

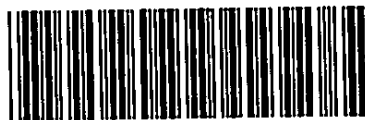
Graham & Brown Limited

**Directors' report and financial
statements**

Registered number 00372481

31 December 2012

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Directors

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

Secretary

G M van Laarhoven

Auditor

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

Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Results and dividends

The group EBITDA for the year, before exceptional items, amounted to £8.4m (2011 £3.5m). Group operating profit amounted to £6.0m (2011 £1.0m). Group profit after taxation and including exceptional items amounted to £6.1m (2011 £0.7m).

The Directors recommend a final ordinary dividend of 84.93 pence per ordinary share based on the shareholding as at 22 April 2013 (2011 50.63 pence per ordinary share) amounting to £1,460,796 (2011 £222,772). The directors also recommend a final ordinary dividend of 246.54 pence per 'A' ordinary share (2011 30.08 pence per share) amounting to £584,300 (2011 £71,290).

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 are the manufacturing, sourcing, marketing and distribution of designer-led wall decoration products to consumers in the UK and overseas.

Its range includes wallpaper, wall art, children's décor and paints, which are developed under a portfolio of brands, including Graham & Brown, Superfresco, Superfresco EASY and Contour.

The group also develops exclusive collections in partnership with the world's leading interior designers, such as Wayne Hemmings, Kelly Hoppen, Barbara Hulanicki, Marcel Wanders, Steve Leung and Laurence Lewyn-Bowen.

Its products are retailed through major DIY multiples in the UK, North America, Australia and Europe, as well as over 150 Graham & Brown-branded distributor outlets across high-growth overseas markets, supported by sales offices in the US, France, Holland, Russia, Canada and China.

The group operates as a strategic partner to its retailer and distributor customer base, delivering full category management support from merchandising, in-store environment and marketing/consultancy.

Key performance indicators during the year were:

	2012 £m	2011 £m
• Group turnover	87.8	90.6
• Cash generated from operating activities	11.4	1.0
• Pre exceptional items EBITDA	8.4	3.5

Like the wider home interiors sector, the group's performance is affected by the prevailing consumer sentiment, which has remained subdued across many of its markets as a result of weak economic growth.

Despite this challenging environment, total group sales were broadly consistent with the previous year at £87.8m (2011 £90.6m).

Given the continuing weakness of the UK economy, the group continued in the implementation of its international development strategy, which is focussed upon consolidating its position in established countries and targeting sales in new, faster-growing emerging markets.

These international initiatives include new strategic partnerships in North Africa and the Middle East, plus the extension of existing partnerships in North America.

The group also improved its underlying profit from operations significantly last year, with (pre-exceptional items) EBITDA increasing to £8.4m (2011 £3.5m). This is as a result of the cost reduction initiatives and organisational reorganisation implemented in 2011, which have delivered successfully in 2012.

Directors' report *(continued)*

Principal activity and review of the business *(continued)*

The group also continued to focus on strong cash management, with an improved cash inflow during the year, despite further investment in plant, machinery and facilities

The group would like to recognise the commitment of its people in the delivery of a strong underlying performance against such a challenging market backdrop

Future prospects

Whilst the board expects conditions in established markets to remain challenging, it is encouraged by the strength of its position in Western Europe and the continuing opportunities from emerging markets in the Far East, North Africa, Eastern Europe and Russia, where the group has established several key strategic partnerships and growth platforms

Repurchase of ordinary share capital

During the year the Company purchased 240,000 of its own shares, which represented 10.9% of the called up share capital. The nominal value of each share was £1 and the total consideration paid was £2,988,960. The shares were subsequently cancelled.

On 11 February 2013 the Company purchased a further 240,000 of its own shares, which represented 12.2% of the called up share capital. The nominal value of each share was £1 and the total consideration paid was £2,988,960. The shares were subsequently cancelled.

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
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 the 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

Directors' report *(continued)*

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 accounts 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 £36,335 (2011 £29,635).

