Walker Greenbank PLC

Annual Report and Accounts Year Ended 31 January 1999

Wallcoverings, fabrics and carpets

Looking to the future...

9.5.99.
73.

Walker Greenbank PLC is an international group of companies which design, manufacture, market and distribute wallcoverings, furnishing fabrics and luxury carpets for the consumer market.

This year has been one of change but we are confident of a considerable recovery in the coming year.

. . . **with confidence**

Highlights

- Successful disposal of commercial wallcoverings businesses for £70m
- £42m returned to shareholders
- Continued strong growth in North America
- New management team

Statement of Prospects into the New Millennium

"Our strategy is to rebuild Shareholder Value by exploiting the excellent brands we possess and by seeking complementary acquisitions to grow the market value of the Group."

Key Performance Indicators

There is no directly comparable group quoted in the UK and those in other markets, especially the US, are of a different scale. Nevertheless, our performance in certain areas, notably return on sales, remains unsatisfactory by almost any comparison. Our aim is to make a dramatic improvement in this key ratio over the next three financial years.

Our return on capital is somewhat confused by the amount of cash we hold in our balance sheet. We calculate that our weighted average cost of capital is just over 11%. Our aim is to produce a return on capital employed well in excess of that level. In order to move towards returns that achieve these goals, we will be restructuring our balance sheet to remove excess under-employed capital, particularly that currently tied up in freehold properties.

Group Cash

Following the sale of the commercial wallcoverings businesses and the subsequent return of capital via the "B" share scheme, we retain a substantial amount of cash in the business. At the year end our net cash position was £16.4 million. We intend to use this cash, augmented by debt if appropriate, to invest in our brands and make


Assisting a client at the Cole & Son Chelsea Harbour showroom

complementary acquisitions. It is unlikely that we will seek shareholder approval to spend the cash until at least the second half of the financial year.

It is fashionable to criticise management for holding on to excess cash; the argument being that the shareholders could achieve better returns if cash were returned to them. However, we are a smaller quoted company and, as such, the capital markets are closed to us by the continued institutional focus on FTSE 100 and Dow 30 stocks. We are clear that we would be doing a disservice to our shareholders by returning the cash and then being unable to take advantage of opportunities that may arise to grow the group, increase its market capitalisation and the liquidity of the market in its shares.

We are recommending a final dividend of 2p per share for the current year. This is in keeping with our comments at the time of the sale of the commercial wallcoverings businesses. We have improved dividend cover over last year and, adjusting for the "B" share scheme, slightly increased the dividend.

Risks and Sensitivities

The risks we face in the coming year are:

- Sterling's strength looks likely to continue for the foreseeable future. The introduction of the Euro has failed to dent Sterling's attraction as an investment haven. Some 44% of our turnover comes from our export efforts. It is inevitable that our profitability will be damaged with Sterling at these levels.

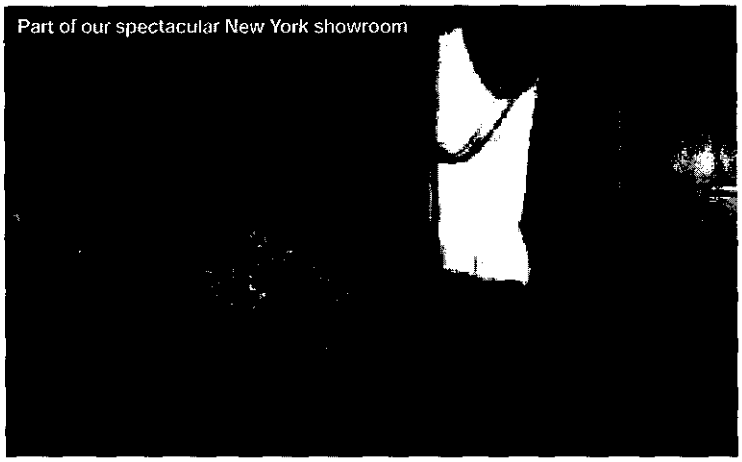
- We do not anticipate growth in the UK or Europe in the coming year, but neither do we expect a recession. If the economy contracts, we will suffer a fall in sales as consumers defer the purchase of our goods, which are all categorised as discretionary spend.

- The US has proved our most successful avenue for growth in the last two years. There is some risk that if the current economic buoyancy deflates, we will suffer lower than expected growth from that area. 11% of our continuing sales are derived from the US.

