318,000).

## 27 Capital commitments

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Authorised and contracted	47	–	–	–

## 28 Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2006 £000	2006 £000	2005 £000	2005 £000
Continuing operations:				
Operating profit/(loss)		4,834		(3,094)
Depreciation and amortisation	1,894		2,302	
Difference between pension charge and cash contributions	(5,316)		(814)	
Settlement of pension liabilities	(950)		–	
Proceeds on disposal of fixed assets	3		–	
Decrease/(increase) in stocks	525		(1,316)	
Decrease/(increase) in debtors	1,624		(21)	
Decrease in creditors	(642)		(884)	
Increase/(decrease) in provisions	(323)		123	
Fair value adjustment	–		(851)	
		(3,185)		(1,461)
Net cash inflow/(outflow) from continuing operating activities		1,649		(4,555)
Discontinued operations:				
Operating profit		184		372
Depreciation and amortisation	9		66	
Decrease in stocks	134		15	
(Increase)/decrease in debtors	(125)		169	
Decrease in creditors	(208)		(127)	
		(190)		123
Net cash (outflow)/inflow from discontinued operations		(6)		495
Total net cash inflow/(outflow) from operating activities		1,643		(4,060)

Last year comparatives have not been restated for the impact of FRS 4. The operating loss in the profit and loss account is after the FRS 4 reclassification of £32,000.

## 29 Analysis of net debt

	1 February 2005 £000	Cash flow £000	Other movements £000	Exchange movement £000	31 January 2006 £000
Cash at bank and in hand	1,149	373	–	8	1,530
Overdrafts	–	(2)	–	–	(2)
	1,149	371	–	8	1,528
Debt due within one year	(400)	(196)	–	–	(596)
Debt due after one year	(11,244)	856	99	–	(10,289)
Finance leases	(251)	251	–	–	–
	(11,895)	911	99	–	(10,885)
	(10,746)	1,282	99	8	(9,357)

Other movements are amortisation of issue costs relating to the loan financing.

## Notes to the Accounts *continued*

### 30 Reconciliation of net cash flow to movement in net debt

	2006 £000	2005 £000
Increase in cash in the year	371	7,694
Decrease/(increase) in debt and lease financing	911	(6,794)
Cash inflow/(outflow) from cash flows	1,282	900
Other movements	99	–
Exchange movement	8	(13)
Movement in the year	1,389	887
Net debt at 1 February 2005	(10,746)	(11,633)
Net debt at 31 January 2006	(9,357)	(10,746)

Other movements are amortisation of issue costs relating to the loan financing.

### 31 Pension

The Company operates the following funded pension schemes in the UK: the Walker Greenbank Pension Plan, the Abaris Holdings Limited Pension Scheme and the WG Senior Management Pension Scheme. The Walker Greenbank Pension Plan is the biggest scheme. All schemes contain defined benefit sections. However, the Abaris Holdings Limited Pension Scheme also contains a defined contribution section, although this section is relatively small.

The pension cost charged to operating profit before exceptional items under FRS 17 "Retirement Benefits" for the year amounts to £459,000 (2005: £518,000). This charge is equal to the service cost of £167,000 (2005: £226,000) in respect of the defined benefit arrangements, plus contributions of £292,000 (2005: £292,000) paid by the Company in respect of the defined contribution arrangements. The exceptional item of £4,076,000 charged to the operating profit relates to the net benefit of the settlement of non-statutory pension payments. Except where stated otherwise, the remainder of this FRS 17 pension note relates only to the defined benefit arrangements.

During the year the Group offered to buy out the right to non-statutory pension increases from its active and deferred pensioners. This has resulted in a reduction in the FRS 17 liability in the balance sheet of £5,634,000 and a benefit of £4,076,000 in the profit and loss, disclosed as an exceptional operating item. Additionally the Board decided to take this opportunity to adopt the most up-to-date mortality tables in the FRS 17 calculation which caused the deficit to increase by £3,196,000.

A full FRS 17 actuarial valuation was carried out at 31 January 2006 by a qualified independent actuary. The main assumptions used by the actuary for the purposes of FRS 17 were:

#### Financial assumptions applied when valuing the defined benefit schemes:

	2006	2005	2004
Valuation method	<b>Projected unit</b>	Projected unit	Projected unit
Discount rate	<b>5.0%</b>	5.5%	5.75%
Inflation rate	<b>2.9%</b>	2.8%	2.8%
Increases to pensions in payment	<b>2.9%</b>	2.8%	2.8%
Salary increases	<b>2.9%</b>	2.8%	2.8%

