

Graham & Brown Limited

**Directors' report and financial
statements**

Registered number 00372481

31 December 2011

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Directors

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

Secretary

G M Van Laarhoven

Auditors

KPMG LLP
Edward VII Quay
Navigation Way
Ashton on Ribble
Preston
PR2 2YF

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 2011

Results and dividends

The group operating profit for the year, amounted to £1,023,000 (2010 £3,840,000), group profit, after taxation, amounted to £689,000 (2010 £2,476,000)

The directors recommend a final ordinary dividend of 50 63 pence per ordinary share (2010 213 24 pence per ordinary share) amounting to £222,772 (2010 £938,250) The directors also recommend a final ordinary dividend of 30 08 pence per 'A' ordinary share (2010 95 01 pence) amounting to £71,290 (2010 £225,180)

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 The global economic environment remained difficult in 2011 and the board would like to both thank all employees for their efforts during the year and recognise the importance of their support and commitment

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

	2011 £000	2010 £000
Group turnover	90,560	90,075
Shareholders' funds	27,936	27,104
Average number of employees	656	627

Group turnover remained in line with 2010 however profit before tax reduced to £890,000 A key factor in this result was the impact of significant raw material and commodity price increases which were incurred consistently during the year, despite substantial efforts to mitigate them Partnerships with new suppliers of key raw materials have been established which the directors believe will also drive improved service and pricing The difficult economic climate continued in 2011 and the group responded to this by initiating an organisational and cost saving program The group made significant changes to its structure, which resulted in redundancies and realignment of resource The costs of these changes have been fully written off in 2011, whilst the full benefits will be realised in 2012

The group also improved stock and trade debtor levels throughout 2011 which contributed to retaining a strong balance sheet with cash liquidity remaining in line with 2010

The directors are committed to continue to grow the wallpaper and wall decoration markets globally and the group is well placed to maximise growth opportunities in existing and new international markets

Future developments

The directors will continue to maintain the cost control policies which have commenced in 2011 together with the investment in product innovation and capital expenditure which has resulted in the good performance in recent years They consider that 2012 will continue to show significant demand for wall decoration internationally and that the group will be well placed to maximise opportunities both geographically and through its expanding product portfolio

Directors' report *(continued)*

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 (resigned 20 December 2011)
G M van Laarhoven

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 £29,635 (2010 £30,420)

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

Directors' report *(continued)*

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.

Auditors

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

By order of the Board



GM van Laarhoven
Secretary

30 March 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Director's 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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice). 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 parent company and of their profit or loss for that period. In preparing each of the group and parent company 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP

Edward VII Quay
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Preston
PR2 2YF
United Kingdom

Independent auditor's report to the members of Graham & Brown Limited

We have audited the financial statements of Graham & Brown Limited for the year ended 31 December 2011 set out on pages 8 to 30. 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 Company'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 auditor

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

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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

Independent auditor's report to the members of Graham & Brown Limited (continued)

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

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



Richard Evans (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Edward VII Quay
Navigation Way
Preston
PR2 2YF

30 March 2012

Group profit and loss account
for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover	2	90,560	90,075
Cost of sales		(58,664)	(55,251)
Gross profit		31,896	34,824
Distribution costs		(8,944)	(9,092)
Administrative expenses		(21,949)	(21,894)
Profit on sale of fixed assets		20	2
Operating profit	3	1,023	3,840
Bank interest receivable and similar income		33	62
Interest payable and similar charges	6	(166)	(149)
Profit on ordinary activities before taxation		890	3,753
Taxation	7	(201)	(1,277)
Profit after taxation for the financial year	19	689	2,476

All operations are continuing

Group statement of total recognised gains and losses
for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the financial year	689	2,476
Exchange differences on retranslation of net assets of subsidiary undertakings	55	333
Actuarial gain recognised on defined benefit pension scheme	1,713	2,740
Movement on deferred tax relating to pension liability	(462)	(767)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	1,995	4,782
	<hr/>	<hr/>

Note of historical cost profits and losses
for the year ended 31 December 2011

	2011 £000	2010 £000
Reported profit on ordinary activities before taxation	890	3,753
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	2	2
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	892	3,755
	<hr/>	<hr/>
Historical cost profit for the year retained after taxation and preference dividends	691	2,478
	<hr/>	<hr/>

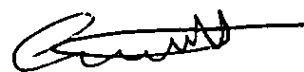
Group and Company balance sheets
at 31 December 2011