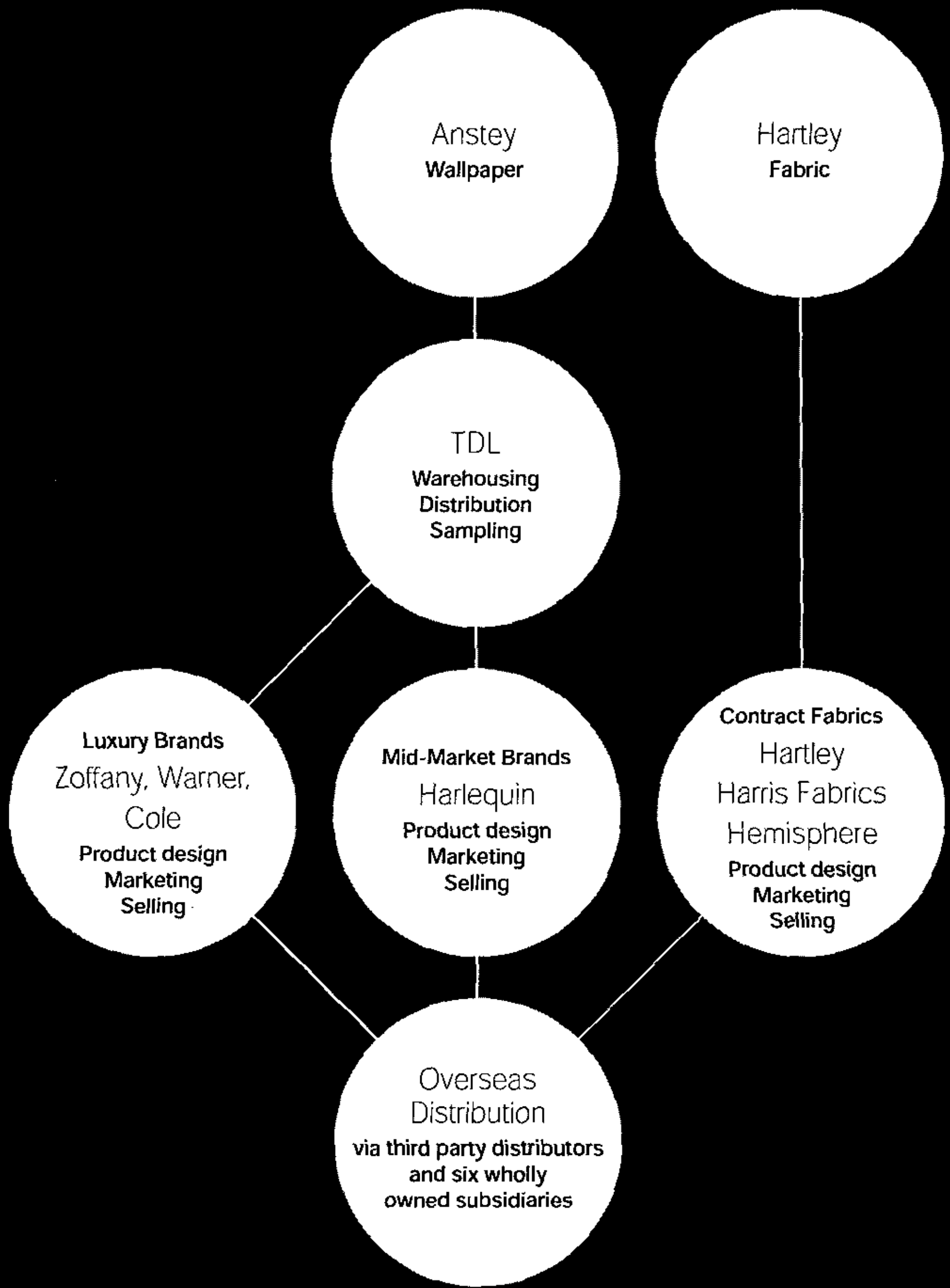
Trading Prospects

Our prospects, as in all previous years, are closely tied to achievement of sales, margins and cost control. We have noted the risks which may affect our achievement of the sales and margins, but in the last 18 months we have shown a determination to curb our costs, which are under our control. This year we expect to maintain that achievement.

We are confident of a considerable recovery in our continuing operations in the coming year as a platform for even greater success in the following two years and believe that the stockmarket will, in due course, recognise and appreciate our progress.


Part of our spectacular New York showroom

"The US has proved our most successful avenue for growth in the last two years. 11% of our continuing sales are derived from the US."


Anstey
Wallpaper
Hartley
Fabric
TDL
Warehousing
Distribution
Sampling
Luxury Brands
Zoffany, Warner, Cole
Product design
Marketing
Selling
Mid-Market Brands
Harlequin
Product design
Marketing
Selling
Contract Fabrics
Hartley
Harris Fabrics
Hemisphere
Product design
Marketing
Selling
Overseas Distribution
via third party distributors and six wholly owned subsidiaries

Geographical Presence and Brands

ZOFFANY
7, 8

Cole & Son
7, 8

WARNER FABRICS
7, 8

HARLEQUIN
5

ANSTEY WALLPAPER COMPANY LIMITED
5

1, 2, 9, 10, 11

HARTLEY HEMISPHERE CONTRACT FABRICS
4

HARRIS FABRICS
4

Borge
3

TDL
6

We have built a solid foundation for our expansion into the international markets, with America in particular giving great potential.

Chairman's Statement

I am now 70 years old and the Companies Acts require that persons of my age should stand for re-election at each Annual General Meeting. I feel that, especially as chairman, it would be to the disadvantage of the group for me to continue in an important office subject to annual re-election. I therefore announced last January that I intended to retire from the board after the Annual General Meeting on 26 May 1999.

I have been chairman since 1990 and have overseen many changes in the composition of the group, but I am pleased that I can report that I now leave the group in excellent financial condition. Long-time shareholders will recall that this was not always the case. In 1990, the group was in a very parlous financial position. We successfully undertook a massive rationalisation programme and avoided liquidation by clearing the group's debts. Our actions allowed us to weather the recession of the early nineties with fewer problems than many other companies.

In my last year, I have overseen a major restructure of the group. We disposed of our commercial wallcoverings businesses for £70 million; a sum substantially in excess of our market capitalisation on the day we announced it. Also, we completed the rationalisation of our capital structure by eliminating the class of preference shares created in the 1980s. We returned £42 million to shareholders by means of the "B" share scheme. It is notable that we returned almost 85% of the market capitalisation of the group prior to the announcement of the deal. I am pleased that our management team created so much shareholder value in my final period of office.

"I am pleased that our management team created so much shareholder value in my final period of office."

This latest restructure has highlighted the need to modernise our statutory documents and, in particular, our Articles of Association. I must apologise for the length of the notice of this year's Annual General Meeting, but the sweeping changes made in the last year require many changes to be approved by shareholders.

In my interim statement, I referred to some of the corporate governance changes we had effected. I am able to report that we have made further progress in this area. Previously, directors benefited from a bonus scheme based on the annual earnings per share of the group. We now propose a scheme which aligns directors' rewards more directly with those of shareholders. Details of the scheme are set out in the Notice of Annual General Meeting.

Finally, I am delighted that the Rt. Hon. The Viscount Thurso has agreed to the board's request to succeed me as chairman. I wish him and the group every success in the future.

David Richards
Chairman

David Richards

Directors and Secretary

From left

John Sach FCMA (43)
Acting finance director, joined the group in 1994 as group financial controller. Prior to this he was financial controller of Allen UK Limited, having previously spent 4 years as finance director of John Payne Engineering Limited.

The Rt. Hon. The Viscount Thurso (45)
Non-executive director, was appointed to the board in 1997. Managing director of the Champney's Group since 1995. He has worked in the hotel industry for 25 years including Cliveden and the Savoy Group. He is also a director of a number of private companies including Mosimann's Limited.

Aidan Connolly LLB ACA (41)
Group chief executive, was appointed to the board in 1997, became chief executive in July 1998. He was previously chief financial officer of the European Cable Division of Elektrim SA, one of Poland's largest quoted companies, for whom he worked for 4 years. Prior to this he was an international tax advisor and management consultant.

Phillip Billington FCSD (49)
Executive director, was appointed to the board on 23 September 1998. He is also the managing director of Anstey, the group's wallcoverings manufacturing subsidiary. He has over 30 years experience in the industry having originally trained as a designer and stylist before moving into manufacturing management positions.

Anne Thomas (46)
Company secretary, has worked for the group since 1989 and was appointed company secretary to the board in 1992. Prior to joining the group she gained over 10 years experience as finance manager and company secretary of two private companies.

Philip Cadle (39)
Executive director, was appointed to the board on 23 September 1998. He is also managing director of Zoffany and has responsibility for all the group's luxury brands. He joined Zoffany in 1984 and has been instrumental in creating the success of the Zoffany brand.

From left

David Richards CBE FCA (70)
Chairman, a non-executive director since 1988 and non-executive chairman since 1990. A former partner in Deloitte & Co, he was president of the Institute of Chartered Accountants in 1979-1980 and deputy chairman of the Monopolies and Mergers Commission for 7 years.

Sir Malcolm Field (61)
Non-executive director, was appointed to the board in 1997. Chairman of the Civil Aviation Authority since 1996, prior to this he served on the board of WH Smith Plc. He is also a non-executive director of The Stationery Office.

Chief Executive's Review

"This has been a year of change – a difficult year for us all. I should like to thank David Richards for his strength, support and encouragement."

