

Stephen Walters & Sons Limited
Financial statements
For the year ended 31 March 2005

Grant Thornton 



Company No. 00060209

Company information

Company registration number	00060209
Registered office	Sudbury Silk Mills Cornard Road Sudbury Suffolk CO10 2XB
Directors	Mr D J Walters Mr J S Walters Mr T Sunman Mr J D Walters Miss J McSorley Mr B Crabtree Mr M James
Secretary	Mrs I T Hyde
Bankers	Lloyds TSB Bank Plc Bank of Scotland Abbey National Plc
Solicitors	Birkett Long
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditors Crown House Crown Street IPSWICH Suffolk IP1 3HS

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Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 March 2005.

Principal activities and business review

The company is principally engaged in the weaving of fabrics from silk and other fibres.

The directors are disappointed with the result for the year and anticipate a return to profitability in the coming year.

Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

The directors and their interests in the shares of the company

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 31 March 2005	At 1 April 2004
Mr D J Walters	—	—
Mr J S Walters	—	—
Mr T Sunman	—	—
Mr J D Walters	—	—
Miss J McSorley	—	—
Mr B Crabtree	—	—
Mr M James	—	—

The interests of the directors in the shares of the ultimate parent undertaking are shown in those accounts.

Directors' responsibilities

United Kingdom 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 at the end of the year and of the profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors Grant Thornton UK LLP, are deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by members on 16 December 2003.

ON BEHALF OF THE BOARD

D J Walters
Director



5.8.05.

Report of the independent auditors to the members of Stephen Walters & Sons Limited

We have audited the financial statements of Stephen Walters & Sons Limited for the year ended 31 March 2005 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

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 report of the directors 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 transactions with the company is not disclosed.

We read other information contained in the report of the directors and consider whether it is consistent with the audited financial statements. 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 opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 company's circumstances, consistently applied and adequately disclosed.

Report of the independent auditors to the members of Stephen Walters & Sons Limited (continued)

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 of the state of affairs of the company as at 31 March 2005 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

IPSWICH

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29 September 2005

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Consolidation

In the opinion of the directors, the company and its subsidiary undertakings comprise a medium-sized group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	- 15 - 33%
Fixtures & Fittings	- 20%
Motor Vehicles	- 20%

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Cost includes amounts incurred in bringing each product to its present location and condition.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

Defined contribution scheme

The pension costs charged against profits represent the amount of contributions payable to the scheme in respect of the accounting period.

Defined benefit scheme

The company is accounting for the defined benefit scheme as a defined contribution scheme as the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Investments

Shares in the subsidiary undertaking are included at original cost less any amounts written off for permanent diminution in value.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transition. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, except for those assets and liabilities which are covered by forward exchange contracts.

All exchange gains and losses in the normal course of business are taken to the profit and loss account.

Profit and loss account

	Note	2005 £	2004 £
Turnover	1	6,718,486	6,519,459
Cost of sales		3,893,074	3,877,415
Gross profit		2,825,412	2,642,044
Other operating charges	2	3,050,684	3,759,403
Other operating income		—	(8,335)
Operating loss	3	(225,272)	(1,109,024)
Interest receivable	6	68,264	176,385
Interest payable and similar charges	7	(66,281)	(30,352)
Loss on ordinary activities before taxation		(223,289)	(962,991)
Tax on loss on ordinary activities	8	5,800	(261,537)
Loss on ordinary activities after taxation		(229,089)	(701,454)
Dividends	9	—	7,077,588
Loss for the financial year	21	(229,089)	(7,779,042)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Balance sheet

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	10	991,005	929,326
Investments	11	27,600	27,600
		<u>1,018,605</u>	<u>956,926</u>
Current assets			
Stocks	12	945,212	972,046
Debtors	13	1,558,164	1,841,913
Cash at bank and in hand		2,615,493	1,369,562
		<u>5,118,869</u>	<u>4,183,521</u>
Creditors: amounts falling due within one year	14	<u>3,285,718</u>	<u>2,065,402</u>
Net current assets		<u>1,833,151</u>	<u>2,118,119</u>
Total assets less current liabilities		<u>2,851,756</u>	<u>3,075,045</u>
Provisions for liabilities and charges			
Deferred taxation	16	9,700	3,900
		<u>2,842,056</u>	<u>3,071,145</u>
Capital and reserves			
Called-up equity share capital	19	32,466	32,466
Other reserves	20	19,558	19,558
Profit and loss account	21	2,790,032	3,019,121
Shareholders' funds	22	<u>2,842,056</u>	<u>3,071,145</u>