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 that the views and potential concerns of employees can be appreciated when high level management are making decisions which are likely to influence their interests.

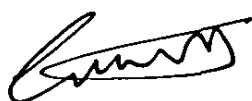
Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

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

By order of the Board



GM van Laarhoven
Secretary

22nd April

2013

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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK 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
Navigation Way
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 2012 set out on pages 8 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK 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

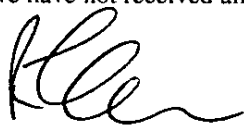
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

23 Apr. 7 2013

Group profit and loss account
for the year ended 31 December 2012

	<i>Notes</i>	2012 £000	2011 £000
Turnover	2	87,760	90,560
Cost of sales		(52,685)	(58,664)
Gross profit		35,075	31,896
Distribution costs		(7,702)	(8,944)
Administrative expenses		(21,332)	(21,929)
Operating profit	3	6,041	1,023
Exceptional item	23	2,100	-
Bank interest receivable and similar income		37	33
Interest payable and similar charges	6	(235)	(166)
Profit on ordinary activities before taxation		7,943	890
Taxation	7	(1,831)	(201)
Profit after taxation for the financial year	19	6,112	689

All operations are continuing

The notes on pages 13 to 30 form part of these financial statements

Group statement of total recognised gains and losses
for the year ended 31 December 2012

	2012 £000	2011 £000
Profit for the financial year	6,112	689
Exchange differences on retranslation of net assets of subsidiary undertakings	183	55
Actuarial (loss)/gain recognised on defined benefit pension scheme	(4,868)	1,713
Movement on deferred tax relating to pension liability	1,120	(462)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	2,547	1,995
	<hr/>	<hr/>

Note of historical cost profits and losses
for the year ended 31 December 2012

	2012 £000	2011 £000
Reported profit on ordinary activities before taxation	7,943	890
Difference between 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	7,945	892
	<hr/>	<hr/>
Historical cost profit for the year retained after taxation	6,114	691
	<hr/>	<hr/>

The notes on pages 13 to 30 form part of these financial statements

Group and Company balance sheets
at 31 December 2012

		Group		Company	
	Notes	2012	2011	2012	2011
		£000	£000	£000	£000
Fixed assets					
Intangible assets	8	354	764	344	762
Tangible assets	9	17,481	16,021	16,740	15,391
Investments	10	-	-	1,095	1,095
		<u>17,835</u>	<u>16,785</u>	<u>18,179</u>	<u>17,248</u>
Current assets					
Stocks	11	14,735	15,607	10,161	10,911
Debtors	12	16,145	19,684	12,441	15,379
Cash at bank and in hand		11,919	4,837	10,395	3,355
		<u>42,799</u>	<u>40,128</u>	<u>32,997</u>	<u>29,645</u>
Creditors: amounts falling due within one year	13	(24,921)	(25,667)	(19,359)	(18,991)
Net current assets		<u>17,878</u>	<u>14,461</u>	<u>13,638</u>	<u>10,654</u>
Total assets less current liabilities		<u>35,713</u>	<u>31,246</u>	<u>31,817</u>	<u>27,902</u>
Creditors: amounts falling due after more than one year	14	(4,223)	(2,459)	(4,223)	(2,436)
Provisions for liabilities	15	(805)	(735)	(880)	(809)
Accruals and deferred income	16	(114)	(116)	(114)	(116)
Net assets excluding pension liability		<u>30,571</u>	<u>27,936</u>	<u>26,600</u>	<u>24,541</u>
Defined benefit pension scheme deficit	17	(3,371)	-	(3,371)	-
Net assets		<u>27,200</u>	<u>27,936</u>	<u>23,229</u>	<u>24,541</u>
Capital and reserves					
Called up share capital	18	1,962	442	1,962	442
Capital redemption reserve	19	570	330	570	330
Revaluation reserve	19	157	159	157	159
Profit and loss account	19	24,511	27,005	20,540	23,610
Shareholders' funds	19	<u>27,200</u>	<u>27,936</u>	<u>23,229</u>	<u>24,541</u>

