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Walker Greenbank PLC
Annual Report and Accounts
For the year ended 31 January 2005



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.

HARLEQUIN

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 'Coast' 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.

The business can be contacted on +44 (0)8708 300355.

www.harlequin.uk.com

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.

The business can be contacted on +44 (0)1895 830044.

www.sanderson-uk.com

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- > Reduced loss before tax £0.8m (2004: £4.1m)
 - > Operating loss before exceptional items £2.1m (2004: £3.2m)
 - > Reduced losses per share 1.48p (2004: 7.61p)
 - > Net debt reduced to £10.7m (2004: £11.6m)

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MORRIS & 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 provides a valuable reference for the range of designs currently offered. It is this link that has given the business a unique range of designs that are unparalleled in the market place today. Sanderson has carefully developed the product range to now include hand blocked and machine print wallpapers, fabrics and paints.

The business can be contacted on +44 (0)1895 830044.

www.sanderson-uk.com

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.

The business can be contacted on +44 (0)8708 300350 or visit the showroom at the Chelsea Harbour Design Centre, London.

www.zoffany.uk.com

Warehouse

Early in the year, we successfully completed the integration of all Sanderson's external warehousing within our modern central distribution centre in Milton Keynes. In addition to the improved efficiencies realised for the Group's brands, we also established some profitable third party service contracts.

IT Systems

The Group's IT system was updated and extended to absorb the Sanderson business, bringing greater transparency and control for all of the operating units.

USA Business

During the Spring, we brought together the administrative structures of Zoffany and Sanderson in a new facility in New Jersey, realising substantial savings in overheads and improved efficiencies with the enlarged business.

Brand Integration

During the autumn, we moved the Zoffany Head Office and Design Studio from their outdated premises to the modern facility at Denham occupied by Sanderson – Chalfont House. This move enabled the integration of many back office functions, streamlined the management reporting structure and brought greater focus to the development of the Group's individual brand identities, leading to significant cost savings.

Sanderson Archive

We are actively marketing the commercial potential contained within the Sanderson Archive, successfully identifying a number of substantial new commercial partners worldwide with whom we have established royalty agreements. We perceive further opportunities for this extremely valuable asset.

Sanderson Options

In January 2005, Sanderson launched Options 9, the ninth edition of its flagship three yearly design compendium. Initial interest and book sales from customers worldwide have exceeded our expectations, providing an additional platform for the rebirth of the brand.

Chairman's Statement

"Following the full integration of Sanderson the Group has traded profitably in the first quarter of the new year for the first time in 6 years. The Group has begun its rehabilitation to a profitable and cash generative business. Provided our markets remain stable we are confident of returning the Group to a full year operating profit."

Overview

This year considerable progress has been made towards returning the Group to profitability, although the overall result for the year is disappointing.

Following the full integration of the Sanderson brand during the first half of the year, which included the transfer of all external manufacturing, warehousing and computer systems to in-house facilities, and the amalgamation of the Sanderson and Zoffany brands to one site in America, considerable benefits have been seen in the second half. Overall the Group has performed significantly better in the last five months of the year compared to the same period last year.

The Sanderson brand has taken longer to reinvigorate, following its purchase from receivership, than we had first hoped. We have, however, invested considerably in stock and have launched a significant amount of new product. The majority of those product launches took place in the latter part of the year, culminating in the introduction in January 2005 of Sanderson's 'Options' collection, the

flagship range that historically has been re-launched every three years. We are currently seeing the full impact of those new launches in the early part of the new year.

Despite this progress, the continuing difficult market conditions led the Group to take further action in the second half of the year with the aim of accelerating the drive to Group profitability in 2005/06.

These measures have included bringing all the Group's brands under the leadership of one Managing Director who has joined the Board. This has allowed for reorganisation and resulted in significant cost reduction, the full benefit of which we are now experiencing. Further benefits from this leaner structure have been the reduction of central costs within the Group.

Additionally, a reorganisation at Anstey, our wallpaper factory, has reduced the cost base to a level at which the business can perform economically as a producer at the premium end of the market, an area that shows signs of recovery after many years of decline.

Results

The operating loss for the year was £2,722,000 (2004: £3,159,000). This was after incurring exceptional one-off final integration costs relating to the acquisition of Sanderson of £570,000. The loss on the ordinary activities before tax was £807,000 (2004: £4,050,000) following the successful sale of the Warner Archive of designs and the sale and leaseback of the Group's freehold property in Milton Keynes for an aggregate profit of £2,931,000. The loss per share for the year fell to 1.48p from 7.61p in 2004.

Turnover increased 6% to £50,611,000 from £47,795,000 in 2004 following the full year benefit of the Sanderson acquisition.

The other finance charge for the year was £205,000 (2004: £402,000) following a reduction in the pension fund deficit between 31 January 2003 (£11,839,000) and 31 January 2004 (£10,768,000).

Balance sheet

During the year the Group realised £4,564,000 from the sale and leaseback of its Milton Keynes site, together with £1,672,000 and £675,000 respectively from the sale of the Warner Archive of designs and the sale of Sanderson's in store retail concessions.

The Group's net indebtedness finished the year at £10,746,000 (2004: £11,633,000). The cash outflow from operating activities was £4,060,000 (2004: £917,000). This was principally driven by the operating loss and significant investment in new product in Sanderson in the latter part of the year. With a return to operating profit combined with the Group's significant depreciation charge and considerable investment having taken place in product during the year, the Group should now be in a position to start to generate free cash flow in the future.

During the year the pension deficit has risen to £11,269,000 (2004: £10,768,000). This is due principally to the increase in scheme liabilities following a reduction in long-term interest rates and the use of revised mortality assumptions. We continue to examine ways of reducing this deficit and the consequent impact that it has on the net assets of the Group.

Dividend

In view of the financial performance of the Group the Directors do not recommend the payment of a dividend.

People

John Sach who took on the role of Acting Chief Executive in November 2003, was formally appointed to the role of Chief Executive in May 2004.

Deputy Chairman Peter Gyllenhammar resigned from the Board in November 2004. Charles Gray, who brings to the Group considerable manufacturing experience was appointed as a Director in December 2004.

Following his appointment as Managing Director of the Group's three brands, David Smallridge was appointed to the Board as Brands Director in December 2004. David has been with the Group for three years and has been responsible for turning Harlequin into a highly successful mid-market brand.