		Group		Company	
		2011	2010	2011	2010
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	8	764	1,117	762	1,117
Tangible assets	9	16,021	17,197	15,391	16,548
Investments	10	-	-	1,095	1,686
		<u>16,785</u>	<u>18,314</u>	<u>17,248</u>	<u>19,351</u>
Current assets					
Stocks	11	15,607	17,854	10,911	13,253
Debtors	12	19,684	20,272	15,379	19,127
Cash at bank and in hand		4,837	5,259	3,355	2,905
		<u>40,128</u>	<u>43,385</u>	<u>29,645</u>	<u>35,285</u>
Creditors amounts falling due within one year	13	(25,667)	(31,036)	(18,991)	(25,661)
Net current assets		<u>14,461</u>	<u>12,349</u>	<u>10,654</u>	<u>9,624</u>
Total assets less current liabilities		<u>31,246</u>	<u>30,663</u>	<u>27,902</u>	<u>28,975</u>
Creditors amounts falling due after more than one year	14	(2,459)	(677)	(2,436)	(653)
Provisions for liabilities	15	(735)	(1,120)	(809)	(1,167)
Accruals and deferred income	16	(116)	(118)	(116)	(118)
Net assets excluding pension liabilities		<u>27,936</u>	<u>28,748</u>	<u>24,541</u>	<u>27,037</u>
Defined benefit pension scheme deficit	17	-	(1,644)	-	(1,644)
Net assets		<u>27,936</u>	<u>27,104</u>	<u>24,541</u>	<u>25,393</u>
Capital and reserves					
Called up share capital	18	442	442	442	442
Capital redemption reserve	19	330	330	330	330
Revaluation reserve	19	159	161	159	161
Profit and loss account	19	27,005	26,171	23,610	24,460
Shareholders' funds	19	<u>27,936</u>	<u>27,104</u>	<u>24,541</u>	<u>25,393</u>

J Carter
Director



G M van Laarhoven
Director



30 March 2012

30 March 2012

Registered number 00372481

Group statement of Cash Flows
for the year ended 31 December 2011

	2011 £000	2010 £000
Net cash inflow from operating activities	1,031	3,213
Returns on investments and servicing of finance		
Interest received	34	62
Interest paid	(165)	(149)
Net cash outflow from returns on investments and servicing of finance	(131)	(87)
Taxation paid	(773)	(1,271)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(1,825)	(2,923)
Payments to acquire intangible fixed assets	(73)	(1,182)
Receipts from sales of tangible fixed assets	934	3
Net cash outflow from capital expenditure	(964)	(4,102)
Equity dividends paid	(1,163)	(1,017)
Net cash outflow before management of liquid resources and financing	(2,000)	(3,264)
Management of liquid resources		
Cash withdrawn from short term deposits	-	834
Net cash outflow from management of liquid resources	(2,000)	(2,430)
Financing		
New borrowings	3,000	-
Loans repaid	(616)	(556)
Capital element of hire purchase contracts and finance lease agreements	(9)	32
Net cash inflow/(outflow) from financing	2,375	(524)
Increase/(decrease) in cash in the year	375	(2,954)

Notes to the group statement of cash flows

For the year ended 31 December 2011

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

	2011 £000	2010 £000
Operating profit	1,023	3,840
Depreciation of tangible assets	2,074	2,150
Amortisation of intangible assets	426	68
Profit on disposal of tangible assets	(20)	(2)
Decrease/(increase) in stock	2,247	(4,148)
Decrease/(increase) in debtors	588	(2,830)
(Decrease)/increase in creditors	(4,789)	4,699
(Decrease)/increase in other provisions	-	78
Exchange differences	68	(325)
Decrease in retirement benefit liability	(586)	(317)
Net cash inflow from operating activities	1,031	3,213

2. Analysis of net funds

	1 January 2011 £000	Cash flow £000	31 December 2011 £000
Net cash			
Cash at bank and in hand	5,259	(422)	4,837
Bank overdraft	(2,471)	797	(1,674)
	2,788	375	3,163
Debt:			
Finance leases	(32)	9	(23)
Short term loans	(555)	(601)	(1,156)
Long term loans	(653)	(1,783)	(2,436)
	(1,240)	(2,375)	(3,615)
Net funds	1,548	(2,000)	(452)

3. Reconciliation of net cash flow to movement in net (deficit)/funds

	2011 £000	2010 £000
Increase/(decrease) of cash in the year	375	(2,954)
Decrease in cash from liquid resources	-	(834)
Cashflow from (increase)/decrease in debt	(2,375)	523
Movement in net funds in the year	(2,000)	(3,265)
Opening net funds	1,548	4,813
Closing net (deficit)/funds	(452)	1,548

4. Analysis of cash at bank

	2011 £000	2010 £000
Cash	4,837	5,259
Bank overdraft	(1,674)	(2,471)
	3,163	2,788

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

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 £940,000 (2010 £3,026,000)

Turnover

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

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 fixed assets purchased separately from a business are capitalised at their cost

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably. Fair values are restricted to an amount that does not create, or increase, any negative goodwill.