A H Graham
Director

A H Graham

G M van Laarhoven
Director

G M van Laarhoven
22nd April

2013

The notes on pages 13 to 30 form part of these financial statements

Registered number 00372481

Group statement of cash flows
for the year ended 31 December 2012

	2012 £000	2011 £000
Net cash inflow from operating activities	11,429	1,031
Returns on investments and servicing of finance		
Interest received	37	34
Interest paid	(235)	(165)
Net cash outflow from returns on investments and servicing of finance	(198)	(131)
Taxation paid	(555)	(773)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(2,523)	(1,825)
Payments to acquire intangible fixed assets	(12)	(73)
Exceptional item (note 23)	2,100	-
Receipts from sales of tangible fixed assets	126	934
Net cash outflow from capital expenditure	(309)	(964)
Equity dividends paid	(294)	(1,163)
Net cash inflow/(outflow) before financing	10,073	(2,000)
Financing		
New borrowings	3,000	3,000
Loans repaid	(1,305)	(616)
Repurchase of share capital	(2,989)	-
Capital element of hire purchase contracts and finance lease agreements	(23)	(9)
Net cash (outflow)/inflow from financing	(1,317)	2,375
Increase in cash in the year	8,756	375

Notes to the group statement of cash flows

For the year ended 31 December 2012

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

	2012 £000	2011 £000
Operating profit	6,041	1,023
Depreciation of tangible assets	1,905	2,074
Amortisation of intangible assets	423	426
Profit on disposal of tangible assets	(4)	(20)
(Increase)/decrease in stock	(110)	2,247
Decrease in debtors	3,539	588
Decrease in creditors	(258)	(4,789)
Increase in other provisions	70	-
Exchange differences	200	68
Decrease in retirement benefit liability	(377)	(586)
Net cash inflow from operating activities	<u>11,429</u>	<u>1,031</u>

2 Analysis of net funds

	1 January 2012 £000	Cash flow £000	31 December 2012 £000
Net cash			
Cash at bank and in hand	4,837	7,082	11,919
Bank overdraft	(1,674)	1,674	-
	<u>3,163</u>	<u>8,756</u>	<u>11,919</u>
Debt			
Finance leases	(23)	23	-
Short term loans	(1,156)	92	(1,064)
Long term loans	(2,436)	(1,787)	(4,223)
	<u>(3,615)</u>	<u>(1,672)</u>	<u>(5,287)</u>
Net funds	<u>(452)</u>	<u>7,084</u>	<u>6,632</u>

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

	2012 £000	2011 £000
Increase of cash in the year	8,756	375
Cash flow from increase in debt	(1,672)	(2,375)
Movement in net funds in the year	<u>7,084</u>	<u>(2,000)</u>
Opening net funds	(452)	1,548
Closing net funds /(deficit)	<u>6,632</u>	<u>(452)</u>

4 Analysis of cash at bank

	2012 £000	2011 £000
Cash	11,919	4,837
Bank overdraft	-	(1,674)
	<u>11,919</u>	<u>3,163</u>

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 profit after tax, but before dividends, for the company is £5,719,000 (2011 loss of £940,000)

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

Brands and licences purchased by the Group 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 stated 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.

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.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Related parties

The Group has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

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	
	2012	2011	2012	2011	2012	2011
	£000	£000	£000	£000	£000	£000
Group turnover	42,112	42,909	45,648	47,651	87,760	90,560

Notes (continued)

3 Operating profit

This is stated after charging/(crediting)

	2012 £000	2011 £000
Auditors' remuneration	132	85
Amortisation of intangible assets	423	426
Depreciation of owned tangible fixed assets	1,907	2,067
Depreciation of leased tangible fixed assets	-	7
Government grants	(2)	(1)
Operating lease rentals – plant and machinery – land and buildings	826 746	893 835

The remuneration of the auditors is analysed further as follows

	2012 £000	2011 £000
Audit of the financial statements*	35	34
Other fees to auditors		
Local statutory audits for subsidiaries	33	25
Taxation services	42	24
Other services	22	2
	132	85

* £30,000 (2011 £30,000) of this relates to the company

4 Directors' emoluments

	2012 £000	2011 £000
Emoluments for qualifying services	1,559	1,180
Company pension contributions to money purchase schemes	84	161

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to four (2011 four). The number of directors for whom retirement benefits are accruing under defined benefit schemes amounted to three (2011 three).