A Year of Change

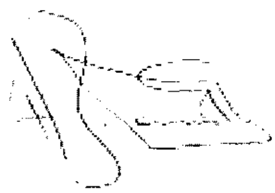
The challenges that were anticipated at this time last year have produced a year of substantial change at Walker Greenbank. The composition of the group and the board has radically changed and we have returned significant value to shareholders following the sale of our commercial wallcoverings businesses.

This year's results are technically complex. The disposal of the commercial wallcoverings businesses, the subsequent return of value to shareholders and the elimination of the preference shares have impacted on many places in our accounts. These changes have rendered many comparisons with last year difficult.

Manufacturing & Warehousing

Our biggest manufacturing business is Anstey Wallpaper, which also manages our Sileby Print and John Perry operations making most of the wallpaper sold by our group. We also manufacture woven cloth in our Hartley business, which also operates our Harris and Hemisphere brands as our Contract Fabrics business. Philip Billington, the managing director of Anstey Wallpaper, joined the board with effect from 23 September 1998 and this area of the group is primarily his responsibility.

Our manufacturing businesses had a tough sales year, but



Aidan Connolly
Group Chief Executive

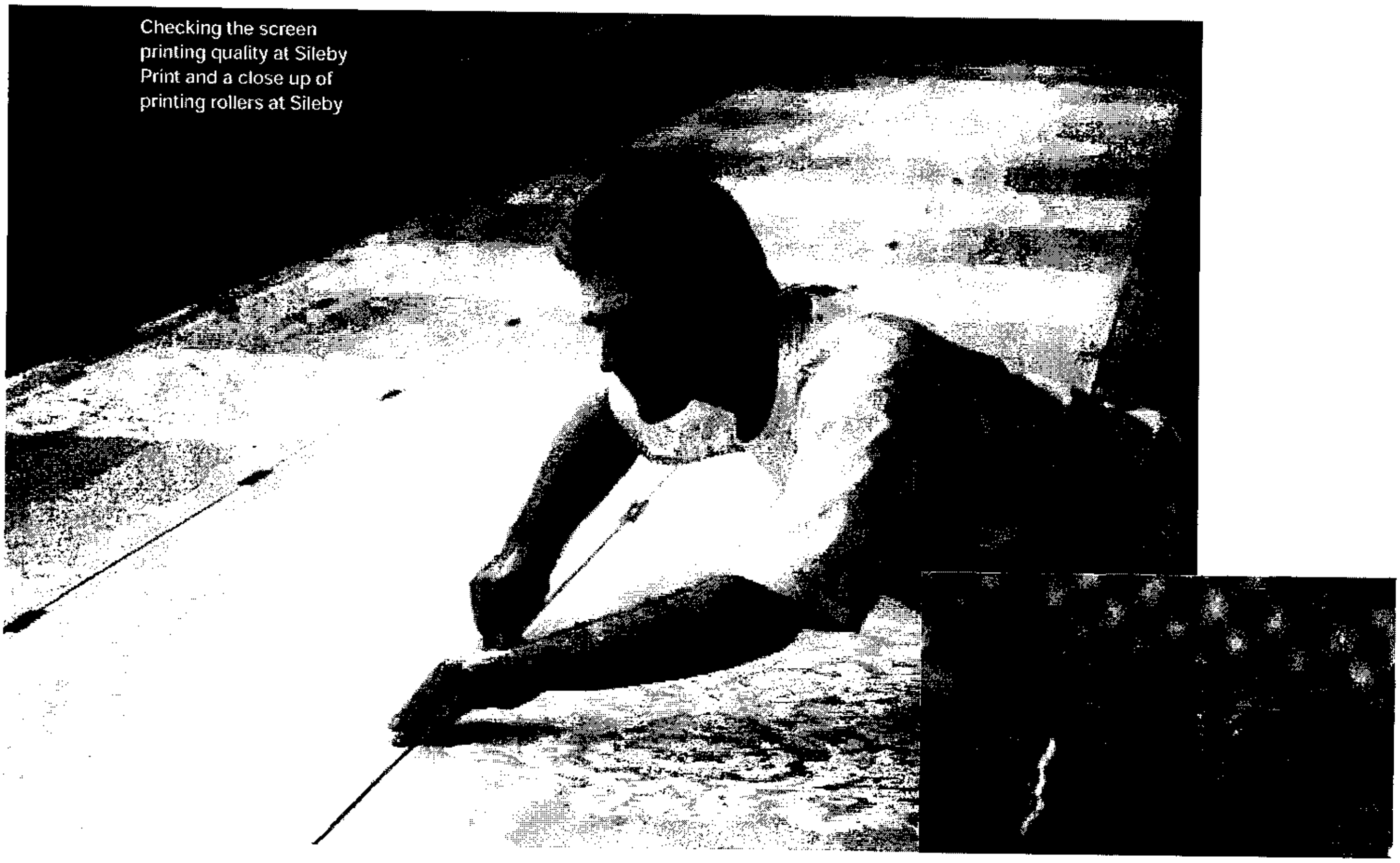
broadly maintained their profitability with lower profits at Anstey partly compensated by improved performance from Contract Fabrics.

Anstey/Sileby/John Perry

In the first half, the Anstey/Sileby business had recovered well from its problems in the prior year. In the second half, the tough sales environment experienced across the industry hit sales and it ended the year with sales marginally down at £12.0 million and operating profit down to £0.8 million from £0.9 million. The John Perry business had sales in the year of £0.9 million together with a contribution of £0.1 million.

Hartley/Harris/Hemisphere - Contract Fabrics

As part of a desire to focus our commercial fabrics



Checking the screen printing quality at Sileby Print and a close up of printing rollers at Sileby

businesses, we amalgamated these businesses from the start of the financial year. Both the Hemisphere brand and Harris Fabrics came under the control of the John Hartley (Cowling) business and moved from the control of Muraspec. It was quickly apparent that Hemisphere needed radical surgery and, at the half year, we announced the discontinuance of more than half the business resulting in a write off of £0.6 million of redundant stock.

After a management change in September the business has returned to profitability and moved closer to its original targets, focussing its efforts on winning profitable business in a cost effective manner. We added a computer aided design capability to the business and recruited a designer to enable it to tackle new segments of its market, especially those of its sister companies in the group. This year will see the first benefit of that investment.

Main picture: Zoffany curtain samples at the Chelsea Harbour showroom
Right: one of our designers at Anstey
Far right: detail of a popular Cole & Son wallpaper

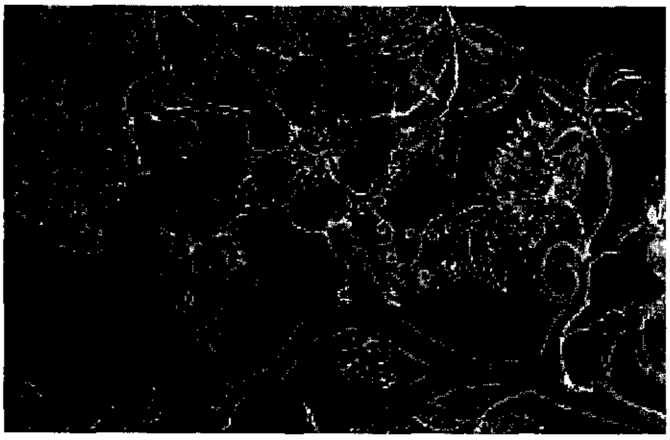
The contract fabrics business reduced its sales in the year by eliminating loss making business and ended with a turnover of £5.9 million. The various personnel changes and the costs of integrating the businesses kept the profits static at £0.1 million, but we expect profits to rise substantially in the current year without these one off charges.