Brands and licences purchased by the Company are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods, of 3 years

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

Freehold buildings	–	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 (continued)

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

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings

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 (continued)

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 only 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.

Going concern

The Directors, having considered the current trading prospects, identifiable risks, working capital requirements and the availability of finance, are of the opinion that the Group and Company is a going concern. The accounts have been prepared on this basis.

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	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Group turnover	<u>42,909</u>	<u>44,382</u>	<u>47,651</u>	<u>45,693</u>	<u>90,560</u>	<u>90,075</u>

3. Operating profit

This is stated after charging/(crediting)

	2011 £000	2010 £000
Auditors' remuneration	<u>85</u>	<u>139</u>
Amortisation of intangible assets	426	68
Depreciation of owned tangible fixed assets	2,074	2,150
Government grants	<u>(1)</u>	<u>(1)</u>
Operating lease rentals – plant and machinery	893	805
– land and buildings	<u>835</u>	<u>903</u>

Notes (continued)

3. Operating profit (continued)

The remuneration of the auditors is analysed further as follows

	2011 £000	2010 £000
Audit of the financial statements*	34	38
Other fees to auditors		
Local statutory audits for subsidiaries	25	56
Taxation services	24	32
Other services	2	13
	<u>85</u>	<u>139</u>

* £30,000 (2010 £25,826) of this relates to the company

4. Directors' emoluments

	2011 £000	2010 £000
Emoluments for qualifying services	1,180	1,235
Company pension contributions to money purchase schemes	<u>161</u>	<u>190</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 4 (2010 4) The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to 3 (2010 3) Emoluments disclosed above include the following amounts paid to the highest paid director

	2011 £000	2010 £000
Emoluments for qualifying services	212	226
Company pension contributions to money purchase schemes	<u>50</u>	<u>53</u>

No share options were exercised during the year by the highest paid director (2010 £nil)

5. Staff costs

	2011 £000	2010 £000
Wages and salaries	19,741	19,071
Social security costs	2,547	2,373
Other pension costs	1,412	1,369
	<u>23,702</u>	<u>22,813</u>

Notes (continued)

5. Staff costs (continued)

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

	2011 £000	2010 £000
Office, management and selling	277	261
Manufacturing and warehousing	379	366
	<u>656</u>	<u>627</u>

6. Interest payable and similar charges

	2011 £000	2010 £000
On bank loans and overdrafts	119	81
Finance cost on defined benefit pension scheme	47	68
	<u>166</u>	<u>149</u>

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2011 £000	2010 £000
<i>Current tax</i>		
UK corporation tax	532	1,085
Adjustment for prior year	36	(46)
Double taxation relief	(386)	(293)
	<u>182</u>	<u>746</u>
Foreign tax	408	295
Adjustment for prior year	(4)	3
Total current tax (note 7(b))	<u>586</u>	<u>1,044</u>
<i>Deferred tax</i>		
Deferred tax (credit)/charge for current year	(385)	233
Total deferred tax (credit)/charge	<u>(385)</u>	<u>233</u>
Tax on profit on ordinary activities	<u>201</u>	<u>1,277</u>

Notes (continued)

7. Tax (continued)

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

Included within the deferred tax charge is a charge of £nil (2010 £155,000) relating to the defined benefit pension liability, of which £nil (2010 £22,000) 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 26.49% (2010 28%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before taxation	890	3,753
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 26.49% (2010 28%)	235	1,051
<i>Effects of</i>		
Expenses not deductible for tax purposes	144	290
Difference between depreciation and capital allowances	138	(71)
Small companies relief	-	(2)
Other timing differences	15	(183)
Overseas tax unrelieved	22	2
Adjustment in respect of prior years	33	(43)
Current tax for the year (note 7(a))	587	1,044

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

On the 23 March 2011 the Chancellor announced that the main rate of UK corporation tax will reduce from 26% to 25% with effect from 1 April 2012. This change became substantively enacted in July 2011 and therefore the effect of the rate reduction on the deferred tax balances has been included in the figures above.