Outlook

Our brands are performing strongly in a marketplace that continues to be extremely challenging. Anstey, our wallpaper factory, has made significant progress since it has restructured itself into a producer at the premium end of the market, an area that we consider has further potential as the minimalist fashion trend of recent years at last shows signs of slowing. Standfast, our fabric printing factory, is suffering from a declining marketplace together with considerably increased energy costs.

Following the full integration of the Sanderson business within the Group, the heavy investment in new product and the considerable cost savings that have been achieved through combining our three brands into one reporting structure, I am pleased to announce that the Group has traded profitably in the first quarter of the new year for the first time in six years. This is a very encouraging step forward as the Group begins its rehabilitation to a profitable and cash generative business. Provided our markets remain stable we are confident of returning the Group to a full year operating profit.

There remains much work to do. We are attempting to lessen the impact of the Group's pension liabilities during the current year and continue the upward trend in our results. This will then position the Group with a sustainable and exciting future.

On 24 May 2005, the Board announced that it had entered into a letter of intent for the potential sale, subject to due diligence, of its wholly owned Norwegian subsidiaries Borge Holdings AS and John O Borge AS, and that an application had been made by the potential acquirer for Competition Authority clearance for the transaction to proceed.



Ian Kirkham
Chairman
25 May 2005

OPTIONS *by Sanderson*

Sanderson launched its ninth Options collection at the beginning of 2005 to great acclaim from both UK and Export markets. Options was developed as a sales concept over 20 years ago with updated collections tending to follow at three year intervals. The presentation format is based around printed fabrics with co-ordinating wallpapers and weaves, all of which are carefully linked together with photography in comprehensive pattern books. Options has become something of a "flag carrier" for Sanderson and Options 9 looks set to become the most successful launch for many years.

Operating Review

"During the second half of the year the Group's brands were brought under the leadership of one Managing Director who has joined the Board leading to significant cost savings by creating one back office and one management structure."

The brands

During the second half of the year the Group's brands were brought under the leadership of one Managing Director who has joined the Board. This has involved transferring Zoffany's Leeds based design studio and Rickmansworth back office to the same site as Sanderson at Denham.

Following the transfer, significant cost savings have been made by creating one back office and one management structure. The Brands maintain clear distinction by continuing to have separate design studios and frontline sales forces.

Harlequin

Harlequin has continued with the success of last year, broadening its product offer through the launch of many successful new weave collections and the targeting of new and competitive price points. The brand has consistently taken market share from its competitors in a challenging marketplace and sales have grown year on year by 5%. Margins have increased and costs have reduced leading to a significant growth in profit this year. Harlequin has cemented its position

as one of the best performing mid-market brands in the UK and its re-launch in America at the start of the new year will further consolidate its continuing growth in profits.

Zoffany

Zoffany has had a difficult year with underlying sales falling 2%. Sales in the UK continue to be difficult whilst export sales, most particularly in America but also in the majority of other key markets, continue to grow. Zoffany's traditional market sector has undoubtedly suffered from the trend towards minimalism of recent years but there are increasing signs that this trend is starting to lose ground. There is also an ever increasing return of interest in wallpaper, an area of the market in which Zoffany has traditionally been very strong. Despite margins remaining stable year on year, Zoffany has suffered a decline in profits this year. The design area has been strengthened with the appointment of a new design director. This, combined with other key management changes, will help improve the brand's profitability next year.

Arthur Sanderson & Sons

This has been a year of significant change for Sanderson as the process of integration into the Group has been completed. In May the warehousing activity was transferred from a third party to the Group's in-house facility at Milton Keynes. The transfer also necessitated the migration of all business systems from an outsourced supplier to the Group's IT system. This was achieved seamlessly with minimum disruption to the business. This has led to significant cost reductions, the full year effect of which will be seen in the current year. By the year end 95% of the entire brand's wallpaper and print requirements had been transferred to the Group's in-house manufacturing facilities. The brand has taken longer to rebuild than had been hoped at the point of receivership. This was due to the lack of any product development within the brand in the year before receivership. We have now invested significantly in new product, with almost two years worth of collections being launched in the second half of the year culminating in the launch during January 2005 of Sanderson's 'Options' collection, the

flagship range that has historically been launched every three years. The brand is gaining momentum and we are confident that it will deliver significant profit growth in the future.

We are continuing to develop and grow significant licensing opportunities presented by the exploitation of the unique Sanderson and Morris archive. We have already developed exciting new product initiatives with existing partners and see considerable further potential from concepts currently being developed with new commercial partners worldwide.

Manufacturing

Anstey
Anstey has suffered from a general decline in third party sales. This has been more than compensated by significant volumes being gained from the acquisition of Sanderson and also from another major third party customer. Margins have been squeezed in a very competitive marketplace. During the second half of the year Anstey has restructured itself into a producer at the premium end of

the market, an area that shows signs of recovery after many years of decline. Overall, losses have been significantly reduced and we are confident that this recovery will continue.

Standfast

Standfast sales have increased year on year by 10% following the full year effect of the Sanderson acquisition. Margins have been squeezed, however, in an ever more challenging marketplace and the business has suffered significantly higher energy costs. Despite these pressures the overall profitability of the business has been maintained. Having overcome so many hurdles, the final quarter saw demand begin to weaken and this has continued into the new year. This will remain a major focus for the Board.

Overseas

USA

Sales have grown by 27% following the full year effect of the acquisition of Sanderson. However, the business has suffered a small loss this year due to reduced margins caused by the weakness of the dollar and one-off integration costs incurred as a result of amalgamating the Sanderson and Zoffany businesses onto

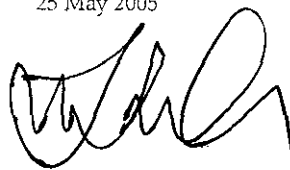
one site. This included the closure of Zoffany's Atlanta based head office and warehouse and the transfer of all business activities to Sanderson's facility in New Jersey. Following recent significant price rises and the full year effect of the cost saving achieved following the integration, we are confident that the US will return to profitability in the current year.

Europe

John O Borge in Norway saw volumes decline year on year, but margins remained robust and with other operating efficiencies, the year on year profit contribution improved. Despite its continued profitability, the business remains a non-core activity of the Group.

The distribution businesses for Zoffany in Rome and Sanderson in Paris both performed in line with expectations, although they do not represent a large part of the Group.