These financial statements were approved by the directors on 5.8.05 and are signed on their behalf by:

D J Walters
Director



Cash flow statement

	Note	2005 £	2004 £
Net cash inflow from operating activities	23	918,316	1,927,820
Returns on investments and servicing of finance			
Interest received		68,264	176,385
Interest paid		(66,281)	(30,352)
Net cash inflow from returns on investments and servicing of finance		1,983	146,033
Taxation		-	(72,879)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(408,013)	(226,517)
Receipts from sale of fixed assets		-	208,832
Net cash outflow for capital expenditure and financial investment		(408,013)	(17,685)
Acquisitions and disposals			
Acquisition of shares in group undertakings		-	(550,100)
Net cash outflow from acquisitions and disposals		-	(550,100)
Equity dividends paid		-	(7,077,588)
Financing			
Purchase of own equity shares		-	(5,663)
Premium on purchase of own equity shares		-	(388,157)
Net cash outflow from financing		-	(393,820)
Increase/(decrease) in cash	24	512,286	(6,038,219)

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company. An analysis of turnover by geographical market has not been disclosed as the directors consider that such analysis would be seriously prejudicial to the business.

2 Other operating income and charges

	2005 £	2004 £
Distribution costs	651,972	622,199
Administrative expenses	2,398,712	3,137,204
Other operating income	—	(8,335)
	<u>3,050,684</u>	<u>3,751,068</u>

3 Operating loss

Operating loss is stated after charging:

	2005 £	2004 £
Depreciation of owned fixed assets	346,334	370,382
Loss on disposal of fixed assets	—	62,457
Auditors' remuneration:		
Audit fees	13,011	12,694
Operating lease costs:		
Land and buildings	<u>105,879</u>	<u>—</u>

4 Directors and employees

The average number of staff employed by the company during the financial year amounted to:

	2005 No	2004 No
Textile operatives	90	100
Administration	41	42
	<u>131</u>	<u>142</u>

The aggregate payroll costs of the above were:

	2005 £	2004 £
Wages and salaries	2,598,229	3,148,344
Social security costs	263,907	257,794
Other pension costs	243,225	180,750
	<u>3,105,361</u>	<u>3,586,888</u>

5 Directors

Remuneration in respect of directors was as follows:

	2005 £	2004 £
Emoluments receivable	442,874	954,906
Value of company pension contributions	47,707	30,849
	<u>490,581</u>	<u>985,755</u>

Emoluments of highest paid director:

	2005 £	2004 £
Total emoluments	91,194	588,746
Value of company pension contributions	5,149	—
	<u>96,343</u>	<u>588,746</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2005 No	2004 No
Money purchase schemes	2	2
Defined benefit schemes	4	4

During the year certain directors contributed to both money purchase and defined benefit pension schemes.

6 Interest receivable

	2005	2004
	£	£
Bank interest receivable	<u>68,264</u>	<u>176,385</u>

7 Interest payable and similar charges

	2005	2004
	£	£
Interest payable on bank borrowing	<u>66,281</u>	<u>30,352</u>

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2005	2004
	£	£
Current tax:		
UK Corporation tax based on the results for the year at 19% (2004 - 30%)	—	(221,737)
Total current tax	—	(221,737)
Deferred tax:		
Origination and reversal of timing differences	<u>5,800</u>	<u>(39,800)</u>
Tax on loss on ordinary activities	<u>5,800</u>	<u>(261,537)</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2004 - 30%).

	2005	2004
	£	£
Loss on ordinary activities before taxation	<u>(223,289)</u>	<u>(962,991)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of tax in the UK of 19% (2004 - 30%)	<u>(42,425)</u>	<u>(288,897)</u>
Expenses not deductible for tax purposes	<u>4,986</u>	<u>23,119</u>
Depreciation for the year in excess of capital allowances	<u>(7,265)</u>	<u>42,007</u>
Utilisation of tax losses	—	2,034
Group relief	<u>44,704</u>	—
Total current tax (note 8(a))	<u>—</u>	<u>(221,737)</u>

9 Dividends

No dividend has been recommended for the for the year ended 31 March 2005.