On 21 March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24% with effect from 1 April 2012. This change became substantively enacted on 26 March 2012. As this rate was not substantively enacted at the balance sheet date it has not been reflected in the above figures.

The 1% adjustment will impact the group provision for deferred tax by a reduction of £29,405 and the company provision by a reduction of £32,355.

The Chancellor has also proposed changes to further reduce the main rate of UK corporation tax by 1% per annum to 22% by 1 April 2014. These reductions have not been substantively enacted; the changes are not reflected in the above figures.

Notes (continued)

8. Intangible fixed assets

Group	Patents £000	Goodwill £000	Start up costs £000	Brand/ licence £000	Total £000
<i>Cost</i>					
At 1 January 2011	25	924	19	360	1,328
Additions	12	61	-	-	73
At 31 December 2011	37	985	19	360	1,401
<i>Amortisation</i>					
At 1 January 2011	25	148	19	19	211
Charge for the year	10	302	-	114	426
At 31 December 2011	35	450	19	133	637
<i>Net book value</i>					
At 31 December 2011	2	535	-	227	764
At 1 January 2011	-	776	-	341	1,117
<i>Company</i>					
			Goodwill £000	Brand/ licence £000	Total £000
<i>Cost</i>					
At 1 January 2011			821	360	1,181
Additions			61	-	61
At 31 December 2011			882	360	1,242
<i>Amortisation</i>					
At 1 January 2011			45	19	64
Charge for the year			302	114	416
At 31 December 2011			347	133	480
<i>Net book value</i>					
At 31 December 2011			535	227	762
At 1 January 2011			776	341	1,117

Goodwill is being amortised over its estimated useful life of 3 years

The brand/licence is being amortised over its estimated useful life of 3 years

Notes (continued)

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 2011	7,595	4,004	38,070	49,669
Exchange differences	-	-	(36)	(36)
Additions	129	2	1,694	1,825
Disposals	-	-	(995)	(995)
At 31 December 2011	7,724	4,006	38,733	50,463
Depreciation				
At 1 January 2011	2,225	408	29,839	32,472
Exchange differences	-	-	(23)	(23)
On disposals	-	-	(81)	(81)
Charge for the year	166	45	1,863	2,074
At 31 December 2011	2,391	453	31,598	34,442
Net book value				
At 31 December 2011	5,333	3,553	7,135	16,021
At 1 January 2011	5,370	3,596	8,231	17,197

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 £20,928 (2010 £27,586) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £6,658 (2010 £6,658)

Land valued at £591,000 (2010 £591,000) is not depreciated

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

	2011 £000	2010 £000
Cost	1,462	1,462
Accumulated depreciation	(265)	(243)
Net book value	1,197	1,219

Notes (continued)

9. Tangible fixed assets

Company	Land and Buildings freehold	Land and buildings long leasehold	Plant and machinery, fixtures and fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 January 2011	7,595	4,004	35,531	47,130
Additions	129	2	1,342	1,473
Disposals	-	-	(956)	(956)
At 31 December 2011	7,724	4,006	35,917	47,647
Depreciation				
At 1 January 2011	2,225	409	27,948	30,582
On disposals	-	-	(56)	(56)
Charge for the year	166	45	1,519	1,730
At 31 December 2011	2,391	454	29,411	32,256
Net book value				
At 31 December 2011	5,333	3,552	6,506	15,391
At 1 January 2011	5,370	3,595	7,583	16,548

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 (2010 £591,000) is not depreciated.

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

	2011 £000	2010 £000
Cost	1,462	1,462
Accumulated depreciation	(265)	(243)
Net book value	<u>1,197</u>	<u>1,219</u>

Notes (continued)

10. Fixed asset investments

Company	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Cost or valuation			
At 1 January 2011	3,359	2,000	5,359
Exchange differences	-	(68)	(68)
Additional investments/loans	18	487	505
At 31 December 2011	3,377	2,419	5,796
Provisions for diminution in value			
At 1 January 2011	2,282	1,391	3,673
Charge for the year	-	1,028	1,028
At 31 December 2011	2,282	2,419	4,701
Net book value			
At 31 December 2011	1,095	-	1,095
At 1 January 2011	1,077	609	1,686

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

<i>Subsidiary</i>	<i>Country of incorporation</i>	<i>Class of shares held</i>	<i>% of shares held</i>
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
Graham & Brown FZC	UAE	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 (continued)

