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Graham & Brown Limited

Report and Financial Statements

31 December 2010

Directors
R H Graham (Co-Chairman)
D Brown (Co-Chairman)
I A Brown
J Carter
A H Graham
P A Longinotti
G M Van Laarhoven

Secretary
G M Van Laarhoven

Auditors
Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Bankers
Royal Bank of Scotland
6th Floor
1 Spinningfields Square
Manchester M3 3AP

Solicitors
Taylors LLP
Rawlings House
Exchange Street
Blackburn

Registered Office
India Mill
Harwood Street
Blackburn BB1 3BR

Directors' report

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The group profit for the year, after taxation, amounted to £2,476,000 (2009 – profit of £2,334,000)

The directors recommend a final ordinary dividend of 213 24 pence per ordinary share (2009 – 199.31 pence per ordinary share) amounting to £938,250 (2009 £876,964).

On 12 February 2010 the Board approved, by written special resolution, to adopt revised Articles of Association The revised Articles of Association allow for a variation in the rights of the 'A' ordinary shareholders in respect of an entitlement to dividend payments. Subject to clause 3 1, 1 2, 3.1, 1 3, 3 1 2, and 3 1.3 of the revised articles, the directors also recommend a final ordinary dividend of 95 01 pence per 'A' ordinary share. (2009 – 59 204 pence) amounting to £225,180 (2009 – £140,313).

The above dividend payments have not been accrued in these financial statements under FRS 21 'Events after the balance sheet date '

Principal activity and review of the business

The group's principal activities continued to be the manufacturing, sourcing, marketing and distribution of wall paper and wall decoration products During the year the group launched the first collection of premium paint under the Laurence Llewelyn-Bowen, Barbara Hulanicki and Graham & Brown brands and also acquired the Decofun Brand together with a Pan European licence with Disney to sell wall decoration and lighting products. The board believes these two key additions to the groups' product portfolio will enhance potential earnings streams in future years Once again the board would like to thank all employees for their efforts during 2010 and recognises the importance of their support and commitment to embrace change positively in order to drive the business forward in the years ahead

The group's key financial and other performance indicators during the year were as follows

	2010	*2009*	*Movement*
	£000	*£000*	*%*
Group turnover	90,075	79,107	14%
Shareholders' funds	27,104	24,005	13%
Average number of employees	627	586	7%

Group turnover increased by 14 % during the year, however profit before tax remained level A key factor which resulted in this was the impact of significant raw material and commodity price increases which were incurred consistently during the year, despite substantial efforts to mitigate them. The difficult economic climate continued in 2010 however the group invested in product innovation, capital expenditure and the infrastructure to drive growth and increase profitability in the longer term

The directors are committed to continue to grow the wallpaper and wall decoration markets and the group is well placed to maximise growth opportunities internationally.

Future developments

The directors aim to maintain the management policies which have resulted in the good performance in recent years They consider that 2011 will continue to show improved demand for wallcoverings internationally

Directors' report

Directors

The directors who served the company during the year were as follows

R H Graham
D Brown
I A Brown
J Carter
A H Graham
P A Longinotti
G M van Laarhoven

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

Secretary

[Date] 16/6/11

Directors' report

Principal risks and uncertainties

The directors believe that the principal risks and uncertainties facing the group are broadly grouped as competitive and various financial risks.

Competitive risks

In the UK, the group's larger customers regularly review their contracts and renewal of them is based upon ongoing service levels and customer satisfaction

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group uses management of cash generated by operations to help mitigate the potential for liquidity risk and also uses long term debt to finance significant purchases

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures Details of the group's debtors are shown in note 12 to the financial statements

Foreign currency risks

As well as Sterling, the group primarily trades in Euros, US Dollars and Canadian Dollars As a result of this the values of non Sterling transactions are all subjected to fluctuations in exchange rates In order to mitigate some of this risk the group will trade in the most favourable currency at the time of transaction and maintains bank financial statements in the relevant currencies as well as utilising foreign currency hedges where appropriate

Charitable contributions

As part of the group's wider commitment to the communities in which it operates, contributions made during the year for charitable purposes were £30,420 (2009 – £5,216)

Disabled persons

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

Employee involvement

During the year, the policy of providing all members of staff with accurate and relevant information about the group as an entity and its performance as a whole has been continued Regular meetings are held between management and staff members to provide a platform for information and ideas Discussions between employees or their representatives are held on a regular basis in order for the views and potential concerns of employees can be appreciated when high level management are making decisions which are likely to influence their interests