John Sach
Group Chief Executive
25 May 2005



Morris & Co – Volume IV

Since the strategic decision to separate Morris & Co from the umbrella of the Sanderson brand, the Morris collections have gone from strength to strength. This marketing decision has without doubt increased the profile and brand awareness of the now infamous arts and crafts brand. Morris & Co Volume IV, to be launched in autumn 2005, surpasses all previous collections with its diversity of product profile and lateral design interpretation to meet the demands of the 21st Century.

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 impact of a number of one off non-recurring operating costs that the business has incurred this year relating to the full integration of the Sanderson business. Full details of these items are disclosed in note 3 of the accounts on page 25.

Disposals

During the year the sale and leaseback of the Group's freehold property in Milton Keynes was completed with proceeds of £4,670,000. The profit on disposal after related costs and expense was £1,461,000. Full details of the disposal are disclosed in note 4 of the accounts on page 25.

Additionally during the year the Warner Archive of designs was sold for a consideration before costs of £2,000,000. The profit on disposal after related costs and expenses was £1,470,000.

Operating cash flow

There has been a cash outflow from operating activities during the period of £4,060,000 due principally to the operating loss and significant investment in working capital for the Sanderson acquisition, mitigated by the depreciation charge during the period continuing to be greater than required capital expenditure.

Net cash receipts from the sale and leaseback of the Group's freehold property in Milton Keynes and the sale of the Warner Archive of designs have generated cash receipts of £4,564,000 and £1,672,000 respectively. As a consequence net debt in the Group has reduced to £10,746,000 (2004: £11,633,000).

Pension deficit

In common with many final salary pension schemes there has been an increase in the deficit of the scheme due to the increase in liabilities arising from a lower discount rate which is based on bond yields and as a result of using revised mortality assumptions. The increase in liabilities has been partially offset by the improvement in the UK Stock Market performance.

Fair value adjustments

The acquisition of Arthur Sanderson & Sons was completed on 29 August 2003. Additional fair value adjustments of £851,000 to the provisional fair value have been made in the hindsight period. These are fully disclosed in note 14 on page 28. The changes to fair value reflect an increase in provisions required to terminate an onerous contract and a provision against legal claims arising from the acquisition. One of the most valuable assets acquired was the Arthur Sanderson and William Morris archive of historic designs. This currently generates licence income per annum of the order of £1 million and the Directors consider that it has a significant fair value. In accordance with Financial Reporting Standard, No. 10, this valuation has been limited to £4,300,000 to avoid the creation of negative goodwill.

The intangible asset will be subject to annual impairment reviews based on the future discounted earnings that it is expected to generate.

Gearing

The gearing level for the group remained similar to last year being 58.4% at January 2005 compared to 58.0% at January 2004, after adjusting for the pension liability. The Group's balance sheet remains underpinned by freehold properties valued at £5 million.

Funding

The Group changed its principal funder in the UK on 23 July 2004 and all loans with the existing provider were repaid. The new facility with Burdale Financial is a 3 year facility with a facility limit of £18.5m. A significant element of the new facility is linked to working capital levels which allow 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 a larger proportion of 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.

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 £712,000 to £251,000, thereby reducing 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 24 on page 31.

Going concern

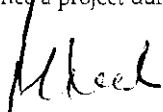
The Directors are confident, after having made appropriate enquiries, that the Group and Company have adequate resources to continue in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Accounting standards

During the year the Group adopted UITF Abstract 38 'Accounting for ESOP Trusts'. This led to a reclassification of interests in own shares from fixed asset investments to profit and loss reserves.

IFRS

Following the decision during the year to allow AIM listed companies an additional year before compliance with International Financial Reporting Standards ('IFRS') becomes mandatory, 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 will commence a project during the coming year to evaluate the impact of IFRS in readiness for the change.



Alan Dix
Acting Group Finance Director
25 May 2005

Directors and Advisers

Directors

Ian Kirkham (55)

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.

Peter Harkness (56)

Non-executive Director (A, R, N)

Peter joined the board as a non-executive Director in March 2001. He is Chairman of Knight Banner Business Information and a non-executive director of Datamonitor plc and Chrysalis UCT. Since 1987 he has been instrumental in a series of management buy-out transactions in the media sector.

Charles Gray (62)

Non-executive Director

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 (49)

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 (49)

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.

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 2005.

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 pages 4 and 7, the Operating Review on pages 8 and 11, and the Financial Review on pages 12 and 13.

Group result

The loss before taxation amounted to £807,000 (2004: loss of £4,050,000). The Directors do not recommend payment of a final ordinary dividend (2004: no dividend paid), which leaves a deficit of £834,000 transferred from reserves (2004: £4,296,000).

Directors

On 9 November 2004, Peter Gyllenhammar resigned. On 1 December 2004, David Smallridge was appointed Executive Director responsible for Brands and Charles Gray was appointed as a Non-Executive Director. The Board of Directors as at the date of this report is set out on page 14, together with biographical details. At the forthcoming Annual General Meeting ('AGM') Ian Kirkham will retire by rotation and being eligible will offer himself for re-election. David Smallridge and Charles Gray will stand for election following their appointments since the last AGM.

Directors' share interests

The interests of the Directors in office at 31 January 2005 in the share capital of the Company were:

	1p ordinary shares 31 January 2005 Number	1p ordinary shares 31 January 2004 Number
I Kirkham	150,000	100,000
P M Harkness	125,000	100,000
J D Sach	50,000	50,000

Interests in share options

	At start & end of the year Number	Option price Pence	Exercise dates Earliest Latest	
J D Sach	25,000	96.0	13.04.1998	12.04.2005
	50,000	69.5	06.11.1999	05.11.2006
	40,000	66.0	23.04.2000	22.04.2007
Total	115,000			

None of the Directors' share interests changed between 31 January 2005 and the signing of the accounts.

Executive share option schemes

During the year, no options over ordinary shares were exercised or granted and options over 178,250 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 2005 are as shown below.

Date granted	Number of Shares	Subscription price Pence	Exercisable From To	
13 April 1995	25,000	96.0	13.04.98	12.04.05
1 May 1996	30,000	98.0	01.05.99	30.04.06
6 November 1996	50,000	69.5	06.11.99	05.11.06
23 April 1997	85,000	66.0	23.04.00	22.04.07
7 May 1997	15,000	66.0	07.05.00	06.05.07
	205,000			

Report of the Directors *continued*

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 32 to the accounts.