Tilbrook

Although we completed the physical centralisation of our warehouse function for the consumer brands, we have still not integrated our systems and so have continued to operate four warehouses off the same physical site. Despite the difficulties this has caused, we continue to operate at excellent standards with a high level of efficiency and management has successfully integrated the sampling operations of the consumer brand companies.

Consumer Brands – UK & Overseas Distribution

Our largest business is Zoffany Group, which contains the Zoffany brand as well as Cole & Son wallpapers and the Warner Fabrics businesses. Philip Cadle, managing director of the Zoffany business joined the board with effect from 23 September 1998 and this area of the group is primarily his responsibility.



Zoffany Group

The integration of the Cole & Son and Warner Fabrics businesses into Zoffany is now complete, but it has been more difficult than we expected. The Warner Fabrics business has suffered particularly, with a sales decline of 14% in the year.

Zoffany's 'Confrere' programme has gone from strength to strength in the UK this year and is now being introduced to our European markets. Zoffany's sales were up in the year, despite an 11% fall in overseas sales, partly caused by the strength of sterling. Cole & Son has had a remarkable year, with sales up 17% – not all of it to the Lord Chancellor.

"Zoffany's 'Confrere' programme has gone from strength to strength in the UK this year and is now being introduced to our European markets."

Harlequin

Our half year results and trading statement highlighted the problems we suffered at Harlequin in the year. A decline in sales of 15% led to a major reversal in profitability in the year and, on top of that, we wrote off our entire investment in the visualiser project and withdrew it from the market. However, we believe our difficulties now lie behind us in this business. The interim management team has performed magnificently and has already returned the business to profitability.

USA

As last year, this business has been one of our outstanding successes, with sales up by 21% to £4.8 million. Our Whittaker & Woods business, which distributes our main UK brands grew by an excellent 30%, and our original TWIL business accelerated to 13% growth in sales. Our US management has introduced a series of initiatives to grow market share and early indications are that further growth will occur this year.

The USA is one of the few markets in the world which affords us the opportunity of dynamic growth. We are focussing our efforts to exploit further opportunities in this market. If we can sustain similar levels of growth, the USA will become our main export market for both sales and profits in the next few years.

Mainland Europe

Overall, Europe is an area of great concern. It represents 29% of our sales and 54% of our exports. Our sales into Europe have dropped by £0.6 million.

Although we have reduced underlying trading losses in Europe this year, we continue to encounter difficulties. The group had pursued a strategy of buying up distribution rights in a number of Continental European countries, which has proved to be an expensive mistake. We have already begun to address the problems this has caused. We will be able to report further with our half year results which we announce in Autumn 1999. However, we will suffer additional exceptional costs (estimated to be no more than £0.5 million) in the first half of the 1999/2000 year as a result. We believe that these costs will be the final costs necessary to restructure our continuing businesses in Europe.

Our Italian business has had another good year, with sales increasing 4%. We expect this business to continue to grow and add to its profitability.

Scandinavia

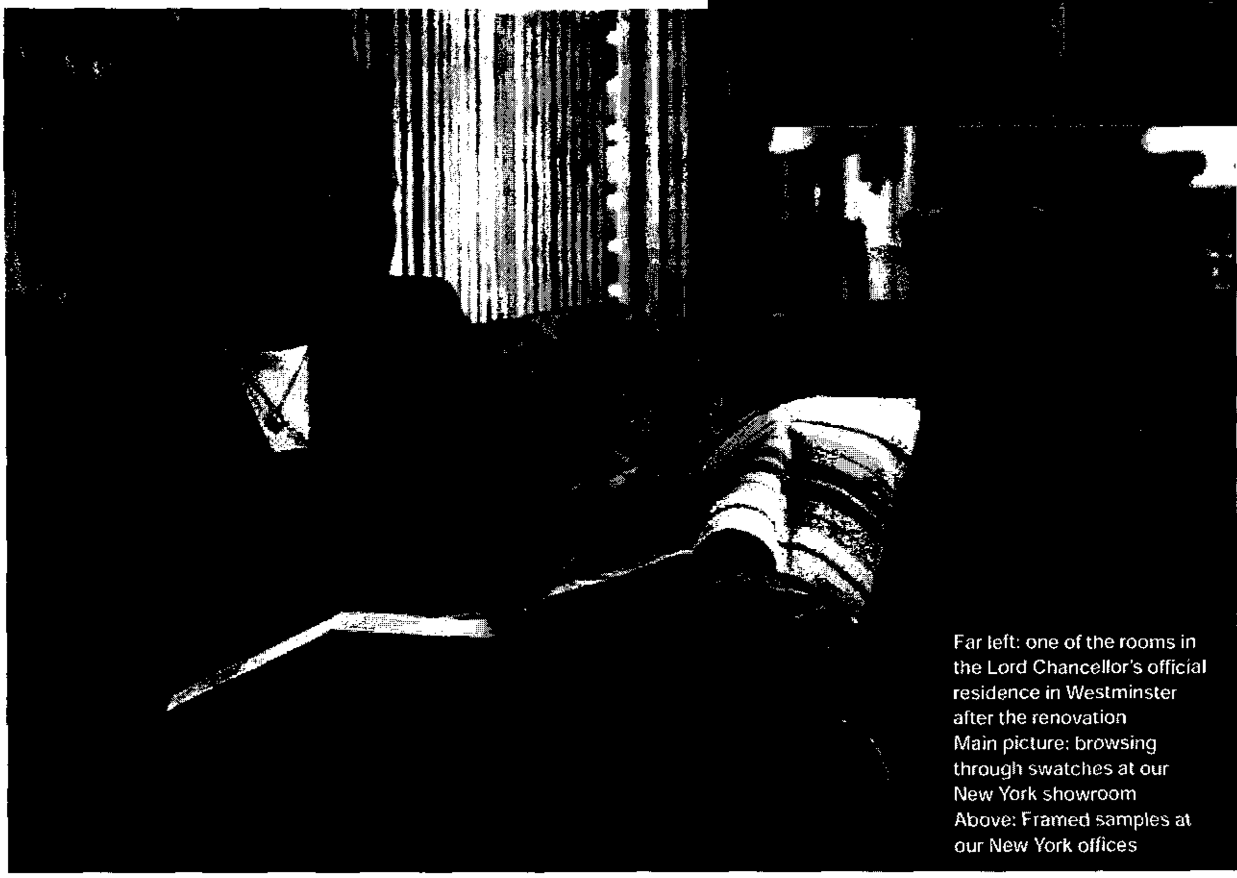
Our business in Norway, Borge, suffered as a result of the Norwegian oil crisis and saw domestic interest rates almost double. The dampening effect on consumer demand in the final quarter marred an excellent performance by our team up to that time. These macro economic factors cast a shadow over the coming year – as in the UK, interest rates in Norway are much slower to fall than to rise. Late in the year the business acquired a 35% stake in one of its competitors in Norway, Inside Partner a.s., which has assisted its strategic plans for growth.