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of Graham & Brown Limited

We have audited the financial statements of Graham & Brown Limited for the year ended 31 December 2010 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profit and Losses, the Group and Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 21 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's 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

As explained more fully in the Directors' Responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report (continued)

to the members of Graham & Brown Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Jan Gregory (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester, UK

[Date] 21/10/11

Group profit and loss account

for the year ended 31 December 2010

	Notes	*2010* *£000*	*2009* *£000*
Turnover	2	90,075	79,107
Cost of sales		(55,251)	(47,975)
Gross profit		34,824	31,132
Distribution costs		(9,092)	(7,602)
Administrative expenses		(21,894)	(19,680)
Profit on sale of fixed assets		2	–
Operating profit	3	3,840	3,850
Bank interest receivable and similar income		62	64
Interest payable and similar charges	6	(149)	(408)
Profit on ordinary activities before taxation		3,753	3,506
Tax	7	(1,277)	(1,172)
Profit for the financial year	19	2,476	2,334

All operations are continuing.

Group statement of total recognised gains and losses

for the year ended 31 December 2010

	2010	*2009*
	£000	*£000*
Profit for the financial year	2,476	2,334
Exchange differences on retranslation of net assets of subsidiary undertakings	333	(10)
Actuarial gain/(loss) recognised on defined benefit pension scheme	2,740	(2,949)
Movement on deferred tax relating to pension liability	(767)	827
Total recognised gains and losses relating to the year	4,782	202

Note of historical cost profits and losses

for the year ended 31 December 2010

	2010	*2009*
	£000	*£000*
Reported profit on ordinary activities before taxation	3,753	3,506
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	2	2
Historical cost profit on ordinary activities before taxation	3,755	3,508
Historical cost profit for the year retained after taxation and preference dividends	2,478	2,336

Group and Company balance sheets

at 31 December 2010

			Group		*Company*
		2010	*2009*	*2010*	*2009*
	Notes	*£000*	*£000*	*£000*	*£000*
Fixed assets					
Intangible assets	8	1,117	3	1,117	–
Tangible assets	9	17,197	16,432	16,548	15,998
Investments	10	–	–	1,686	1,422
		18,314	16,435	19,351	17,420
Current assets					
Stocks	11	17,854	13,706	13,253	10,393
Debtors	12	20,272	17,442	19,127	20,040
Cash at bank and in hand		5,259	6,576	2,905	5,255
		43,385	37,724	35,285	35,688
Creditors: amounts falling due within one year	13	(31,036)	(23,851)	(25,661)	(19,243)
Net current assets		12,349	13,873	9,624	16,445
Total assets less current liabilities		30,663	30,308	28,975	33,865
Creditors: amounts falling due after more than one year	14	(677)	(1,208)	(653)	(1,208)
Provisions for liabilities	15	(1,120)	(1,042)	(1,167)	(1,141)
Accruals and deferred income	16	(118)	(119)	(118)	(119)
Defined benefit pension scheme deficit	17	(1,644)	(3,934)	(1,644)	(3,934)
Net assets		27,104	24,005	25,393	27,463
Capital and reserves					
Called up share capital	18	442	442	442	442
Capital redemption reserve	19	330	330	330	330
Revaluation reserve	19	161	163	161	163
Profit and loss account	19	26,171	23,070	24,460	26,528
Shareholders' funds	19	27,104	24,005	25,393	27,463

A H Graham

A H Graham
Director

[Date] 16/6/11

G M van Laarhoven
Director

[Date] 16/6/11

Group statement of cash flows

for the year ended 31 December 2010

	2010 £000	2009 £000
Net cash inflow from operating activities	3,213	5,512
Returns on investments and servicing of finance		
Interest received	62	64
Interest paid	(149)	(407)
Finance lease and hire purchase interest	–	(1)
Net cash outflow from returns on investments and servicing of finance	(87)	(344)
Taxation paid	(1,271)	(1,415)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(2,923)	(1,985)
Payments to acquire intangible fixed assets	(1,182)	–
Receipts from sales of tangible fixed assets	3	21
Net cash outflow from capital expenditure	(4,102)	(1,964)
Equity dividends paid	(1,017)	(913)
Net cash outflow before management of liquid resources and financing	(3,264)	876
Management of liquid resources		
Cash withdrawn from short term deposits	834	(376)
Net cash outflow from management of liquid resources	(2,430)	500
Financing		
Loans repaid	(556)	(556)
Capital element of hire purchase contracts and finance lease agreements	32	(53)
Net cash outflow from financing	(524)	(609)
Decrease in cash in the year	(2,954)	(109)