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, having 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 23 May 2005, the Company had been notified of the following substantial shareholdings in its ordinary share capital. The Union Discount Company of London 29.96%, Walker Greenbank EBT 4.32%, British Airways Pension Trustees Ltd 4.17% and Framlington One Thousand Smallest Company's Trust PLC 3.39%.

Special business

At the AGM on 28 September 2005, items 6, 7 and 8 will be proposed as Special Business. Details of the business can be found in the Notice of the AGM.

Payments to suppliers

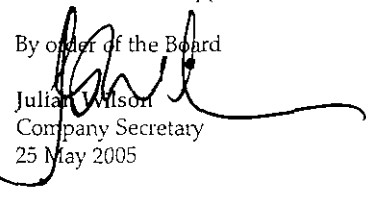
The Group agrees terms and conditions for its business transactions with suppliers and makes payment in accordance with those terms and conditions subject to the supplier meeting its obligations. The amount of trade creditors shown in the consolidated balance sheet at 31 January 2005 represents 61 days (2004: 67 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
25 May 2005

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 or 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;
- (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 confirm that they have prepared these financial statements under the above requirements.

Independent Auditors' Report

Independent auditors' report to the members of Walker Greenbank PLC

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable 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 issued by the Auditing Practices Board. 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 in to 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 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Operating and Financial Reviews.

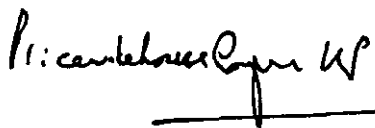
Basis of audit opinion

We conducted our audit in accordance with 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.

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 and the Group at 31 January 2005 and the loss and cash flows of the Group for the year then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
25 May 2005

Group Profit and Loss Account

Year ended 31 January 2005

	note	Before exceptional items £000	Exceptional items £000	Total 2005 £000	2004 £000
Turnover	2,3	50,611	–	50,611	47,975
Operating loss	3	(2,052)	(670)	(2,722)	(3,159)
Profit on sale of properties	4	–	1,461	1,461	96
Profit on sale of Warner Archive	5	–	1,470	1,470	–
Profit on disposal of operations	5	–	–	–	85
Profit/(loss) on ordinary activities before interest		(2,052)	2,261	209	(2,978)
Net interest payable	9			(811)	(670)
Other finance charge	10			(205)	(402)
Loss on ordinary activities before taxation	2,6			(807)	(4,050)
Tax on loss on ordinary activities	11			(27)	(246)
Loss on ordinary activities after taxation				(834)	(4,296)
Dividends	21			–	–
Loss for the year				(834)	(4,296)
Loss per share – basic and diluted	12			(1.48p)	(7.61p)
Dividend per ordinary share	21			–	–

All results are in relation to continuing activities of the Group.

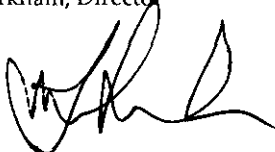
There is no material difference between the loss on ordinary activities above and their historical cost equivalent.

Balance Sheets

At 31 January 2005

	note	Group 2005 £000	Group 2004 (restated) £000	Company 2005 £000	Company 2004 (restated) £000
Fixed assets					
Intangible assets	14	4,898	4,182	–	–
Tangible assets	15	11,376	12,877	4,692	4,790
Investment in subsidiaries	16	–	–	19,000	19,000
		16,274	17,059	23,692	23,790
Current assets					
Assets held for resale	17	–	3,428	–	3,428
Stocks	18	12,879	12,018	–	–
Debtors	19	11,346	11,447	30,655	30,070
Cash at bank and in hand		1,149	619	–	–
		25,374	27,512	30,655	33,498
Creditors: amounts falling due within one year	20	(11,657)	(24,371)	(7,886)	(13,597)
Net current assets		13,717	3,141	22,769	19,901
Total assets less current liabilities		29,991	20,200	46,461	43,691
Creditors: amounts falling due after more than one year	22	(11,310)	(444)	(1,500)	(89)
Provisions for liabilities and charges	25	(342)	(308)	(44)	(151)
Net assets excluding pension liability		18,339	19,448	44,917	43,451
Pension liability	32	(11,269)	(10,768)	–	–
Net assets		7,070	8,680	44,917	43,451
Capital and reserves					
Share capital	26	590	590	590	590
Share premium account	27	457	457	457	457
Profit and loss account	27	(34,484)	(32,874)	1,982	516
Other reserves	27	40,507	40,507	41,888	41,888
Equity shareholders' funds		7,070	8,680	44,917	43,451


I Kirkham, Director


J D Sach, Director

These accounts were approved by the Directors on 25 May 2005.

Group Cash Flow Statement

Year ended 31 January 2005

	note	2005 £000	2005 £000	2004 £000	2004 £000
Net cash outflow from operating activities	29		(4,060)		(917)
Returns on investment and servicing of finance					
Interest received		4		12	
Interest paid		(772)		(599)	
Interest element of finance lease payments		(43)		(92)	
			(811)		(679)
Taxation			(278)		(267)
Capital expenditure					
Purchase of tangible fixed assets		(1,187)		(569)	
Proceeds from assets held for resale		325		416	
Proceeds from disposal of property		4,564		-	
Proceeds from disposal of tangible fixed assets		-		137	
			3,702		(16)
Acquisitions and disposals					
Disposal of Warner Archive		1,672		-	
Sale of Sanderson retail division		675		-	
Purchase of Arthur Sanderson & Sons		-		(5,736)	
Cash acquired on purchase of Arthur Sanderson & Sons		-		193	
Net proceeds from sale of Riverside		-		2,675	
Acquisition of Strines Textiles in the prior year		-		(319)	
Net proceeds from disposal of TWIL in the prior year		-		740	
			2,347		(2,447)
Equity dividends paid			-		-
Cash inflow/(outflow) before use of liquid resources and financing			900		(4,326)
Management of liquid resources			-		-
Financing					
Proceeds from new loans		11,744		6,000	
Principal repayments of finance lease obligations		(463)		(585)	
Repayment of borrowings		(4,487)		(2,325)	
			6,794		3,090
Increase/(decrease) in cash	30		7,694		(1,236)