11. Stocks

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Raw materials and consumables	2,490	2,744	2,489	2,743
Work in progress	-	16	-	16
Finished goods and goods for resale	13,117	15,094	8,422	10,494
	<u>15,607</u>	<u>17,854</u>	<u>10,911</u>	<u>13,253</u>

12. Debtors

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Trade debtors	17,421	18,444	11,143	13,032
Amounts owed by group undertakings	-	-	2,446	4,895
Prepayments and accrued income	2,263	1,828	1,790	1,200
	<u>19,684</u>	<u>20,272</u>	<u>15,379</u>	<u>19,127</u>

13. Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Bank overdrafts	1,674	2,471	1,674	2,471
Bank loans (note 14)	1,156	555	1,156	555
Net obligations under finance lease and hire purchase contracts (note 14)	-	8	-	-
Trade creditors	17,216	21,578	14,391	19,519
Amounts owed to group undertakings	-	-	230	741
Corporation tax	139	517	(17)	390
Taxes and social security costs	1,667	1,184	787	418
Accruals and other creditors	3,815	4,723	770	1,567
	<u>25,667</u>	<u>31,036</u>	<u>18,991</u>	<u>25,661</u>

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

Notes (continued)

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

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Bank loans	2,436	653	2,436	653
Net obligations under finance lease and hire purchase contract	23	24	-	-
	<u>2,459</u>	<u>677</u>	<u>2,436</u>	<u>653</u>
Analysis of loans				
Bank loans	3,592	1,208	3,592	1,208
Included in current liabilities (note 13)	(1,156)	(555)	(1,156)	(555)
	<u>2,436</u>	<u>653</u>	<u>2,436</u>	<u>653</u>
Loan maturity analysis				
Between one and two years	772	653	772	653
Between two and five years	1,664	-	1,664	-
	<u>2,436</u>	<u>653</u>	<u>2,436</u>	<u>653</u>

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 base rate

Another bank loan is repayable by quarterly instalments, commencing December 2002 over a ten year period. Interest is charged at 1.5% above the base rate

Finally, there is a bank loan repayable in monthly instalments with the instalments over a five year period at which interest is charged at 1.85% above base rate

Net obligations under finance leases and hire purchase contracts

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Net obligations				
Repayable within one year	-	8	-	-
Repayable between one and five years	23	24	-	-
	<u>23</u>	<u>32</u>	<u>-</u>	<u>-</u>

Notes (continued)

15. Provisions for liabilities

Deferred tax

	Group £000	Company £000
At 1 January 2011	1,120	1,167
Prior year adjustment	(182)	(178)
Utilisation of provision	(203)	(180)
At 31 December 2011	735	809

Deferred tax is provided at 25% (2010 27%) analysed over the following timing differences

Group	Fully provided		Not provided	
	2011 £000	2010 £000	2011 £000	2010 £000
Accelerated capital allowances	862	1,226	(81)	(41)
Other timing differences	(127)	(106)	(7)	(13)
Tax losses available	-	-	-	(11)
Others	-	-	-	45
	735	1,120	(88)	(20)

Company	Fully provided		Not provided	
	2011 £000	2010 £000	2011 £000	2010 £000
Accelerated capital allowances	863	1,226	-	-
Other timing differences	(54)	(59)	-	-
Tax losses available	-	-	-	(3)
Other	-	-	45	45
	809	1,167	45	42

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 2011	118
Amortisation in the year	(2)
At 31 December 2011	116

Notes (continued)

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 £940,000 (2010 £891,000). At 31 December 2011 there were no outstanding contributions (2010 £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 2011. 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 £586,000 (2010 £540,000).

The above actuarial valuation shows that the market value of the scheme's assets is £26,122,000 (2010 £21,170,000). 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 has contributed £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 (2010 £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 2011 by a qualified independent actuary.