Notes to the group statement of cash flows

for the year ended 31 December 2010

1. Reconciliation of operating profit to net cash inflow from operating activities

	2010 £000	2009 £000
Operating profit	3,840	3,850
Depreciation of tangible assets	2,150	2,214
Amortisation of intangible assets	68	24
Profit on disposal of tangible assets	(2)	–
Increase in stock	(4,148)	(307)
Increase in debtors	(2,830)	(1,785)
Increase in creditors	4,699	1,862
(Decrease)/increase in other provisions	(2,258)	1,867
Exchange differences	1,694	(2,213)
Net cash inflow from operating activities	3,213	5,512

2. Analysis of net funds

	1 January 2010 £000	Cash flow £000	Other non cash changes £000	31 December 2010 £000
Net cash:				
Cash at bank and in hand	5,742	(483)	–	5,259
Bank overdraft	–	(2,471)	–	(2,471)
Liquid resources	834	(834)	–	–
	6,576	(3,788)	–	2,788
Debt				
Finance leases	–	(32)	–	(32)
Short-term loans	(555)	555	(555)	(555)
Long-term loans	(1,208)	–	555	(653)
	(1,763)	523	–	(1,240)
Net funds	4,813	3,265	–	1,548

3. Reconciliation of net cash flow to movement in net funds

	2010 £000	2009 £000
Decrease of cash in the year	(2,954)	(109)
(Decrease)/increase in cash from liquid resources	(834)	376
Cash inflow from decrease in debt	523	609
Movement in net funds in the year	(3,265)	876
Opening net funds	4,813	3,937
Closing net funds	1,548	4,813

Notes to the group statement of cash flows

for the year ended 31 December 2010

4. Analysis of cash at bank

	2010	*2009*
	£000	*£000*
Cash	5,259	5,742
Cash placed on short term deposits	–	834
Bank overdraft	(2,471)	–
	2,788	6,576

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

The financial statements of Graham & Brown Limited were approved for issue by the Board of Directors on 16th June 2011

The financial statements are prepared under the historical cost convention as modified by revaluations of certain fixed assets and in accordance with applicable accounting standards

Basis of consolidation

The group profit and loss account and balance sheet consolidate the financial statements of Graham & Brown Limited and all its subsidiary undertakings drawn up to 31 December each year No profit and loss account is presented for Graham & Brown Limited as permitted by section 408 of the Companies Act 2006 The loss after tax, but before dividends, for the company is £3,026,000 (2009 – profit of £4,082,000)

Turnover

Turnover represents amounts invoiced by the group in respect of goods supplied during the year excluding sales taxes

Goodwill

Goodwill arising prior to the implementation of Financial Reporting Standard No 10 'Goodwill and Intangible Assets', where material, has been written off directly to reserves

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Tangible fixed assets

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows

Land and buildings freehold	–	1% – 5% straight line per annum
Buildings - long leasehold	–	1% straight line per annum
Plant and machinery, fixtures and fittings	–	6 7% – 33% straight line per annum

Land is not depreciated

The group has taken advantage of the transitional provisions of FRS 15 'Tangible Fixed Assets' and has continued to include fixed assets at a combination of cost and valuations undertaken before the implementation of the standard

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Investments

Fixed asset investments are stated at cost less provision for diminution in value

The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Stocks

Stock is valued on a 'first in, first out' basis at the lower of cost and net realisable value Cost includes all direct expenditure and appropriate production overheads

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 right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted 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

Deferred tax liabilities are not recognised on gains made on disposals of fixed assets where an election has been made to roll over the gain into a replacement asset, unless, at the balance sheet date, there is a commitment to dispose of the replacement assets Deferred tax assets are only recognised to the extent that the Directors consider that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying differences can be deducted

Provision is made for deferred tax that would arise on remittance of retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets obtained under the hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

Pensions

The group operates two money purchase schemes providing benefits based on contributions made The contributions payable are charged to the profit and loss account in the period to which they relate

The group also operates a defined benefit scheme The scheme funds are administered by trustees and are independent of the group's finances. The scheme is fully funded and contributions are paid to the scheme in accordance with the recommendations of independent actuaries. The scheme was closed to new entrants on 31 May 2000 and to existing members for future benefits on 31 May 2002

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Pensions (continued)

The service cost of the pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account A charge equal to the increase in the present value of the scheme liabilities and a credit equivalent to the group's long-term expected return on assets (based on the market value of the scheme assets at the start of the period), are included in the profit and loss account

The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as an asset or liability in the balance sheet. Deferred tax assets on the pension liability are recognised to the extent that they are considered recoverable Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which are from experience gains and losses and changes of assumptions.