Statement of Total Recognised Gains and Losses

Year ended 31 January 2005

	Group 2005 £000	Group 2004 £000
Loss for the financial year	(834)	(4,296)
Actual less expected return on pension scheme assets	822	1,446
Experience losses arising on pension scheme liabilities	(1,932)	(501)
Currency translation differences	132	(109)
Total recognised gains and losses since the last annual report	(1,812)	(3,460)

Reconciliation of Movements in Shareholders' Funds

Year ended 31 January 2005

	Group 2005 £000	Group 2004 (restated) £000
Loss for the financial year	(834)	(4,296)
Dividends	—	—
Loss for the year	(834)	(4,296)
Other recognised gains and losses relating to the year	(978)	836
Goodwill previously set off to reserves in respect of the disposal of operations	202	—
Net reduction to shareholders' funds	(1,610)	(3,460)
Opening shareholders' funds	8,680	12,742
Prior year adjustment (UITF 38)	—	(602)
Closing shareholders' funds	7,070	8,680

Interest in own shares have been reclassified from fixed asset investments to the profit and loss reserve following the adoption of UITF Abstract 38 'Accounting for ESOP trusts'. The impact is to reduce profit and loss reserves by £602,000 as a prior year adjustment in 2004.

Notes to the Accounts

1 Accounting policies

Accounting convention

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year except for Urgent Issues Task Force Abstract 38 'Accounting for ESOP trusts' (UITF 38) which has been adopted for the first time and comparatives figures have been restated accordingly.

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 2005. 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 profit of £1,466,000 (2004: £10,729,000 loss) 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 and long 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 13.

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.

Notes to the Accounts *continued*

1 Accounting policies *continued*

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.

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, full provision being made at the balance sheet date for any surplus or deficit of assets over liabilities.

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.

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	
	2005 £000	2004 £000
Fabrics	29,499	28,797
Wallcoverings	18,095	17,030
Other	3,017	2,148
	50,611	47,975

(b) Geographical Segments

	Turnover		(Loss)/profit before taxation		Net assets	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 (restated) £000
By origin:						
United Kingdom	38,498	37,222	(993)	(4,496)	6,045	7,536
Continental Europe	5,614	5,619	210	192	936	832
North America	6,499	5,134	(24)	254	89	312
	50,611	47,975	(807)	(4,050)	7,070	8,680
By destination:						
United Kingdom	30,887	30,458				
Continental Europe	10,185	9,538				
North America	8,024	7,175				
Rest of the World	1,515	804				
	50,611	47,975				

3 Analysis of operating loss

	2005 £000	2004 £000
Turnover	50,611	47,975
Cost of sales	(23,969)	(23,373)
Gross profit	26,642	24,602
Net operating expenses:		
Distribution costs	(8,992)	(9,109)
Administrative expenses	(21,356)	(19,237)
Other operating income	984	585
Operating loss	(2,722)	(3,159)

The operating loss 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 costs incurred in transferring Sanderson stock to the Group's warehouse at Tilbrook.

4 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. In the prior year, the Group's freehold property in Atlanta, USA was sold for £437,000 generating a profit on disposal of £96,000 after related costs. The tax effect of this disposal was a charge of £26,000.

5 Profit on sale of Warner Archive/profit on disposal of operations

	2005 £000	2004 £000
a) Profit on sale of Warner Archive	1,470	-
b) Release of provision against deferred consideration outstanding for the disposal of Cole & Sons	-	85
	1,470	85

a) 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.

b) During the year ended January 2003, a further provision of £100,000 was made against the deferred consideration that remained outstanding on the sale of Cole & Sons in a prior year. During the prior year, settlement of this dispute was reached with £85,000 paid by the purchaser.

6 Loss on ordinary activities before taxation

	2005 £000	2004 £000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration: audit fee – Group auditors	112	133
– other auditors	2	15
Depreciation of owned assets	1,741	1,923
Depreciation of assets held under finance leases and hire purchase contracts	492	486
Profit on disposal of fixed assets	-	(12)
Hire of motor vehicles and plant and machinery	369	357
Other operating leases	1,600	680

Auditors' remuneration for audit services to the Group includes £25,000 (2004: £54,000) in respect of the Company.

Notes to the Accounts *continued*

7 Emoluments of Directors

	2005 £000	2004 £000
Aggregate emoluments	283	378
Sums paid to third parties for Directors' services	96	20

In both years, retirement benefits were accruing to one Director under a defined benefit scheme, who is now the highest paid Director. Accrued pension benefits at the year end were £17,567 (2004: £15,400).

Highest paid director	2005 £000	2004 £000
Total amount of emoluments	258	179
Amounts paid to defined contribution pension scheme by the Company	–	25
Compensation for loss of office	–	36

The highest paid Director changed.

8 Employee information, excluding Directors

	2005 £000	2004 £000
Wages and salaries	15,072	13,386
Social security costs	1,601	1,296
Other pension costs	580	574
	17,253	15,256

The average monthly numbers of employees during the year	Number	Number
Sales, warehousing and administration	369	325
Manufacturing	244	243
	613	568

9 Net interest payable

	2005 £000	2004 £000
Interest receivable:		
Bank and other short-term deposit interest receivable	4	12
Interest payable:		
Finance cost of acquisition loan	–	(120)
Bank and other short-term interest on loans and overdrafts wholly repayable within five years	(772)	(470)
Finance charges payable under finance leases and hire purchase contracts	(43)	(92)
	(815)	(682)
Net interest payable	(811)	(670)

10 Other finance charge

	2005 £000	2004 £000
Expected return on pension scheme assets	2,153	1,859
Interest on pension scheme liabilities	(2,358)	(2,261)
Net charge	(205)	(402)

11 Taxation

	2005 £000	2004 £000
UK Corporation tax charge at 30% (2004: 30%)		
– current year	–	–
– prior years	–	–
Overseas taxation	116	244
– current year	–	–
– prior years	–	–
Total current tax	116	244
Deferred tax	29	2
– current year	–	–
– prior years	(118)	–
Total deferred tax	(89)	2
Tax on loss on ordinary activities	27	246

The difference between the 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:

	2005 £000	2004 £000
Loss on ordinary activities before taxation	(807)	(4,050)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(242)	(1,215)
Expenses not deductible for tax purposes	873	479
Non taxable income	(16)	(120)
Utilisation of losses against Group income	–	164
Utilisation of prior years' losses	(967)	–
Depreciation in excess of capital allowances	556	38
Losses not recognised	–	971
Other timing differences	(88)	(73)
Total current tax	116	244

12 Loss per share

The basic loss per share and diluted loss per share are both based on the loss on ordinary activities after taxation, amounting to £834,000 (2004: £4,296,000 loss) and the weighted average of 56,457,016 (2004: 56,457,016) ordinary shares in issue during the year.