"Our US business has been one of our outstanding successes. The USA will become our main export market in the next few years."

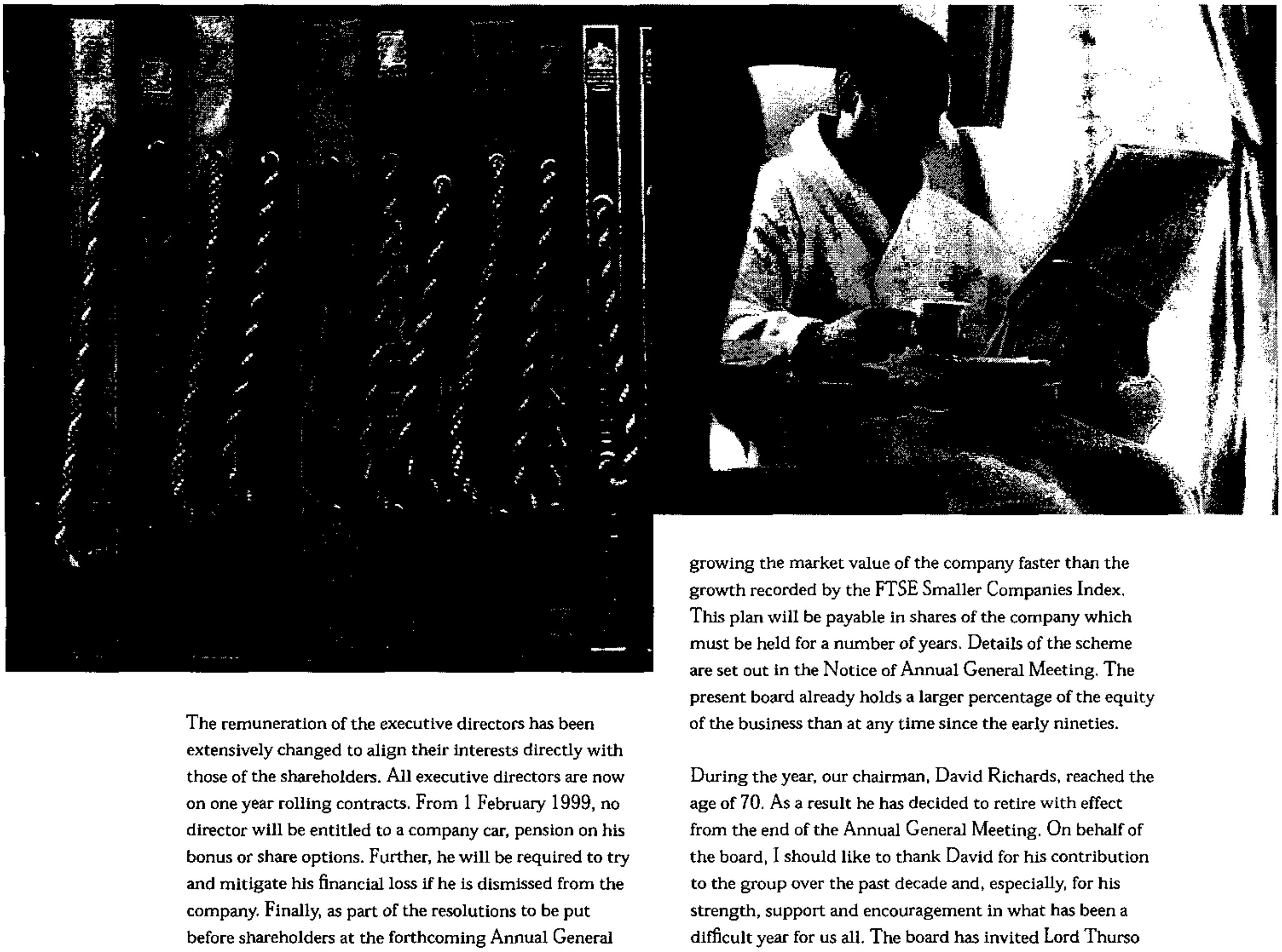
Corporate Governance

Corporate Governance matters are described in detail on pages 22 and 23, but I would like to highlight areas where we have made substantial changes.

The board has acted to ensure that its remuneration packages are now in line with best practice. During the year, and to reflect the smaller size of the group, the non-executive directors cut their own remuneration from the group by over 20%.



Far left: one of the rooms in the Lord Chancellor's official residence in Westminster after the renovation
Main picture: browsing through swatches at our New York showroom
Above: Framed samples at our New York offices



The remuneration of the executive directors has been extensively changed to align their interests directly with those of the shareholders. All executive directors are now on one year rolling contracts. From 1 February 1999, no director will be entitled to a company car, pension on his bonus or share options. Further, he will be required to try and mitigate his financial loss if he is dismissed from the company. Finally, as part of the resolutions to be put before shareholders at the forthcoming Annual General Meeting, a new long term incentive plan will be proposed for the executive directors based on their performance in growing the market value of the company faster than the growth recorded by the FTSE Smaller Companies Index. This plan will be payable in shares of the company which must be held for a number of years. Details of the scheme are set out in the Notice of Annual General Meeting. The present board already holds a larger percentage of the equity of the business than at any time since the early nineties.

During the year, our chairman, David Richards, reached the age of 70. As a result he has decided to retire with effect from the end of the Annual General Meeting. On behalf of the board, I should like to thank David for his contribution to the group over the past decade and, especially, for his strength, support and encouragement in what has been a difficult year for us all. The board has invited Lord Thurso to become chairman and we look forward to working with him in the future.

Main picture: a busy day at the Atlanta call centre
Far left: a variety of pattern books
Top left: Walker Greenbank supplies the wallpaper for large parts of Champney's

Financial Review

"We ended the year with a strong balance sheet, underpinned by £16.4 million of net cash and a commitment to derive shareholder value from our businesses."

John Sach
Acting Finance Director

Profit and Loss Format

We have maintained the columnar format within our profit and loss account. Adopting this approach allows us to disclose more clearly the exceptional profit on the sale of our commercial wallcoverings businesses and the exceptional non-recurring costs incurred in our continuing business. Both these items are explained in notes 3 and 4 to the accounts on page 37.

Accounting Policies and Standards

The accounting policies for the group are set out on pages 34 and 35. During the year we have considered all new Financial Reporting Standards and UITF abstracts and have adopted them where appropriate. FRS 14 requires us to restate the prior year profit and loss account to reflect the way in which the Employee Share Option Plan is presented. Additionally, the weighted average number of shares used in the comparative EPS has been restated.