Further information is set out in note 17 to the financial statements

Government grants

Grants that relate to specific capital expenditure or relate to a combination of capital expenditure and job creation are treated as deferred income which is then credited to the profit and loss account over the related assets useful life Other grants are credited to the profit and loss account when received

2. Turnover

The total turnover of the group for the year has been derived from its principal activities The group operates within two geographical markets, the UK and overseas

Turnover by destination is analysed as follows

	United Kingdom		*Overseas*		*Total*	
	2010	*2009*	*2010*	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Group turnover	44,382	43,747	45,693	35,360	90,075	79,107

3. Operating profit

This is stated after charging/(crediting)

		2010	*2009*
		£000	*£000*
Auditors' remuneration		139	126
Amortisation of intangible assets		68	24
Depreciation of owned tangible fixed assets		2,150	2,214
Government grants		(1)	(2)
Operating lease rentals	– plant and machinery	805	746
	– land and buildings	903	670

Notes to the financial statements

at 31 December 2010

3. Operating profit (continued)

The remuneration of the auditors is analysed further as follows

	2010 £000	2009 £000
Audit of the financial statements*	38	33
Other fees to auditors		
Local statutory audits for subsidiaries	56	47
Taxation services	32	24
Other services	13	22
	139	126

* £25,826 (2009 – £25,320) of this relates to the company

4. Directors' emoluments

	2010 £000	2009 £000
Emoluments for qualifying services	1,235	1,213
Company pension contributions to money purchase schemes	190	186

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 4 (2009 – 4) The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 3 (2009 – 3) Emoluments disclosed above include the following amounts paid to the highest paid director

	2010 £000	2009 £000
Emoluments for qualifying services	226	228
Company pension contributions to money purchase schemes	53	50

No share options were exercised during the year by the highest paid director (2009 – nil)

5. Staff costs

	2010 £000	2009 £000
Wages and salaries	19,071	17,992
Social security costs	2,373	2,217
Other pension costs	1,369	1,226
	22,813	21,435

Notes to the financial statements
at 31 December 2010

5. Staff costs (continued)

The average weekly number of employees (including directors) during the year was

	2010	*2009*
	No	*No*
Office, management and selling	261	239
Manufacturing and warehousing	366	347
	627	586

6. Interest payable and similar charges

	2010	*2009*
	£000	*£000*
On bank loans and overdrafts	81	229
Hire purchase interest	–	1
Finance cost on defined benefit pension scheme	68	178
	149	408

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2010	*2009*
	£000	*£000*
Current tax		
UK corporation tax	1,085	1,054
Adjustment for prior year	(46)	63
Double taxation relief	(293)	(291)
	746	826
Foreign tax	295	305
Adjustment for prior year	3	78
Total current tax (note 7(b))	1,044	1,209
Deferred tax		
Deferred tax charge/(credit) for current year	233	(37)
Total deferred tax	233	(37)
Tax on profit on ordinary activities	1,277	1,172

Notes to the financial statements

at 31 December 2010

7. Tax (continued)

(a) Tax on profit on ordinary activities (continued)

Included within the deferred tax charge is a charge of £155,000 (2009 – £95,000) relating to the defined benefit pension liability, of which £22,000 (2009 – £nil) relates to the change in tax rate

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010	*2009*
	£000	*£000*
Profit on ordinary activities before taxation	3,753	3,506
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2009 – 28%)	1,051	980
Effects of		
Expenses not deductible for tax purposes	290	120
(Accelerated)/decelerated capital allowances	(71)	105
Small companies relief	(2)	–
Other timing differences	(183)	(151)
Overseas tax unrelieved	2	–
Adjustment in respect of prior years	(43)	141
Tax credit	–	14
Current tax for the year (note 7(a))	1,044	1,209

(c) Corporation tax rate changes – Impact on deferred tax

At the yearend date deferred tax has been provided for at 27% in line with the 2010 Finance Bill which was enacted legislation at this time

Announced in the 2010 Budget there is to be a 1% reduction in the main corporation tax rate from 28% to 24% over the next four years, enacted on a yearly basis in each Finance Bill

Subsequently the 2011 Finance Bill has enacted a corporation tax rate of 26% for the 2011 fiscal year with the 1% reduction to 23% to apply.