13 Acquisition of Arthur Sanderson & Sons

On 29 August 2003, the trade and certain assets of Arthur Sanderson & Sons were purchased for £5,500,000 paid in cash on completion.

	2004 Provisional fair value £000	2005 Adjustments to fair value £000	2005 Final fair value £000
Net assets acquired:			
Intangible assets (note 14)	3,449	851	4,300
Fixed assets	852	53	905
Stock	2,199	–	2,199
Debtors	107	–	107
Cash	193	–	193
Creditors and accruals	(864)	–	(864)
Provisions	(200)	(904)	(1,104)
	5,736	–	5,736
Goodwill	–	–	–
Net cash outflow from acquisition	5,736		5,736
Satisfied by:			
Cash	5,500		5,500
Acquisition expenses	236		236
Net cash outflow	5,736		5,736

The adjustments to provisional fair values include additional provisions for an onerous contract, an adjustment for the excess consideration received for the Brookmill property sold in the year, and a legal claim (note 25).

Notes to the Accounts *continued*

14 Intangible assets

	Group 2005 £000	Group 2004 £000
a) Goodwill	598	733
b) Arthur Sanderson and William Morris archive	4,300	3,449
	4,898	4,182

a) Goodwill	£000
-------------	------

Cost:	
At 1 February 2004 and 31 January 2005	1,400

Amortisation:	
At 1 February 2004	667
Amortisation for the year	135
At 31 January 2005	802
Net book amount at 31 January 2005	598
Net book amount at 31 January 2004	733

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 Financial Reporting Standard No. 10, to avoid the creation of negative goodwill on acquisition.

	£000
Cost:	
At 1 February 2004	3,449
Fair value adjustment (note 13)	851
At 31 January 2005	4,300
Net book amount at 31 January 2005	4,300
Net book amount at 31 January 2004	3,449

15 Fixed assets

	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
Group				
Cost:				
1 February 2004	6,415	17,216	7,027	30,658
Additions	16	798	86	900
Disposals	(154)	(2,677)	(657)	(3,488)
Currency movements	(7)	14	-	7
31 January 2005	6,270	15,351	6,456	28,077
Depreciation:				
1 February 2004	1,660	11,294	4,827	17,781
Charge	98	1,560	575	2,233
Disposals	(154)	(2,501)	(657)	(3,312)
Currency movements	(7)	6	-	(1)
31 January 2005	1,597	10,359	4,745	16,701
Net book amount:				
31 January 2005	4,673	4,992	1,711	11,376
31 January 2004	4,755	5,922	2,200	12,877

15 Fixed assets *continued*

	£000
The net book amount of land and buildings comprises:	
Freehold land	450
Freehold buildings	4,223
Net book amount at 31 January 2005	4,673

The value of assets providing funding under the Burdale facility was £4,673,000.

	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
Company				
Cost:				
1 February 2004	5,338	252	410	6,000
Additions	15	3	–	18
31 January 2005	5,353	255	410	6,018
Depreciation:				
1 February 2004	583	219	408	1,210
Charge	97	18	1	116
31 January 2005	680	237	409	1,326
Net book amount:				
31 January 2005	4,673	18	1	4,692
31 January 2004	4,755	33	2	4,790

	£000
The net book amount of land and buildings comprises:	
Freehold land	450
Freehold buildings	4,223
Net book amount at 31 January 2005	4,673

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

	Group Plant, equipment and vehicles £000	Group Computer assets £000	Company Plant, equipment and vehicles £000	Company Computer assets £000
Net book amount:				
31 January 2005	1,333	630	–	–
31 January 2004	1,501	960	–	–

16 Investments

	Company £000
Shares in subsidiary undertakings	
Cost at 1 February 2004 and 31 January 2005	30,367
Provision for impairment at 1 February 2004 and 31 January 2005	11,367
Net book amount at 1 February 2004 and 31 January 2005	19,000

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.

Notes to the Accounts *continued*

17 Assets held for resale

The assets held for resale comprise the freehold properties in Milton Keynes and Brookmill, Darwen. The Milton Keynes property was sold for £4,670,000 before related costs in February 2004. The Brookmill property was sold in September 2004 for £405,000.

	Group 2005 £000	Company 2005 £000	Group 2004 £000	Company 2004 £000
Land and buildings:				
Milton Keynes property	-	-	3,103	3,103
Brookmill property	-	-	325	325
Total assets held for resale	-	-	3,428	3,428

18 Stocks

	Group 2005 £000	Group 2004 £000
Raw materials	1,230	1,409
Work in progress	1,519	1,450
Finished goods	10,130	9,159
	12,879	12,018

The value of stocks providing funding under the Burdale facility was £7,048,000.

The Company does not hold stock.

19 Debtors

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Trade debtors	8,478	9,097	-	-
Amounts owed by subsidiary undertakings	-	-	28,222	28,741
Other debtors	1,347	825	2,007	1,160
Prepayments	1,521	1,525	426	169
	11,346	11,447	30,655	30,070

The value of trade debtors providing funding under the Burdale facility was £6,982,000.

Amounts owed by subsidiary undertakings to the Company include long term loans recoverable after more than one year of £1,000,000 (2004: £993,000).

20 Creditors: due within one year

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Loans (note 24)	400	4,298	400	298
Bank overdrafts	-	7,153	214	5,168
Obligations under finance leases and hire purchase contracts (note 24)	251	462	-	-
Trade creditors	7,948	8,615	348	436
Amounts owed to subsidiary undertakings	-	-	6,708	7,476
Corporation tax	57	159	-	-
Other taxes and social security	732	785	19	22
Other creditors	239	288	5	-
Accruals	2,030	2,611	192	197
	11,657	24,371	7,886	13,597

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.

21 Dividends

The Directors do not propose a final dividend in respect of the year ended 31 January 2005 (2004: no dividend proposed).