Capital Re-organisation

Following the sale of the commercial wallcoverings businesses, we re-organised our share capital. Using the "B" share scheme, 35p per old ordinary 15p share was returned to the shareholders. This resulted in a reduction in the number of ordinary shares in issue. We also took the opportunity to effect the full conversion of all the preference shares to ordinary shares. Further details of this re-organisation may be found in note 25 to the accounts on pages 50 and 51.

Earnings per Share

As a result of the profit on the disposal of the commercial wallcoverings businesses, the basic EPS has risen dramatically from 5.09p to 36.92p. In line with the practice adopted in previous years the directors have considered it useful to shareholders to present the underlying EPS. This has been calculated with reference to the continuing operations' pre-exceptional profit after tax and amounted to 0.94p for the year compared with 6.65p last year.

In accordance with FRS 14, the group has also presented diluted EPS for the first time. Before this standard was introduced, the measure was only required if it differed from basic EPS by more than 5%. As shown in note 11 on page 40, the dilutive effect of the preference shares and treatment of the non-equity dividends has had a minimal effect on the basic EPS.

Dividends

The board is proposing a final dividend of 2.00p per ordinary share. Prior to the share consolidation of 6 new shares for 13 old shares, the prior year total dividend was 3.70p per ordinary share. By proposing a dividend of 2.00p per ordinary share, the dividend cover has increased to 1.42 times from 1.34 times in line with our declared aims at the time of the July 1998 circular. We will continue with a progressive dividend policy as our earnings goals are achieved.

Interest

With the benefit of the net cash inflow from the sale of the commercial wallcoverings businesses and subsequent return of cash to the shareholders, net interest receivable of £0.4 million was achieved compared to net interest payable last year of £0.6 million.

Treasury Policy and Foreign Exchange Management

The group's treasury function is controlled centrally in accordance with procedures approved by the board. It is run prudently as a central group function providing services to other group companies and adopts a risk averse strategy. Transaction exposure is managed by netting off imports and exports, balances are covered by forward contracts wherever economically practical. We have also continued the broad policy of matching foreign assets with similar foreign currency borrowings.

Funding and Interest Rate Risk

The group uses a mixture of short and medium term borrowings at a variety of fixed and variable rates. Details of the loans are shown in note 23 to the accounts on page 48. During the year the group also entered into a sale and lease back arrangement to finance the group's new information systems platform. This lease was taken out over a term of five years in order to match the expected useful life of the asset.

"As a result of the profit on the disposal of the commercial wallcoverings businesses, the basic EPS has risen dramatically from 5.09p to 36.92p."

In accordance with our risk averse treasury policy, the group's funds have been invested with a number of first class institutions, all with at least an AA+ credit rating, at fixed rates for periods of up to six months.

We ended the year with a strong balance sheet underpinned by £16.4 million of net cash.

Taxation

The 1999 tax charge represents an effective rate of 1.7% compared with the rate of 23% in 1998. The reduction in the effective rate arises from capital profits arising on the disposal of the commercial wallcoverings businesses covered by capital losses brought forward.

We continue to prudently provide for all our actual and potential tax libilities. This year's underlying continuing tax rate has been adversely affected by unrelieved overseas tax losses.

Cash Flow

Cash flow from operating activities in the year amounted to £3.8 million compared with £13.8 million last year and reflects the significant fall in the operating profit of the business. This was augmented by the net inflow of funds from the sale of the commercial wallcoverings businesses and subsequent repurchase of share capital of £23.9 million. Together with reduced cash outflows of interest, taxation, capital expenditure and equity dividends paid, this produced a cash inflow prior to the repayment of borrowings of £20.1 million.

The full cash flow statement is set out on page 32.

Going Concern

The directors are confident, after having made appropriate enquiries, that the group and the company has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Report of the Directors

The directors submit their annual report, together with the audited financial statements of the group for the year ended 31 January 1999.

Group Results

The profit before taxation amounted to £33,122,000 (1998: £7,841,000). The directors recommend payment of a final ordinary dividend of 2.00p (1998: 2.40p) per share, amounting to £1,180,000 (1998: £2,874,000), making a total dividend of 2.00p (1998: 3.70p) and £1,180,000 (1998: £4,430,000) for the year, which, with preference and "B" share dividends of £67,000 (1998: £70,000), leaves a surplus of £31,426,000 (1998: £1,607,000) to be transferred to reserves.

Review of the Business

The board continues to invest in the future of the wallcoverings and fabrics businesses, seeking to improve profitability whilst maintaining tight controls over costs and cash.

On 13 August 1998 the group completed the sale of its commercial wallcoverings business for an initial cash consideration of £70,000,000 (net £67,945,000).

During the year the group re-organised its share capital and returned £41,908,000 to the ordinary shareholders including cash of £40,885,000. Full details of these changes are provided in note 25 to the accounts.

Further information on the business and future of the group is included in the Statement of Prospects on pages 2 and 3, the Chairman's Statement on page 6 and in the Chief Executive's and financial reviews on pages 8 to 17.

Directors

The board of directors as at the date of this report is set out on page 7, together with biographical details. Details of changes in the composition of the board during the year are set out in the report on Corporate Governance on page 22.

Directors' Shareholdings

The interests of the directors in office at 31 January 1999 in the share capital of the company were:

	15p Ord Shares 31 Jan 1998 Number	15p Ord Shares 14 Aug 1998 Number	Number of shares post consolidation into 1p Ord Shares 14 Aug 1998 Number	Purchased since 14 Aug 1998 Number	1p Ord Shares 31 Jan 1999 Number
P Billington	–	–	–	100,000	100,000
PL Cadle	–	–	–	–	–
AJ Connolly	797,014	797,384	368,022	285,964	653,986
Sir Malcolm Field	–	–	–	–	–
DG Richards	60,000	60,000	27,692	–	27,692
The Rt. Hon. The Viscount Thurso	19,605	19,605	9,048	47,978	57,026

The movement in share options held by the directors during the year is shown as part of the Report on Directors' Remuneration on page 26.

Full details of the directors' shareholdings and options to subscribe are included in the Register of Directors' Interests (a copy of which is open to inspection at the registered office).

None of the directors' interests changed between 31 January 1999 and 6 April 1999. The directors had no interests in the preference shares of the company.

At no time during the year did any of the directors hold a beneficial interest in the share capital of any of the company's subsidiaries.

Directors' Service Contracts

During the year Mr AJ Connolly elected to have a one year rolling contract. Mr DG Richards has a contract that is terminable on short notice. On 23 September 1998 Mr P Billington and Mr PL Cadle were appointed on rolling contracts of one year.

Executive Share Option Schemes

Options over 153,900 ordinary shares were exercised during the year, at an exercise price of 49.7p per share. During the year, options over 700,000 ordinary shares have been granted and options over 2,638,255 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 1999 are as shown below.