Emoluments disclosed above include the following amounts paid to the highest paid director

	2012 £000	2011 £000
Emoluments for qualifying services	357	212
Company pension contributions to money purchase schemes	-	50

No share options were exercised during the year by the highest paid director (2011 £nil)

Notes (continued)

5 Staff costs

	2012 £000	2011 £000
Wages and salaries	18,950	19,741
Social security costs	2,556	2,547
Other pension costs	1,265	1,412
	<u>22,771</u>	<u>23,700</u>

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

	2012 £000	2011 £000
Office, management and selling	268	277
Manufacturing and warehousing	319	379
	<u>587</u>	<u>656</u>

6 Interest payable and similar charges

	2012 £000	2011 £000
On bank loans and overdrafts	121	119
Finance cost on defined benefit pension scheme	114	47
	<u>235</u>	<u>166</u>

7 Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2012 £000	2011 £000
<i>Current tax</i>		
UK corporation tax	1,607	532
Adjustment for prior year	(113)	36
Double taxation relief	(283)	(386)
	<u>1,211</u>	<u>182</u>
Foreign tax	424	408
Adjustment for prior year	13	(4)
Total current tax (note 7(b))	<u>1,648</u>	<u>586</u>
<i>Deferred tax</i>		
Deferred tax charge /(credit) for current year	183	(385)
Tax on profit on ordinary activities	<u>1,831</u>	<u>201</u>

Notes (continued)

7 Tax (continued)

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 24.5% (2011 26.49%). The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before taxation	7,943	890
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 24.5% (2011 26.49%)	1,946	235
<i>Effects of</i>		
Expenses not deductible for tax purposes	118	144
Difference between depreciation and capital allowances	124	138
Income not taxable – exceptional item	(514)	-
Defined benefit scheme timing differences	(120)	-
Other timing differences	53	15
Overseas tax unrelieved	141	22
Adjustment in respect of prior years	(100)	33
Current tax for the year (note 7(a))	1,648	587

Corporation tax rate changes – Impact on deferred tax

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability/asset accordingly.

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 2012	37	985	19	360	1,401
Additions	12	-	-	-	12
At 31 December 2012	49	985	19	360	1,413
<i>Amortisation</i>					
At 1 January 2012	35	450	19	133	637
Exchange Differences	(1)	-	-	-	(1)
Charge for the year	5	304	-	114	423
At 31 December 2012	39	754	19	247	1,059
<i>Net book value</i>					
At 31 December 2012	10	231	-	113	354
At 1 January 2011	2	535	-	227	764
Company					
		Goodwill £000		Brand/ licence £000	Total £000
<i>Cost</i>					
At 1 January 2012 and 31 December 2012		882		360	1,242
<i>Amortisation</i>					
At 1 January 2012		347		133	480
Charge for the year		304		114	418
At 31 December 2012		651		247	898
<i>Net book value</i>					
At 31 December 2012		231		113	344
At 1 January 2012		535		227	762

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
<i>Cost or valuation</i>				
At 1 January 2012	7,724	4,006	38,733	50,463
Exchange differences	-	-	(86)	(86)
Additions	20	1,136	1,367	2,523
Transfers from stock	-	-	982	982
Disposals	-	-	(193)	(193)
At 31 December 2012	7,744	5,142	40,803	53,689
<i>Depreciation</i>				
At 1 January 2012	2,391	453	31,598	34,442
Exchange differences	-	-	(68)	(68)
On disposals	-	-	(71)	(71)
Charge for the year	173	49	1,683	1,905
At 31 December 2012	2,564	502	33,142	36,208
<i>Net book value</i>				
At 31 December 2012	5,180	4,640	7,661	17,481
At 1 January 2011	5,333	3,553	7,135	16,021