This 1% adjustment will impact the deferred tax credit on pensions by £22,519

The 1% adjustment will impact the group provision on deferred tax by a reduction of £42,000 and the company provision by a reduction of £43,000.

Notes to the financial statements

at 31 December 2010

8. Intangible fixed assets

Group

	Patents	*Goodwill*	*Start up costs*	*Brand/ Licence*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost					
At 1 January 2010	25	102	19	–	146
Additions	–	822	–	360	1,182
Exchange differences	–	–	–	–	–
At 31 December 2010	25	924	19	360	1,328
Amortisation					
At 1 January 2010	24	100	19	–	143
Exchange differences	–	–	–	–	–
Charge for the year	1	48	–	19	68
At 31 December 2010	25	148	19	19	211
Net book value.					
At 31 December 2010	–	776	–	341	1,117
At 1 January 2010	1	2	–	–	3

Goodwill is being amortised over its estimated useful life of 3 years The addition during the year relates to the acquisition of the trade and assets of Multicomm NV and Multicomm ANTWERP NV

Brand/Licence is being amortised over its estimated useful life of 3 years

Notes to the financial statements

at 31 December 2010

9. Tangible fixed assets

Group

	Land and buildings freehold £000	*Land and buildings long leasehold £000*	*Plant and machinery, fixtures and fittings £000*	*Total £000*
Cost or valuation				
At 1 January 2010	6,744	4,004	36,026	46,774
Exchange differences	–	–	(19)	(19)
Additions	851	–	2,073	2,924
Disposals	–	–	(10)	(10)
At 31 December 2010	7,595	4,004	38,070	49,669
Depreciation				
At 1 January 2010	2,109	363	27,870	30,342
Exchange differences	–	–	(11)	(11)
On disposals	–	–	(9)	(9)
Charge for the year	116	44	1,989	2,150
At 31 December 2010	2,225	408	29,839	32,472
Net book value				
At 31 December 2010	5,370	3,596	8,231	17,197
At 1 January 2010	4,635	3,641	8,156	16,432

A valuation of certain assets at 31 March 1990 was performed by Singletons, a firm of Chartered Surveyors, on an open market value basis

Included within the total net book value of tangible fixed assets is £27,586 (2009 – Nil) in respect of assets held under finance leases and similar hire purchase contracts Depreciation for the year on these assets was £6,658 (2009 – Nil)

Land valued at £591,000 (2009 – £591,000) is not depreciated.

The historical cost of the freehold land and buildings included at valuation is as follows:

	2010 £000	*2009 £000*
Cost	1,462	1,462
Accumulated depreciation	(245)	(243)
Net book value	1,217	1,219

Notes to the financial statements

at 31 December 2010

9. Tangible fixed assets (continued)

Company

	Land and buildings freehold £000	*Land and buildings long leasehold £000*	*Plant and machinery, fixtures and fittings £000*	*Total £000*
Cost or valuation.				
At 1 January 2010	6,744	4,004	33,887	44,635
Additions	851	–	1,654	2,505
Disposals	–	–	(10)	(10)
At 31 December 2010	7,595	4,004	35,531	47,130
Depreciation				
At 1 January 2010	2,109	364	26,164	28,637
On disposals	116	45	1,793	1,954
Charge for the year	–	–	(9)	(9)
At 31 December 2010	2,225	409	27,948	30,582
Net book value:				
At 31 December 2010	5,370	3,595	7,583	16,548
At 1 January 2010	4,635	3,640	7,723	15,998

The valuation at 31 March 1990 was performed by Singletons, a firm of Chartered Surveyors on an open market basis

Land valued at £591,000 (2009 – £591,000) is not depreciated

The historical cost of the freehold land and buildings included at valuation is as follows.