Date granted	Number of shares	Subscription price	Exercisable
4 June 1990	35,910	49.7p	04.06.93 to 03.06.00
14 May 1991	233,928	63.4p	14.05.94 to 13.05.01
26 May 1993	559,170	80.0p	26.05.96 to 25.05.03
10 January 1994	112,860	92.6p	10.01.97 to 09.01.04
9 February 1994	51,300	110.2p	09.02.97 to 08.02.04
4 May 1994	159,030	98.5p	04.05.97 to 03.05.04
20 June 1994	718,200	102.4p	20.06.97 to 19.06.04
13 April 1995	510,000	96.0p	13.04.98 to 12.04.05
5 July 1995	60,000	89.0p	05.07.98 to 04.07.05
1 May 1996	160,000	98.0p	01.05.99 to 30.04.06
6 November 1996	150,000	69.5p	06.11.99 to 05.11.06
23 April 1997	690,000	66.0p	23.04.00 to 22.04.07
1 May 1997	200,000	66.0p	01.05.00 to 30.04.07
7 May 1997	175,000	66.0p	07.05.00 to 06.05.07
1 December 1998	700,000	66.0p	01.12.01 to 30.11.08
	4,515,398		

Directors' Interests in Material Contracts

None of the directors had any material interest in any contract during the year which was significant to the business of the group.

Research and Development

Development of new and improved products is a continuing feature of the group's operations. Companies are encouraged to explore methods of improving and extending their ranges of products and services.

Year 2000

The well publicised problems associated with the Year 2000 have arisen due to the global use, in processing systems, of two digits rather than four digits to define a date or year.

The group has established a specific committee which meets on a regular basis to discuss current issues of concern and assess risks to the business associated with the Year 2000. Contact has also been made with external service providers and suppliers to assess their readiness to cope with any Year 2000 issues. All areas of the business are deemed to be directly or indirectly exposed to Year 2000 related problems and detailed risk assessments and risk mitigation strategies have been formalised.

The directors believe that these measures are sufficient to counter the Year 2000 problems but cannot guarantee that the group will be unaffected by internal or external factors which are currently unforeseen.

Costs associated with the Year 2000, which include employee awareness training, modifications to systems and ongoing systems testing, are not deemed to be significant and have been written off to the profit and loss account as incurred.

European Monetary Union

The group has changed certain financial systems to facilitate trading with companies who wish to conduct business in Euros, the cost of these changes has been expensed as incurred.

Pensions

The group operates defined benefit and defined contribution schemes in the UK for all qualifying employees. Further information on the schemes and details of the valuations are given in note 32 to the accounts.

Employees

The group keeps its employees informed on matters affecting them and on the progress of the group by way of informal meetings and consultation with employees' representatives. Disabled persons are given full and fair consideration for employment where an appropriate vacancy occurs, having regard to their particular aptitudes and abilities. Whenever possible, arrangements are made for the continuing employment of persons who have become disabled during service and for appropriate training of all disabled employees, who are given equal consideration with all other employees in promotion and career development.

Substantial Shareholdings

At 31 March 1999, the company had been notified of the following substantial shareholdings in its ordinary share capital: Mercury Asset Management 13.79%, Edinburgh Fund Managers 8.97%, M&G Group 6.10%, Threadneedle Investment Managers Limited 5.43%, British Airways Pension Trustees Limited 4.17% and CGU Plc 3.94%.

Special Business

At the Annual General Meeting ("AGM") on 26 May 1999 resolutions 7 to 13 will be proposed as special business. Details of the business can be found in the notice of the AGM.

Payment to Suppliers

The group agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms subject to the terms and conditions being met by the supplier. The amount of trade creditors shown in the consolidated balance sheet at 31 January 1999 represents 69 days of average purchases during the year for the group.

The company is a holding company and has no meaningful equivalent of creditor days.

Auditors

Following the merger of Price Waterhouse and Coopers and Lybrand on 1 July 1998, the directors appointed the new firm, PricewaterhouseCoopers. A resolution to re-appoint them and to authorise the directors to agree their remuneration will be put to the Annual General Meeting.

By order of the board
Anne Thomas
Secretary
6 April 1999

Registered Office
4 Brunel Court, Cornerhall
Hemel Hempstead
Hertfordshire HP3 9XX
Registered number 61880

Corporate Governance

In June 1998, following the recommendations of the Committee on Corporate Governance, the London Stock Exchange published a revision to the Listing Rules to include the "principles of good governance" and "code of best practice" (the "combined code"). The board fully endorses these changes and is committed to the highest standards in corporate governance.

The following statement by the board considers the four main areas highlighted by the combined code and covers the specific provisions and principles within these categories. The company has complied with these principles throughout the year except where stated; in particular, the company has not reported on the review of non-financial controls, as permitted by the London Stock Exchange.

1. The Board

Board Composition and Appointment

At the end of the year the board of directors comprised three executive directors and three non-executive directors. Mr RC Smurthwaite resigned as executive director on 13 July 1998 and on 17 July 1998 Mr AC Wightman and Mr PF Mostyn resigned as executive directors. Mr P Billington and Mr PL Cadle were appointed as executive directors on 23 September 1998. Biographies of the board members at the end of the year can be found on page 7.

The group has always recognised the important role played by the non-executive directors in maintaining its high standards of corporate governance, and the wealth of experience they bring to the group. All of the non-executive directors are considered to be independent of the management of the group and do not have any business or other relationship with them.

Directors are appointed to the board following careful consideration by the chairman and the other non-executive directors who then make recommendations to the board for approval by a majority vote. Independent training is provided for all directors newly appointed to the board.

Re-election

With the exception of the chief executive officer, all the directors submit themselves for re-election every three years. Subject to shareholder approval, the Articles of Association will be changed at the forthcoming Annual General Meeting so that the chief executive officer will also be required to stand for re-election every three years. Until this change is approved the group is not compliant with section A6.2 of the combined code.

One of the non-executive directors was not appointed for a specific term and as a result the group has not complied with section A6.1 of the combined code. In the future all non-executive directors will be appointed for fixed terms, as they stand for re-election on retirement by rotation.

Board Process

The board meets ten times a year and follows a strict agenda covering matters reserved to it including policy and strategic issues. The management of the group supplies the directors in advance of these meetings with the relevant information to allow them to fulfill their responsibilities. The meetings are also attended by the company secretary and procedures are in place for board members to seek independent professional advice where appropriate.

The group maintains a clear distinction in the roles of chairman and chief executive officer. The responsibility for running the group's day to day business is delegated to the chief executive officer and his performance is monitored by the board. The chief executive officer achieves this by working in close contact with the other executive directors and subsidiary management.

The board includes a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the board's decision taking.

2. Directors' Remuneration

The details of compliance with the principles on directors' remuneration are contained in the Report on Directors' Remuneration on pages 24 to 26.

3. Relationship with Shareholders

One of the board's primary objectives is to ensure that shareholders are provided with sufficient and reliable information. The board is committed to maintaining good relations with its shareholders, whether large or small, and understanding their needs. An independent agency is used to monitor shareholder sentiment for this purpose.