22 Creditors: due after more than one year

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Loans (note 24)	11,244	89	1,500	89
Obligations under finance leases and hire purchase contracts (note 24)	–	250	–	–
Overseas tax	66	105	–	–
	11,310	444	1,500	89

23 Operating lease commitments

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

	Group 2005 Land and buildings £000	Group 2005 Other £000	Group 2004 Land and buildings £000	Group 2004 Other £000
Operating leases which expire:				
Within one year	101	75	53	71
Between one and five years	469	195	741	233
Over five years	1,030	5	144	14
	1,600	275	938	318

24 Financial instruments

A discussion of treasury policy is given in the Financial Review on page 13. Short term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Financial assets

	Group 2005 £000	Group 2004 £000
Cash at bank and in hand	1,149	619

Borrowings

	Group 2005 £000	Group 2004 £000
Finance leases	251	712
Bank overdrafts	–	7,153
Loans:		
Secured		
Burdale property loan	1,900	–
Burdale Sterling loan	9,485	–
Burdale Euro loan	259	–
Bank loan repayable by instalments upon the completion of certain events, bearing interest at 1.5% over LIBOR	–	4,000
US dollar bank loan repayable by instalments, bearing interest at 1.5% over LIBOR	–	387
Total loans	11,644	4,387
Total borrowings	11,895	12,252

Notes to the Accounts *continued*

24 Financial instruments *continued*

	Group 2005 £000	Group 2004 £000
Repayment of total borrowings		
Between two and five years:		
Finance leases	–	–
Loans	10,844	–
Between one and two years:		
Finance leases	–	250
Loans	400	89
After more than one year:		
Finance leases	–	250
Loans	11,244	89
Within one year:		
Finance leases	251	462
Bank overdrafts	–	7,153
Loans	400	4,298
Total borrowings	11,895	12,252

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 2005 £000	Floating rate assets 2004 £000
Sterling	867	82
US dollar	334	419
Euro	(165)	47
Norwegian kroner	112	67
Other	1	4
	1,149	619

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

The sterling overdraft is set off against the currency balances under a pooling arrangement with the bank in the UK.

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 kroner	15	15	–	–	–
	11,895	11,659	236	7.50	0.46

24 Financial instruments *continued*

Interest rate and currency profile of financial liabilities

At 31 January 2004

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	11,769	11,086	683	7.50	0.88
US dollar	387	387	—	—	—
Euro	67	67	—	—	—
Norwegian kroner	29	29	—	—	—
	12,252	11,569	683	7.50	0.88

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 2005

	Sterling £000	US dollar £000	Euro £000	Norwegian kroner £000	Other £000	Total £000
Functional currency of entity						
Sterling	—	126	(798)	(161)	2	(831)
Norwegian kroner	38	(2)	(124)	—	(3)	(91)
	38	124	(922)	(161)	(1)	(922)

At 31 January 2004

	Sterling £000	US dollar £000	Euro £000	Norwegian kroner £000	Other £000	Total £000
Functional currency of entity						
Sterling	—	(363)	(370)	26	28	(679)
US dollar	56	—	—	—	20	76
Euro	(182)	—	—	—	—	(182)
Norwegian kroner	(66)	(18)	(82)	—	—	(166)
	(192)	(381)	(452)	26	48	(951)

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 will be secured. The utilisation of the facility at the year end was £11,644,000.

There is no difference between fair value and book value of financial assets and liabilities.

Gains and losses on hedges

There were no significant unrecognised or deferred gains and losses on hedges at 31 January 2005 or 31 January 2004.

Notes to the Accounts *continued*

25 Provisions for liabilities and charges

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Deferred taxation	19	108	44	151
Other provisions	323	200	–	–
	342	308	44	151

Deferred taxation

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Deferred taxation provided in the accounts is as follows:				
Depreciation in excess of capital allowances	(405)	740	44	151
Other timing differences	424	(632)	–	–
	19	108	44	151

	Group £000	Company £000
Deferred taxation movement for the year:		
1 February 2004	108	151
Current year charge	(89)	(107)
31 January 2005	19	44

The Group has an unrecognised deferred tax asset of £7,354,000 (2004: £6,895,000) relating to carried forward trading tax losses.

Provision for vacant property

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
1 February	–	15	–	–
Current year utilisation	–	(15)	–	–
31 January	–	–	–	–

The provision was established to cover the potential future under recovery from sub-letting leased premises. These premises were successfully sub-let during the year, crystallising the liability at £15,000 which was utilised in the year.

Other provisions

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
1 February	200	–	–	–
Fair value adjustment (note 3)	904	–	–	–
Utilised in the year	(781)	–	–	–
Arising on acquisition	–	200	–	–
31 January	323	200	–	–

Other provisions comprise provisions for losses in respect of an onerous contract and against a legal claim. These provisions are expected to be fully utilised within one year.

26 Share capital

	Number of shares	£
Ordinary shares of 1p each:		
Authorised share capital:		
1 February 2004 and 31 January 2005	85,000,000	850,000
Allotted, called up and fully paid:		
1 February 2004 and 31 January 2005	59,006,162	590,062

27 Reserves

	Share premium account £000	Profit and loss account £000	Other reserves		Total £000
			Capital reserve £000	Merger reserve £000	
Group					
1 February 2004 – as previously stated	457	(32,272)	43,457	(2,950)	40,507
Prior year adjustment in respect of UITF 38	–	(602)	–	–	–
1 February 2004 – as restated	457	(32,874)	43,457	(2,950)	40,507
Loss for the year	–	(834)	–	–	–
Actuarial loss on pension scheme	–	(1,110)	–	–	–
Currency translation movements	–	132	–	–	–
Goodwill previously set off to reserves in respect of the disposal of operations	–	202	–	–	–
31 January 2005	457	(34,484)	43,457	(2,950)	40,507

	Share premium account £000	Profit and loss account £000	Other reserves		Total £000
			Capital reserve £000	Merger reserve £000	
Company					
1 February 2004 – as previously stated	457	1,118	41,888	–	41,888
Prior year adjustment in respect of UITF 38	–	(602)	–	–	–
1 February 2004 – as restated	457	516	41,888	–	41,888
Profit for the year	–	1,466	–	–	–
31 January 2005	457	1,982	41,888	–	41,888

Capital reserve represents:

	£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
Capital redemption reserve for 'B' shares	40,885
	43,457

The cumulative amount of goodwill which has been written off to the profit and loss account reserve in respect of existing Group companies is £4,318,000 (2004: £4,520,000).