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

### 31 Pension continued

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

#### Consolidated net deficit in the pension schemes and the expected long-term rates of return:

	2006		2005		2004	
	%	£000	%	£000	%	£000
Equities and property	7.10	23,272	8.35	19,128	8.65	17,146
Fixed interest	4.70	13,695	4.60	12,232	4.90	11,532
Index linked gilts	4.10	–	4.60	516	4.90	493
Insured annuities	5.50	2,053	5.50	1,349	5.80	1,360
Cash and other	4.50	221	4.75	306	4.00	292
Defined contribution section	–	661	–	400	–	251
Total market value of assets		39,902		33,931		31,074
Present value of the schemes liabilities		(47,883)		(45,200)		(41,842)
Deficit in the schemes		(7,981)		(11,269)		(10,768)

#### Volatility of FRS 17

It should be noted that the methodology and assumptions prescribed for the purposes of FRS 17 mean that the disclosures will be inherently volatile, varying greatly according to investment market conditions at each accounting date.

#### Movement in deficit during the period

	Group 2006 £000	Group 2005 £000
Deficit at beginning of period	(11,269)	(10,768)
<b>Movement in the period:</b>		
Current service cost	(167)	(226)
Contributions	799	1,040
Reduction of pension deficit following settlement of liabilities	5,634	–
Release due to sale of subsidiary	95	–
Other finance charge	(174)	(205)
Adoption of PA92 mortality tables	(3,196)	–
Actuarial gain/(loss)	297	(1,110)
Deficit at end of period	(7,981)	(11,269)

It should be noted that the UK schemes are closed to new entrants and so the use of the projected unit valuation method required by FRS 17 means that the current service cost (as a proportion of members' earnings) is likely to increase as members approach retirement.

During the year, the Company contributed to the Walker Greenbank Pension Plan at the rate of 4.6% of pensionable salaries, plus additional amounts of £77,250 per month for the first two months, and £57,000 per month for the remaining 10 months (as allowed by the Pensions Regulator as part of the application to extend the Schedule of Contributions). The Company paid contributions in line with the Schedule of Contributions to the WG Senior Management Scheme and Abaris Holdings Limited Pension Scheme.

A deferred tax asset has not been offset against this potential liability because of carried forward tax losses that are not expected to be fully utilised in the foreseeable future.

## Notes to the Accounts *continued*

### 31 Pension *continued*

#### History of experience gains and losses

	2006	2005	2004	2003
<b>Difference between the expected and actual return on scheme assets:</b>				
Amount (£000)	<b>3,817</b>	822	1,446	(7,741)
Percentage of scheme assets	<b>9.6%</b>	2.4%	4.7%	27.7%
<b>Experience gains and losses on scheme liabilities:</b>				
Amount (£000)	<b>425</b>	(531)	(501)	(572)
Percentage of the present value of scheme liabilities	<b>0.9%</b>	(4.3%)	1.2%	1.4%
<b>Total amount recognised in statement of total recognised gains and losses:</b>				
Amount (£000)	<b>(2,899)</b>	(1,110)	945	(8,318)
Percentage of the present value of scheme liabilities	<b>(6.1%)</b>	(2.5%)	2.3%	20.9%

### 32 Post balance sheet events

After the year end there have been additional confirmed acceptances of the Group's offer to buy out the non-statutory pension increases. The effect of this is a further reduction in the pension liability of £0.8m.

## Five-Year Record

	2002 £000	2003 £000	2004 £000	2005 (restated) £000	2006 £000
Turnover	61,115	58,261	47,975	50,611	<b>48,392</b>
Overseas turnover	18,104	17,926	17,517	19,724	<b>18,916</b>
Operating profit/(loss) – restated	(6,542)	(3,802)	(3,159)	(2,690)	<b>5,018</b>
EBITDA	(2,848)	(691)	(514)	(322)	<b>961</b>
Profit/(loss) before taxation – restated	(6,633)	(7,975)	(4,050)	(807)	<b>2,625</b>
Capital expenditure	1,388	1,208	569	1,187	<b>710</b>
Profit/(loss) per share (pence)	(11.69p)	(13.04p)	(7.61p)	(1.48p)	<b>4.51p</b>
Average number of employees	740	665	568	613	<b>539</b>
Turnover per employee	£83,000	£88,000	£84,000	£83,000	<b>£90,000</b>
Dividends	–	–	–	–	–
Shareholders' funds – restated	27,421	12,742	8,680	7,070	<b>8,597</b>
Dividend per share	–	–	–	–	–

The shareholders' funds for 2004 have been restated to reflect the implementation of UITF 38. The 2002 results have been restated for the change in accounting policy following the adoption of FRS 17 'Retirement Benefits'. The operating loss for 2005 has been restated to reflect the impact of FRS 4.

EBITDA is based on operating profit before exceptional items.

### Financial calendar

Annual General Meeting	25 July 2006
Announcement of half-year results	October 2006

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## Notes



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