10 Tangible fixed assets

	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost				
At 1 April 2004	4,013,470	1,318,158	161,988	5,493,616
Additions	334,455	51,712	21,358	407,525
Disposals	(50,843)	—	—	(50,843)
Transfer from group undertaking	—	520	—	520
At 31 March 2005	<u>4,297,082</u>	<u>1,370,390</u>	<u>183,346</u>	<u>5,850,818</u>
Depreciation				
At 1 April 2004	3,279,320	1,181,713	103,257	4,564,290
Charge for the year	280,933	40,605	24,796	346,334
On disposals	(50,843)	—	—	(50,843)
Transfer from group undertaking	—	32	—	32
At 31 March 2005	<u>3,509,410</u>	<u>1,222,350</u>	<u>128,053</u>	<u>4,859,813</u>
Net book value				
At 31 March 2005	<u>787,672</u>	<u>148,040</u>	<u>55,293</u>	<u>991,005</u>
At 31 March 2004	<u>734,150</u>	<u>136,445</u>	<u>58,731</u>	<u>929,326</u>

11 Investments

	Total £
Cost	
At 1 April 2004 and 31 March 2005	<u>550,100</u>
Amounts written off	
At 1 April 2004 and 31 March 2005	<u>522,500</u>
Net book value	
At 31 March 2005	<u>27,600</u>
At 31 March 2004	<u>27,600</u>

11 Investments (continued)

Shares in group undertakings represents 100% of the issued share capital of Alipes 82, an unlimited investment company, being 100 £1 A ordinary shares and 5,500 conditional fixed dividend preference shares of £1 each. Alipes 82 is incorporated in the United Kingdom.

During the previous year, the company distributed the preference shares as part of an executive bonus scheme.

At the year end, in the directors opinion, the market value of the preference shares was £27,500. At 31 March 2005, the aggregate share capital and reserves of Alipes 82 were £27,600.

During the previous year, the company disposed of its shareholding in Spunella Limited. This along with the other investments was transferred to Walters Holdings Limited.

12 Stocks

	2005 £	2004 £
Raw materials	524,310	558,605
Work in progress	151,322	145,323
Finished goods	269,580	268,118
	<u>945,212</u>	<u>972,046</u>

13 Debtors

	2005 £	2004 £
Trade debtors	1,042,319	948,129
Amounts owed by group undertakings	169,618	445,071
Corporation tax repayable	221,737	221,737
Other debtors	25,772	45,640
Prepayments and accrued income	98,718	181,336
	<u>1,558,164</u>	<u>1,841,913</u>

The debtors above include the following amounts falling due after more than one year:

	2005 £	2004 £
Other debtors	<u>19,103</u>	<u>19,792</u>

14 Creditors: amounts falling due within one year

	2005	2004
	£	£
Bank loans and overdrafts	2,175,886	1,442,241
Trade creditors	232,408	183,940
Amounts owed to group undertakings	619,064	253,014
Other taxation and social security	90,570	87,851
Other creditors	26,935	22,371
Amounts owed to related undertakings	14,478	4,658
Accruals and deferred income	126,377	71,327
	<u>3,285,718</u>	<u>2,065,402</u>

Included within accruals and deferred income of £126,377 is £18,389 (2004 - £nil) relating to outstanding pension contributions.

The bank overdrafts are secured on the assets of the company and also by various cross guarantees (see note 17).

15 Pensions

Defined contribution scheme

The company operates defined contribution pension schemes. The assets of the schemes are administered by trustees in a fund independent from those of the company.

The pension cost charge for the year was £68,764 (2004 - £14,740).

Defined benefit scheme

The company operates a multi employer defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the scheme are administered by trustees in a fund independent from those of the company. The scheme was closed to new members with effect from 1 April 2001.

In accordance with Financial Reporting Standard No 17, the company is accounting for the defined benefit scheme as a defined contribution scheme as the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis.

The pension cost charge for the year was £174,461 (2004 - £166,010).

Benefits ceased to accrue with effect from 5 November 2004. The directors have been advised that under certain circumstances the potential deficit requiring funding by the company and its fellow subsidiaries could rise to approximately £2.0 million.

16 Deferred taxation

The movement in the deferred taxation provision during the year was:

	2005 £	2004 £
Provision brought forward	3,900	43,700
Profit and loss account movement arising during the year	5,800	(39,800)
Provision carried forward	<u>9,700</u>	<u>3,900</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2005 £	2004 £
Excess of taxation allowances over depreciation on fixed assets	<u>9,700</u>	<u>3,900</u>

17 Contingent liabilities

The company has entered into an unlimited guarantee in connection with overdraft facilities provided to Glemsford Silk Mills Limited, David Walters Fabrics limited, and Spitalfields Fabrics Limited.

A guarantee has been given in favour of H M Customs and Excise up to a limit of £50,000 (2004 - £50,000).