	2010 £000	*2009 £000*
Cost	1,462	1,462
Accumulated depreciation	(245)	(243)
Net book value	1,217	1,219

Notes to the financial statements

at 31 December 2010

10. Fixed asset investments

Company

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Cost or valuation			
At 1 January 2010	3,359	1,658	5,017
Exchange differences	–	78	78
Additional investments/loans	–	264	264
Amounts repaid	–	–	–
Liquidation of subsidiary			
At 31 December 2010	3,359	2,000	5,359
Provisions for diminution in value			
At 1 January 2010	2,282	1,313	3,595
Charge for the year	–	–	–
Exchange differences	–	78	78
Liquidation of subsidiary	–	–	–
At 31 December 2010	2,282	1,391	3,673
Net book value			
At 31 December 2010	1,077	609	1,686
At 1 January 2010	1,077	345	1,422

In the opinion of the directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amounts included in the balance sheet

The investments held by the company are in the following companies·

Subsidiary	*Country of incorporation*	*Class of shares held*	*% of shares held*
Graham & Brown Inc	United States	Ordinary	100
Graham & Brown BV	Holland	Ordinary	100
Graham & Brown SARL	France	Ordinary	100
Graham & Brown Wallcoverings Limited	Canada	Ordinary	100
Category Merchandising Limited	United Kingdom	Ordinary	100
Graham & Brown Shanghai Trading Co Limited	China	Ordinary	100
Graham & Brown Deutschland GMBH	Germany	Ordinary	100
Graham & Brown LLC	Russia	Ordinary	100

The principal activity of all the subsidiary undertakings except Category Merchandising Limited is the marketing and distribution of wallpaper and wall decoration products

The principal activity of Category Merchandising Limited is to act as a merchandiser

Notes to the financial statements
at 31 December 2010

11. Stocks

		Group		Company
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Raw materials and consumables	2,744	2,562	2,743	2,562
Work in progress	16	43	16	43
Finished goods and goods for resale	15,094	11,101	10,494	7,788
	17,854	13,706	13,253	10,393

12. Debtors

		Group		Company
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Trade debtors	18,444	15,829	13,032	11,800
Amounts owed by group undertakings	–	–	4,895	7,471
Prepayments and accrued income	1,828	1,613	1,200	769
	20,272	17,442	19,127	20,040

13. Creditors: amounts falling due within one year

		Group		Company
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Bank overdrafts	2,471	–	2,471	–
Bank loans (note 14)	555	555	555	555
Net obligations under finance lease and hire purchase contracts (note 14)	8	–	–	–
Trade creditors	21,578	17,394	19,519	15,849
Amounts owed to group undertakings	–	–	741	1
Corporation tax	517	511	390	428
Taxes and social security costs	1,184	1,737	418	849
Accruals and other creditors	4,723	3,654	1,567	1,561
	31,036	23,851	25,661	19,243

The bank borrowings are secured by a fixed and floating charge over the company's assets

Notes to the financial statements

at 31 December 2010

14. Creditors: amounts falling due after more than one year

		Group		Company
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Bank loans	653	1,208	653	1,208
Net obligations under finance lease and hire purchase contract	24	–	–	–
	677	1,208	653	1,208
Analysis of loans				
Bank loans	1,208	1,763	1,208	1,763
Included in current liabilities (note 13)	(555)	(555)	(555)	(555)
	653	1,208	653	1,208
Loan maturity analysis:				
Between one and two years	653	555	653	555
Between two and five years	–	653	–	653

The bank loans are secured by a fixed and floating charge over the assets of that company

Obligations under finance lease and hire purchase contracts are secured by the related assets

One of the bank loans is repayable by quarterly instalments and interest is charged at 1 75% above The Royal Bank of Scotland's base rate

The other bank loan is repayable by quarterly instalments, commencing December 2002 over a ten year period Interest is charged at 1 5% above The Royal Bank of Scotland's base rate

Net obligations under finance leases and hire purchase contracts

		Group		Company
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Net obligations:				
Repayable within one year	8	–	–	–
Repayable between one and five years	24	–	–	–
	32	–	–	–

Notes to the financial statements

at 31 December 2010

15. Provisions for liabilities

Deferred tax:

	Group	*Company*
	£000	*£000*
At 1 January 2010	1,042	1,141
Prior year adjustment	3	3
Utilisation of provision	75	23
At 31 December 2010	1,120	1,167

Deferred tax is provided at 27% (2009 – 28%) analysed over the following timing differences.