The assumptions used by the actuary are as follows:

	2011	2010
	%	%
Rate of increase in pension payments	3.0%	3.4%
Rate of increase in pension deferment	2.2%	3.0%
Discount rate	4.9%	5.6%
Inflation assumption - RPI	3.0%	3.5%
-CPI	2.2%	3.0%
Post retirement mortality		
Current pensioners at 65 – male	20.7	20.7
Current pensioners at 65 – female	23.4	23.3
Future pensioners at 65 – male	21.9	21.8
Future pensioners at 65 – female	24.3	24.3

Notes (continued)

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 31/12/2011	Value at 31/12/2011 £000	Long-term rate of return expected at 31/12/2010	Value at 31/12/2010 £000
Equities	5.9%	11,021	7.4%	11,410
Bonds	2.9%	15,017	4.1%	9,680
Cash	2.5%	48	4.0%	40
Insured Assets	4.9%	36	5.6%	40
Total market value of assets		26,122		21,170
Present value of scheme liabilities		(25,038)		(23,422)
Surplus/(deficit) in the scheme		1,084		(2,252)
Related deferred tax asset		-		608
Effect of asset limit (FRS17 para 67d)		(1,084)		-
Net pension deficit		-		(1,644)

Analysis of the amount debited to interest payable and similar charges

	2011 £000	2010 £000
Expected return on pension scheme assets	1,234	1,307
Interest on pension liabilities	(1,281)	(1,375)
Net interest cost	(47)	(68)

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

	2011 £000	2010 £000
Actual return less expected return on assets	4,220	946
Experience gains and losses on liabilities	(1,423)	1,794
Effect of asset limit (FRS17 para 41)	(1,084)	-
Total gain recognised in STRGL	1,713	2,740

Notes (continued)

17. Pension costs (continued)

Movement in deficit in the year

	2011 £000	2010 £000
Deficit in scheme at the beginning of the year	(2,252)	(5,464)
Contributions	586	540
Net interest cost	(47)	(68)
Actuarial gain	2,797	2,740
Effect of asset limit (FRS17 para 67d)	(1,084)	-
Surplus/(deficit) in the scheme at the end of the year	-	(2,252)

History of experience gains and losses

	2011 £000	2010 £000	2009 £000	2008 £000
Difference between expected and actual return on scheme assets				
Amount	4,220	946	2,405	(4,712)
Percentage of the scheme assets	16%	4%	13%	30%
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	1,713	2,740	(2,949)	(1,372)
Percentage of the scheme liabilities	7%	12%	12%	9%

In preparing the 2011 FRS 17 valuation, the group actuary assumed experience was in line with actuarial assumptions

18. Issued share capital

	2011		2010	
<i>Allotted, called up and fully paid</i>	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
	677,000	442	677,000	442

Notes (continued)

19. Reconciliation of shareholders' funds and movements on reserves

Group	Share capital	Redemption reserve	Capital revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
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
At 1 January 2011	442	330	161	26,171	27,104
Profit for the year	-	-	-	689	689
Transfer from revaluation reserve	-	-	(2)	2	-
Currency translation difference	-	-	-	55	55
Actuarial gain	-	-	-	1,713	1,713
Deferred tax on actuarial gain	-	-	-	(462)	(462)
Dividend declared and paid	-	-	-	(1,163)	(1,163)
At 31 December 2011	442	330	159	27,005	27,936

Cumulative goodwill written off to reserves is £2,219,000 (2010 £2,219,000)

Company	Share capital	Redemption reserve	Capital revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
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
At 1 January 2011	442	330	161	24,460	25,393
Loss for the year	-	-	-	(940)	(940)
Transfer from revaluation reserve	-	-	(2)	2	-
Actuarial gain	-	-	-	1,713	1,713
Deferred tax on actuarial gain	-	-	-	(462)	(462)
Dividend declared and paid	-	-	-	(1,163)	(1,163)
At 31 December 2011	442	330	159	23,610	24,541

Cumulative goodwill written off to reserves is £2,219,000 (2010 £2,219,000)

Notes (continued)

20. Other financial commitments

At 31 December 2011, the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2011	2010	2011	2010
	£000	£000	£000	£000
Expiry date				
Within one year	277	471	155	177
Between two and five years	408	324	590	597
Over five years	-	-	54	-
	<u>685</u>	<u>795</u>	<u>799</u>	<u>774</u>

At 31 December 2011, the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2011	2010	2011	2010
	£000	£000	£000	£000
Expiry date				
Within one year	-	-	50	62
Between two and five years	-	-	311	280
Greater than five years	-	-	54	-
	<u>-</u>	<u>-</u>	<u>415</u>	<u>342</u>

21. Dividends and other appropriations

	2011	2010
	£000	£000
Declared and paid during the year		
Equity dividends	1,163	1,017
Proposed for approval by shareholders at the AGM		
Final dividend for 2011 – 50 6 pence per ordinary share (2010 213 4p)	223	938
Final dividend for 2011 – 30 1 pence per 'A' class ordinary share (2010 95 0p)	71	225