28 Capital commitments

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Authorised and contracted	–	1	–	–

29 Reconciliation of operating loss to net cash outflow from operating activities

	2005 £000	2005 £000	2004 £000	2004 £000
Operating loss		(2,722)		(3,159)
Depreciation and amortisation	2,368		2,645	
Difference between pension charge and cash contributions	(814)		(528)	
Profit on disposal of fixed assets	–		(12)	
(Increase)/decrease in stocks	(1,301)		746	
Decrease/(increase) in debtors	148		(2,391)	
(Decrease)/increase in creditors	(1,011)		1,797	
Increase/(decrease) in provisions	123		(15)	
Fair value adjustment	(851)		–	
		(1,338)		2,242
Net cash outflow from operating activities		(4,060)		(917)

Notes to the Accounts *continued*

30 Analysis of net debt

	1 February 2004 £000	Cash flow £000	Other movements £000	Exchange movement £000	31 January 2005 £000
Cash at bank and in hand	619	541	–	(11)	1,149
Overdrafts	(7,153)	7,153	–	–	–
	(6,534)	7,694	–	(11)	1,149
Debt due within one year	(4,298)	3,898	–	–	(400)
Debt due after one year	(89)	(11,155)	–	–	(11,244)
Finance leases	(712)	463	–	(2)	(251)
	(5,099)	(6,794)	–	(2)	(11,895)
	(11,633)	900	–	(13)	(10,746)

31 Reconciliation of net cash flow to movement in net debt

	2005 £000	2004 £000
Increase/(decrease) in cash in the year	7,694	(1,236)
Increase in debt and lease financing	(6,794)	(3,090)
Cash inflow/(outflow) from cash flows	900	(4,326)
Exchange movement	(13)	(34)
Movement in the year	887	(4,360)
Net debt at 1 February 2004	(11,633)	(7,273)
Net debt at 31 January 2005	(10,746)	(11,633)

32 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. It also operates a defined benefits scheme in Norway. The Walker Greenbank Pension Plan is the biggest scheme. All schemes contain defined benefits 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 under FRS 17 'Retirement Benefits' for the year amounts to £518,000 (2004: £599,000). This charge is equal to the service cost of £226,000 (2004: £395,000) in respect of the defined benefit arrangements, plus contributions of £292,000 (2004: £204,000) paid by the Company in respect of the defined contribution arrangements. Except where stated otherwise, the remainder of this FRS 17 pensions note relates only to the defined benefit arrangements.

A full actuarial valuation was carried out at 31 January 2003 by a qualified independent actuary. The date of the next full actuarial valuation is 31 January 2006. The main assumptions used by the actuary for the purposes of FRS17 were:

Financial assumptions applied when valuing the defined benefit schemes

	2005	2004	2003
Valuation method	Projected unit	Projected unit	Projected unit
Discount rate	5.5%	5.75%	5.75%
Inflation rate	2.8%	2.8%	2.5%
Increases to pensions in payment	2.8%	2.8%	2.5%
Salary increases	2.8%	2.8%	2.5%

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.

32 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

	2005		2004		2003	
	%	£000	%	£000	%	£000
Equities and property	8.35	19,128	8.65	17,146	8.25	16,686
Fixed interest	4.60	12,232	4.90	11,532	4.50	9,930
Index linked gilts	4.60	516	4.90	493	4.50	-
Insured annuities	5.50	1,349	5.80	1,360	4.50	-
Cash and other	4.75	306	4.00	292	3.75	1,362
Defined contribution section	-	400	-	251	-	-
Total market value of assets		33,931		31,074		27,978
Present value of the schemes' liabilities		(45,200)		(41,842)		(39,817)
Deficit in the schemes		(11,269)		(10,768)		(11,839)

Movement in deficit during the period

	2005 Group £000	2004 Group £000
Deficit at beginning of period	(10,768)	(11,839)
Movement in the period:		
Current service cost	(226)	(395)
Contributions	1,040	923
Other finance charge	(205)	(402)
Actuarial (loss)/gain	(1,110)	945
Deficit at end of period	(11,269)	(10,768)

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 £48,000 per month for the first month, and £77,250 per month for the remaining eleven months. The Company paid £10,000 into the WG Senior Management Scheme. The Company is currently on a contribution holiday for the Abaris Holdings Limited Pension Scheme and the Norwegian 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.

History of experience gains and losses

	2005	2004	2003
Difference between the expected and actual return on scheme assets:			
Amount (£000)	822	1,446	(7,741)
Percentage of scheme assets	2.4%	4.7%	27.7%
Experience gains and losses on scheme liabilities:			
Amount (£000)	(1,932)	(501)	(572)
Percentage of the present value of scheme liabilities	(4.3%)	1.2%	1.4%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£000)	(1,110)	945	(8,318)
Percentage of the present value of scheme liabilities	(2.5%)	2.3%	20.9%

Notes to the Accounts *continued*

33 Contingent liabilities

The Directors have made a provision for a legal claim based on their best estimate of the likely cost of settlement. There remains a risk that the cost of a final judgement may be above the provision made, but the Board are not able to further quantify the possible outcome.

34 Post balance sheet events

On 24 May 2005, the Board announced that it had entered into a letter of intent for the potential sale, subject to due diligence, of its wholly owned Norwegian subsidiaries, Borge Holdings AS and John O Borge A.S., and that an application had been made by the potential acquiror for Competition Authority clearance for the transaction to proceed.

Five Year Record

	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Turnover	64,067	61,115	58,261	47,975	50,611
Overseas turnover	20,065	18,104	17,926	17,517	19,724
Operating loss – restated	(5,269)	(6,542)	(3,802)	(3,159)	(2,772)
EBITDA	(1,811)	(2,848)	(691)	(514)	(354)
Loss before taxation – restated	(5,487)	(6,633)	(7,975)	(4,050)	(807)
Capital expenditure	6,113	1,388	1,208	569	1,187
Loss per share	(9.60p)	(11.69p)	(13.04p)	(7.61p)	(1.48p)
Average number of employees	757	740	665	568	613
Turnover per employee	£85,000	£83,000	£88,000	£84,000	£83,000
Dividends	590	–	–	–	–
Shareholders' funds – restated	37,731	27,421	12,742	8,680	7,070
Dividend per share	1.0p	–	–	–	–

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 results for 2001 have not been restated.

Financial Calendar

Annual General Meeting	28 September 2005
Announcement of half-year results	October 2005

Notes

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