A valuation of freehold land and buildings 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 £nil (2011 £20,928) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2011 £6,658)

Land valued at £591,000 (2011 £591,000) is not depreciated

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

	2012 £000	2011 £000
Cost	1,462	1,462
Accumulated depreciation	(287)	(265)
Net book value	1,175	1,197

Notes (continued)

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 2012	7,724	4,006	35,917	47,647
Additions	20	1,048	1,016	2,084
Transfers from stock	-	-	982	982
Disposals	-	-	(18)	(18)
At 31 December 2012	7,744	5,054	37,897	50,695
Depreciation				
At 1 January 2012	2,391	454	29,411	32,256
On disposals	-	-	(14)	(14)
Charge for the year	173	49	1,491	1,713
At 31 December 2012	2,564	503	30,888	33,955
Net book value				
At 31 December 2012	5,180	4,551	7,009	16,740
At 1 January 2012	5,333	3,552	6,506	15,391

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 (2011 £591,000) is not depreciated

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

	2012 £000	2011 £000
Cost	1,462	1,462
Accumulated depreciation	(287)	(265)
Net book value	<u>1,175</u>	<u>1,197</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 2012	3,377	2,419	5,796
Exchange differences	-	(59)	(59)
Additional investments/loans	-	489	489
At 31 December 2012	3,377	2,849	6,226
Provisions for diminution in value			
At 1 January 2012	2,282	2,419	4,701
Charge for the year	-	430	430
At 31 December 2012	2,282	2,849	5,131
Net book value			
At 31 December 2012	1,095	-	1,095
At 1 January 2011	1,095	-	1,095

In the opinion of the directors, the 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	
	2012 £000	2011 £000	2012 £000	2011 £000
Raw materials and consumables	1,974	2,490	1,974	2,489
Work in progress	16	-	-	-
Finished goods and goods for resale	12,745	13,117	8,187	8,422
	<u>14,735</u>	<u>15,607</u>	<u>10,161</u>	<u>10,911</u>

12 Debtors

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	14,912	17,421	9,243	11,143
Amounts owed by group undertakings	-	-	2,520	2,446
Prepayments and accrued income	1,233	2,263	678	1,790
	<u>16,145</u>	<u>19,684</u>	<u>12,441</u>	<u>15,379</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank overdrafts	-	1,674	-	1,674
Bank loans (note 14)	1,064	1,156	1,064	1,156
Trade creditors	16,385	17,216	14,599	14,391
Amounts owed to group undertakings	-	-	166	230
Corporation tax	1,415	139	1,080	(17)
Taxes and social security costs	1,072	1,667	346	787
Accruals and other creditors	4,985	3,815	2,104	770
	<u>24,921</u>	<u>25,667</u>	<u>19,359</u>	<u>18,991</u>

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

Included in Creditors falling due within one year is an interest free loan from a Director. The amount owing at 31 December 2012 was £150,000

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Bank loans	4,223	2,436	4,223	2,436
Net obligations under finance lease and hire purchase contract	-	23	-	-
	<u>4,223</u>	<u>2,459</u>	<u>4,223</u>	<u>2,436</u>
<i>Analysis of loans</i>				
Bank loans	5,287	3,592	5,287	3,592
Included in current liabilities (note 13)	(1,064)	(1,156)	(1,064)	(1,156)
	<u>4,223</u>	<u>2,436</u>	<u>4,223</u>	<u>2,436</u>
<i>Loan maturity analysis</i>				
Between one and two years	1,267	772	1,267	772
Between two and five years	2,956	1,664	2,956	1,664

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

One of the bank loans is repayable by quarterly instalments over a five year period and interest is charged at 2.9% above the LIBOR rate

The other bank loan is 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	
	2012	2011	2012	2011
	£000	£000	£000	£000
<i>Net obligations</i>				
Repayable between one and five years	-	23	-	-
	<u>-</u>	<u>23</u>	<u>-</u>	<u>-</u>

Notes (continued)