Group

	Fully provided		*Not provided*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Accelerated capital allowances	1,226	1,202	(41)	(48)
Other timing differences	(106)	(160)	(13)	(16)
Tax losses available	–	–	(11)	(18)
Others	–	–	45	46
	1,120	1,042	(20)	(36)

Company

	Fully provided		*Not provided*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Accelerated capital allowances	1,226	1,202	–	–
Other timing differences	(59)	–	–	47
Tax losses available	–	(61)	(3)	(3)
Others	–	–	45	–
	1,167	1,141	42	44

No deferred tax has been provided on the revaluation surpluses as there is either no intention to dispose of the properties or any gain would be rolled over

16. Accruals and deferred income

Group and Company

	Government grants
	£000
At 1 January 2010	119
Amortisation in the year	(1)
At 31 December 2010	118

Notes to the financial statements

at 31 December 2010

17. Pension costs

The group currently operates a defined contribution pension scheme for all permanent employees with service of more than three months In addition there is a separate defined contribution scheme for certain directors

Prior to 31 May 2002 the group operated a defined benefit scheme for employees with service of three or more years. This scheme was closed to new entrants on 31 May 2000 and to existing members for future benefits on 31 May 2002

Defined contribution schemes (Money purchase)

The pensions cost charge, in respect of the money purchase schemes, represents contributions payable by the group to the funds and amounted to a combined total of £891,000 (2009 – £802,000) At 31 December 2010 there were no outstanding contributions (2009 – £nil)

Defined benefit scheme (Final salary)

The pension cost figures included in the financial statements relating to the defined benefit scheme are stated in accordance with Financial Reporting Standard No 17 (FRS 17) 'Retirement Benefits' The pension costs are based on the most recent actuarial assumptions of the scheme which were complete for the purposes of FRS 17 with an effective date of 31 December 2010 The calculations were carried out by Xafinity Limited using the projected unit method The most significant assumptions are given below.

The pension contributions during the year were £540,000 (2009 – £519,000).

The above actuarial valuation shows that the market value of the scheme's assets is £21,170,000 (2009 – £18,953,000) and that the actuarial value of those assets represented 90% of the benefits that had accrued to members of the scheme The scheme was frozen on 31 May 2002 and therefore members no longer make contributions as of this date. From the 1 January 2011 the company will contribute £586,000 per annum with the amount increasing by 4% per annum and payable for 10 years. During the year the group made no one off additional voluntary contributions to the scheme (2009 – £nil)

The scheme is closed to new entrants and therefore, under the projected unit method the current service cost will increase as the members of the plan approach retirement.

Members of the defined benefit pension scheme have been notified that benefits up to 31 May 2002 have been calculated on a leaving service basis and future service benefits will be on a money purchase basis from June 2002

A full actuarial valuation was carried out at 31 May 2009 and updated to 31 December 2010 by a qualified independent actuary

The assumptions used by the actuary are as follows

	2010	*2009*
Rate of increase in pension payments	3 4%	3.5%
Rate of increase in pension deferment	3 0%	3.6%
Discount rate	5 6%	5.7%
Inflation assumption - RPI	3 5%	3.6%
-CPI	3 0%	N/A
Post retirement mortality:		
Current pensioners at 65 – male	20 7	20 6
Current pensioners at 65 – female	23 3	23 2
Future pensioners at 65 – male	21 8	21 8
Future pensioners at 65 – female	24 3	24 3

Notes to the financial statements

at 31 December 2010

17. Pension costs (continued)

The post-mortality mortality assumptions allow for expected increases in longevity The 'current' disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with 'future' being that relating to an employee retiring in 2036

The assets in the scheme and the expected rate of return were

	Long-term rate of return expected at 31/12/2010	*Value at 31/12/2010 £000*	*Long-term rate of return expected at 31/12/2009*	*Value at 31/12/2009 £000*
Equities	7.4%	11,410	7.9%	13,095
Bonds	4 1%	9,680	4.9%	5,706
Cash	4 0%	40	4.5%	107
Insured Assets	5 6%	40	5.7%	45
Total market value of assets		21,170		18,953
Present value of scheme liabilities		(23,422)		(24,417)
Deficit in the scheme		(2,252)		(5,464)
Related deferred tax asset		608		1,530
Net pension deficit		(1,644)		(3,934)

Analysis of the amount debited to interest payable and similar charges

	2010 £000	*2009 £000*
Expected return on pension scheme assets	1,307	999
Interest on pension liabilities	(1,375)	(1,177)
Net interest cost	(68)	(178)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2010 £000	*2009 £000*
Actual return less expected return on assets	946	2,405
Experience gains and losses on liabilities	–	–
Actuarial gain relating to the change in deferred revaluation from RPI to CPI	892	N/A
Changes in assumptions	902	(5,354)
Actuarial gain/(loss) recognised in STRGL	2,740	(2,949)