18 Related party transactions (continued)

During the year there were the following transactions with group undertakings and related parties:

	2005 £	2004 £
Walters Holdings Limited		
Rent paid	105,879	—
David Walters Fabrics Limited		
Sale of goods	114,451	144,694
Trade purchases	130,621	282,719
Sale of management services	67,867	135,000
Glemsford Silk Mills Limited		
Sale of goods	10,122	13,051
Trade purchases	1,401,023	1,455,388
Sale of management services	36,600	—
Spitalfields Fabrics Limited		
Purchase of consultancy services	—	20,000
Payment of design royalties	100,755	96,825
Mr P B Walters		
Purchase of consultancy fees	6,300	6,613

All of the above transactions were at arms length on normal commercial terms.

At 31 March 2005, the following balances existed with group undertakings and related parties:

Walters Holdings Limited		
Creditor	(279,102)	(8,500)
Debtor	—	350,000
David Walters Fabrics Limited		
Creditor	(15,580)	(51,361)
Debtor	163,518	89,251
Glemsford Silk Mills Limited		
Creditor	(324,382)	(194,717)
Debtor	6,100	3,122

18 Related party transactions (continued)

Spitalfields Fabrics Limited

Creditor	(14,478)	(4,658)
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Mr P B Walters

Creditor	—	(1,500)
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Mr B Crabtree

Debtor - loan	19,792	21,180
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Walters Holdings Limited is this company's parent undertaking. David Walters Fabrics Limited and Glemsford Silk Mills Limited are fellow subsidiaries. Spitalfields Fabrics Limited is a related company due to common control by the Walters family.

Mr P B Walters is the father of D J Walters, a director of the company.

Mr B Crabtree is a director of the company.

19 Share capital

Authorised share capital:

	2005 £	2004 £
63,750 Ordinary shares of £1 each	63,750	63,750
11,250 Preference shares of £1 each	11,250	11,250
	<u>75,000</u>	<u>75,000</u>

Allotted, called up and fully paid:

	2005 No	£	2004 No	£
Ordinary shares of £1 each	<u>32,466</u>	<u>32,466</u>	<u>32,466</u>	<u>32,466</u>

20 Other reserves

	2005 £	2004 £
Capital redemption reserve	<u>19,558</u>	<u>19,558</u>

The transfer of 5,663 from issued share capital to other reserves in the previous year is in respect of the repurchase of shares and consequently constitutes a capital redemption reserve.

21 Profit and loss account

	2005 £	2004 £
Balance brought forward	3,019,121	11,191,983
Accumulated loss for the financial year	(229,089)	(7,779,042)
Purchase of own shares	—	(393,820)
Balance carried forward	<u>2,790,032</u>	<u>3,019,121</u>

22 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Loss for the financial year	(229,089)	(701,454)
Dividends	—	(7,077,588)
	<u>(229,089)</u>	<u>(7,779,042)</u>
Purchase of own equity shares	—	(5,663)
Premium on purchase of own equity shares	—	(388,157)
	<u>—</u>	<u>(393,820)</u>
Net reduction to shareholders' equity funds	<u>(229,089)</u>	<u>(8,172,862)</u>
Opening shareholders' equity funds	3,071,145	11,244,007
Closing shareholders' equity funds	<u>2,842,056</u>	<u>3,071,145</u>

23 Reconciliation of operating loss to net cash inflow from operating activities

	2005 £	2004 £
Operating loss	(225,272)	(1,109,024)
Amounts written off investments	—	522,500
Depreciation	346,334	370,382
Loss on disposal of fixed assets	—	62,457
Decrease in stocks	26,834	65,053
Decrease in debtors	283,749	2,057,841
Increase/(decrease) in creditors	486,671	(41,389)
Net cash inflow from operating activities	<u>918,316</u>	<u>1,927,820</u>

24 Reconciliation of net cash flow to movement in net funds

	2005 £	2004 £
Increase/(Decrease) in cash in the period	512,286	(6,038,219)
Movement in net funds in the period	512,286	(6,038,219)
Net debt at 1 April 2004	(72,679)	5,965,540
Net funds at 31 March 2005	439,607	(72,679)

25 Analysis of changes in net funds

	At 1 Apr 2004 £	Cash flows £	At 31 Mar 2005 £
Net cash:			
Cash in hand and at bank	1,369,562	1,245,931	2,615,493
Overdrafts	(1,442,241)	(733,645)	(2,175,886)
	(72,679)	512,286	439,607
Net funds	(72,679)	512,286	439,607

26 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £Nil (2004 - £190,000).

27 Controlling related party

Walters Holdings Limited is this company's parent undertaking. The Walters family is this company's ultimate controlling related party by virtue of its shareholdings in the ultimate parent undertaking Walters Holdings Limited.