15 Provisions for liabilities

Deferred tax

	Group £000	Company £000
At 1 January 2012	735	809
Prior year adjustment	(3)	(3)
Utilisation of provision	73	74
At 31 December 2012	805	880

Deferred tax is provided at 23% (2011 25%) analysed over the following timing differences

Group	Fully provided		Not provided	
	2012 £000	2011 £000	2012 £000	2011 £000
Accelerated capital allowances	665	862	(106)	(81)
Other timing differences	(75)	(127)	-	(7)
Revaluation surpluses	-	-	(36)	(40)
Others	215	-	-	-
	805	735	(142)	(128)

Company	Fully provided		Not provided	
	2012 £000	2011 £000	2012 £000	2011 £000
Accelerated capital allowances	665	863	(106)	-
Other timing differences	-	(54)	-	-
Revaluation surpluses	-	-	(36)	(40)
Other	215	-	-	45
	880	809	(142)	5

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 2012	116
Amortisation in the year	(2)
At 31 December 2012	114

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 £781,000 (2011 £940,000). At 31 December 2012 there were no outstanding contributions (2011 £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 2012. 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 £604,000 (2011 £586,000).

The above actuarial valuation shows that the market value of the scheme's assets is £24,308,000 (2011 £26,122,000). 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 (2011 £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.

During the financial year, an insurance agreement was entered into with a third party to cover all future payments in respect of Scheme's pensioner members who had retired prior to 15 July 2012. Following completion of the pensioner buy in agreement the Scheme holds a number of annuity policies in respect of the members who were pensioners at that time.

A full actuarial valuation was carried out at 31 May 2012 and updated to 31 December 2012 by a qualified independent actuary.

The assumptions used by the actuary are as follows:

	2012	2011
	%	%
Rate of increase in pension payments	3.0%	3.0%
Rate of increase in pension deferment	2.1%	2.2%
Discount rate	4.7%	4.9%
Inflation assumption - RPI	3.1%	3.0%
-CPI	2.1%	2.2%
Post retirement mortality		
Current pensioners at 65 – male	21.9	20.7
Current pensioners at 65 – female	24.2	23.4
Future pensioners at 65 – male	23.2	21.9
Future pensioners at 65 – female	25.7	24.3

Notes (continued)

17 Pension costs (continued)

The post retirement 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 31/12/2012	Value at 31/12/2012 £000	Long-term rate of return expected at 31/12/2011	Value at 31/12/2011 £000
Equities	6.4%	11,469	5.9%	11,021
Bonds	3.1%	7,004	2.9%	15,017
Cash	3.0%	524	2.5%	48
Insured Assets	4.7%	11,937	4.9%	36
Outstanding Policy Premiums	5.1%	(6,626)	-	-
Total market value of assets		24,308		26,122
Present value of scheme liabilities		(28,686)		(25,038)
(Deficit)/surplus in the scheme		(4,378)		1,084
Related deferred tax asset		1,007		-
Effect of asset limit (FRS17 para 67d)		-		(1,084)
Net pension deficit		(3,371)		-

Analysis of the amount debited to interest payable and similar charges

	2012 £000	2011 £000
Expected return on pension scheme assets	1,091	1,234
Interest on pension liabilities	(1,205)	(1,281)
Net interest cost	(114)	(47)

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

	2012 £000	2011 £000
Actual return less expected return on assets	(2,626)	4,220
Experience gains and losses on liabilities	(3,326)	(1,423)
Effect of asset limit (FRS17 para 67 (d))	1,084	(1,084)
Total (loss)/gain recognised in STRGL	(4,868)	1,713

Notes (continued)

17 Pension costs (continued)

Movement in deficit in the year

	2012 £000	2011 £000
Deficit in scheme at the beginning of the year	-	(2 252)
Contributions	604	586
Net interest cost	(114)	(47)
Actuarial gain	(5,952)	2,797
Effect of asset limit (FRS17 para 67d)	1,084	(1,084)
(Deficit)/surplus in the scheme at the end of the year	(4,378)	-