Notes to the financial statements

at 31 December 2010

17. Pension costs (continued)

Movement in deficit in the year

	2010	*2009*
	£000	*£000*
Deficit in scheme at the beginning of the year	(5,464)	(2,856)
Contributions	540	519
Net interest cost	(68)	(178)
Actuarial gain/(loss)	2,740	(2,949)
Deficit in the scheme at the end of the year	(2,252)	(5,464)

History of experience gains and losses

	2010	*2009*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Difference between expected and actual return on scheme assets				
Amount	946	2,405	(4,712)	(161)
Percentage of the scheme assets	4%	13%	30%	1%
Experience gains and losses on scheme liabilities.				
Amount	–	–	–	–
Percentage of the scheme liabilities	0%	0%	0%	0%
Total amount recognised in statement of total recognised gains and losses				
Amount	2,740	(2,949)	(1,372)	2,533
Percentage of the scheme liabilities	12%	12%	9%	12%

In preparing the 2010 FRS 17 valuation, the group actuary assumed experience was in line with actuarial assumptions.

18. Issued share capital

		2010		*2009*
Allotted, called up and fully paid	*No*	*£000*	*No*	*£000*
Ordinary shares of £1 each	440,000	440	440,000	440
'A' Ordinary shares of 1p each	237,000	2	237,000	2
		442		442

Notes to the financial statements

at 31 December 2010

19. Reconciliation of shareholders' funds and movements on reserves

Group

	Share capital £000	*Redemption reserve £000*	*Capital Revaluation reserve £000*	*Profit and loss account £000*	*Total £000*
At 1 January 2009	442	330	165	23,756	24,693
Profit for the year	–	–	–	2,334	2,334
Transfer from revaluation reserve	–	–	(2)	2	–
Currency translation difference	–	–	–	13	13
Actuarial loss	–	–	–	(2,949)	(2,949)
Deferred tax on actuarial loss	–	–	–	827	827
Dividend declared and paid	–	–	–	(913)	(913)
At 1 January 2010	442	330	163	23,070	24,005
Profit for the year	–	–	–	2,476	2,476
Transfer from revaluation reserve	–	–	(2)	2	–
Currency translation difference	–	–	–	(333)	(333)
Actuarial gain	–	–	–	2,740	2,740
Deferred tax on actuarial gain	–	–	–	(767)	(767)
Dividend declared and paid	–	–	–	(1,017)	(1,017)
At 31 December 2010	442	330	161	26,171	27,104

Cumulative goodwill written off to reserves is £2,219,000 (2009 – £2,219,000).

Company

	Share capital £000	*Redemption reserve £000*	*Capital Revaluation reserve £000*	*Profit and loss account £000*	*Total £000*
At 1 January 2009	442	330	165	25,479	26,416
Profit for the year	–	–	–	4,082	4,082
Transfer from revaluation reserve	–	–	(2)	2	–
Actuarial loss	–	–	–	(2,949)	(2,949)
Deferred tax on actuarial loss	–	–	–	827	827
Dividend declared and paid	–	–	–	(913)	(913)
At 1 January 2010	442	330	163	26,528	27,463
Loss for the year	–	–	–	(3,026)	(3,026)
Transfer from revaluation reserve	–	–	(2)	2	–
Actuarial gain	–	–	–	2,740	2,740
Deferred tax on actuarial gain	–	–	–	(767)	(767)
Dividend declared and paid	–	–	–	(1,017)	(1,017)
At 31 December 2010	442	330	161	24,460	25,393

Cumulative goodwill written off to reserves is £2,219,000 (2009 – £2,219,000).

Notes to the financial statements
at 31 December 2010

20. Other financial commitments

At 31 December 2010, the group had annual commitments under non-cancellable operating leases as follows

	Land and building			*Other*
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Expiry date				
Within one year	471	251	177	177
Between two and five years	324	341	597	545
	795	592	774	722

At 31 December 2010, the company had annual commitments under non-cancellable operating leases as follows

	Land and building			*Other*
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Expiry date:				
Within one year	–	–	62	49
Between two and five years	–	–	280	298
Greater than five years	–	–	–	–
	–	–	342	347

21. Dividends and other appropriations

	2010	*2009*
	£000	*£000*
Declared and paid during the year:		
Preference dividends	–	–
Equity dividends	1,017	913
	1,017	913
Proposed for approval by shareholders at the AGM		
Final dividend for 2010 – 213 24 pence per ordinary share (2009 – 199.31p)	938	877
Final dividend for 2010 – 95 0 pence per 'A' class ordinary share (2009 – 59 204)	225	140

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