History of experience gains and losses

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Difference between expected and actual return on scheme assets					
Amount	(2,626)	4,220	946	2,405	(4,712)
Percentage of the scheme assets	11%	16%	4%	13%	30%
Experience gains and losses on scheme liabilities					
Amount	(3,326)	(1,423)	1,794	-	-
Percentage of the scheme liabilities	12%	6%	8%	0%	0%
Total amount recognised in statement of total recognised gains and losses					
Amount	(4,868)	1,713	2,740	(2,949)	(1 372)
Percentage of the scheme liabilities	17%	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

	2012		2011	
Allotted, called up and fully paid	No	£000	No	£000
Ordinary shares of £1 each	1,960,000	1,960	440,000	440
'A' Ordinary shares of 1p each	237,000	2	237,000	2
	2,197,000	1,962	677,000	442

Notes (continued)

19 Reconciliation of shareholders' funds and movements on reserves

Group	Share capital £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
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
At 1 January 2012	442	330	159	27,005	27,936
Profit for the year	-	-	-	6,112	6,112
Transfer from revaluation reserve	-	-	(2)	2	-
Currency translation difference	-	-	-	183	183
Actuarial gain	-	-	-	(4,868)	(4,868)
Deferred tax on actuarial gain	-	-	-	1,120	1,120
Bonus share issue	1,760	-	-	(1,760)	-
Repurchase of ordinary shares	(240)	240	-	(2,989)	(2,989)
Dividend declared and paid	-	-	-	(294)	(294)
At 31 December 2012	1,962	570	157	24,511	27,200

Cumulative goodwill written off to reserves is £2,219,000 (2011 £2,219,000)

Company	Share capital £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
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
At 1 January 2012	442	330	159	23,610	24,541
Profit for the year	-	-	-	5,719	5,719
Transfer from revaluation reserve	-	-	(2)	2	-
Actuarial gain	-	-	-	(4,868)	(4,868)
Deferred tax on actuarial gain	-	-	-	1,120	1,120
Bonus share issue	1,760	-	-	(1,760)	-
Repurchase of ordinary shares	(240)	240	-	(2,989)	(2,989)
Dividend declared and paid	-	-	-	(294)	(294)
At 31 December 2012	1,962	570	157	20,540	23,229

Cumulative goodwill written off to reserves is £2,219,000 (2011 £2,219,000)

In the year a bonus issue was made in respect of the ordinary shares held, increasing ordinary share capital from 440,000 shares to 2,200,000. Further to this, 240,000 ordinary shares were then repurchased by the company for a consideration of £2,988,960.

Notes (continued)

20 Other financial commitments

At 31 December 2012, the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2012	2011	2012	2011
	£000	£000	£000	£000
Expiry date				
Within one year	422	277	188	155
Between two and five years	195	408	680	590
Over five years	-	-	-	54
	<u>617</u>	<u>685</u>	<u>868</u>	<u>799</u>

At 31 December 2012, the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2012	2011	2012	2011
	£000	£000	£000	£000
Expiry date				
Within one year	-	-	81	50
Between two and five years	-	-	346	311
Greater than five years	-	-	-	54
	<u>-</u>	<u>-</u>	<u>427</u>	<u>415</u>

21 Dividends and other appropriations

	2012	2011
	£000	£000
Declared and paid during the year		
Equity dividends	294	1,163
Proposed for approval by shareholders at the AGM		
Final dividend for 2012 – 84.93 pence per ordinary share (2011 50.6p)	1,461	223
Final dividend for 2012 – 246.54 pence per 'A' class ordinary share (2011 30.1p)	584	71

The final dividend per ordinary share is based on the shareholding as at 22 April 2013

22 Post Balance Sheet Event

On 11 February 2013 the Company purchased a further 240,000 of its own shares, which represented 12.2% of the called up share capital. The nominal value of each share was £1 and the total consideration paid was £2,988,960. The shares were subsequently cancelled.

23 Exceptional item

The exceptional item in the year of £2,100,000 represents an insurance settlement for equipment held at a third party's premises that was destroyed in a fire.