The group communicates formally at the Annual General Meeting ("AGM") and through the half yearly and annual report and accounts. All directors attend the AGM and are available to answer questions from shareholders. On a more informal basis, presentations are performed at the request of institutional investors following the interim and preliminary announcements and the directors and company secretary answer ad hoc questions from current and potential investors throughout the year.

4. Accountability and Audit

Financial Reporting

The directors' responsibilities for preparing the accounts are explained on page 27 and the group reports on going concern on page 17.

Internal Control

The directors acknowledge their responsibility for the group's system of internal financial controls and consider that it is appropriately designed to provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

The group has a comprehensive system for reporting results to the board. Each operating unit reports monthly results, with comparisons against quarterly forecasts, budget and prior year. These are reviewed by the board and variances analysed. Towards the end of each financial year, the operating units prepare detailed budgets for the following year and update their rolling three year plans. Budgets and plans are reviewed by the board before formal adoption.

The operating units are required to report in accordance with group financial controls and procedures. Regular reviews of the operating units are carried out by head office staff and key business risks identified, monitored and reported to the board.

A number of the group's key functions including treasury, taxation, property, company secretarial, environmental monitoring, legal matters and insurance are dealt with centrally by the acting finance director and company secretary.

The group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures. Where businesses are being acquired, the group's procedures include detailed "due diligence" reviews, both by the group's own staff and with the assistance of external advisors.

The board has reviewed the effectiveness of the system of internal financial control in operation during the financial year through the monitoring process set out in the above paragraphs.

Audit Committee and Auditors

The Audit Committee comprises the three non-executive directors and meets formally twice a year and whenever it is appropriate. It monitors the application of the group's accounting policies and financial reporting, and provides a forum through which the group's auditors report directly to the non-executive directors. Mr DG Richards has been chairman of the Audit Committee since its foundation in 1991.

By order of the board
Anne Thomas
Secretary
6 April 1999

Report on Directors' Remuneration

Statement of Compliance

The group has a remuneration committee, the constitution and operation of which, complies with the principles of the Combined Code as now incorporated in Section B of the Best Practice Provisions annexed to the Stock Exchange Listing Rules. The committee has given full consideration to these provisions in determining the remuneration packages for directors.

Remuneration Committee

The remuneration committee comprises the three non-executive directors and is chaired by Mr DG Richards.
The committee is responsible for measuring the performance of the executive directors and setting the level of their remuneration. In carrying out this function, the committee takes into consideration the remuneration of others performing similar duties in other organisations. The remuneration committee is advised periodically by external consultants.

Policy on Executive Directors' Remuneration

The remuneration committee sets the remuneration and other terms of employment of executive directors and the company's policy on remuneration of the senior executives within terms of reference agreed by the board. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing packages which attract, retain and motivate executive directors and management.

The main components of each executive director's remuneration are basic salary, annual bonus and share options.

1) Basic salary is determined by the remuneration committee taking into account the performance of the individual and information from external consultants.

2) Performance related bonuses are payable to the executive directors in office during the year. Bonuses payable for the year ended 31 January 1999 are pensionable in accordance with the practice adopted for all employees who are members of the group pension schemes. With effect from 1 February 1999 directors' bonuses will not be pensionable.

3) Up to the year ended 31 January 1999, share options formed the basis of longer term incentives for the executive directors and senior executives and were granted at the discretion of the remuneration committee. Since the year end a new long term incentive plan for the executive directors has been proposed and it will be voted on as special business at the Annual General Meeting.

Directors' Pension Arrangements

The company operates a pension scheme for directors which is a defined benefit scheme whereby retirement benefits based on final remuneration and length of service are funded through a separate trustee administered scheme. The company pays contributions to the scheme on behalf of executives based on the recommendations of the independent actuary who carries out a valuation of the scheme every three years.

Directors' Contracts

Details of service contracts are shown in the Report of the Directors on page 20.

The following tables bring together in one place all the details of directors' remuneration as presently recommended by the Companies Act 1985 and London Stock Exchange Listing Rules.

Remuneration Excluding Share Options and Pension Contributions	Salary £000	Benefits £000	Bonus (i) £000	Total excluding pensions 1999 £000	Total excluding pensions 1998 £000
Executive directors					
P Billington	34	2	–	36	–
PL Cadle	43	3	–	46	–
AJ Connolly (ii)	139	24	125	288	122
PF Mostyn (iii)	67	3	–	70	143
RC Smurthwaite (iii)	77	7	–	84	180
AC Wightman (iii)	120	5	–	125	269
Non-executive directors					
DG Richards (Chairman)	61	–	–	61	65
The Rt. Hon. The Viscount Thurso	24	–	–	24	11
Sir Malcolm Field	25	–	–	25	17
MS Meyer	–	–	–	–	17
	590	44	125	759	824

(i) The performance related bonus paid to Mr AJ Connolly was not pensionable.

(ii) Mr AJ Connolly is the highest paid director.

(iii) Compensation for loss of office of £724,000, £590,000 and £1,300,000 was paid during the year to Messrs PF Mostyn, RC Smurthwaite and AC Wightman respectively in accordance with their terms of contract. Employers national insurance contributions of £262,000 were paid by the company with respect to these payments.

(iv) Benefits include the value attributed to benefits such as the provision of a company car, fuel and medical insurance.

(v) Contributions payable in respect of directors' pensions were £95,000 (1998: £145,000).

Directors' Pension Benefits	Accrued pension benefit at 1 February 1998 or date of appointment £000	Increase in accrued pension benefit £000	Accrued pension benefit at 31 January 1999 or date of retirement £000	Transfer value of increase in accrued benefit £000
P Billington	35	5	40	44
PL Cadle	23	2	25	10
AJ Connolly	2	3	5	25
PF Mostyn	4	1	5	9
RC Smurthwaite	91	2	93	26
AC Wightman	21	2	23	18
	176	15	191	132

Pension contributions do not form part of the non-executive directors' remuneration.

Movements in Share Options Held by Directors

	1 February 1998 or date of appointment Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	31 January 1999 Number	Option Price (pence)	Exercise dates Earliest	Latest
P Billington	30,000				30,000	66.0	23.04.00	22.04.07
	76,950				76,950	102.375	20.06.97	19.06.04
	12,825			12,825	–	114.075	04.11.91	04.11.98
	51,300				51,300	63.375	14.05.94	13.05.01
	51,300				51,300	79.95	26.05.96	25.05.03
PL Cadle	50,000				50,000	69.5	06.11.99	05.11.06
	30,000				30,000	66.0	23.04.00	22.04.07
	51,300				51,300	102.375	20.06.97	19.06.04
	25,000				25,000	96.0	13.04.98	12.04.05
	41,040				41,040	63.375	14.05.94	13.05.01
	30,780				30,780	98.475	04.05.97	03.05.04
AJ Connolly	200,000				200,000	66.0	01.05.00	30.04.07
	–	700,000			700,000	66.0	01.12.01	30.11.08
PF Mostyn	100,000			100,000	–	96.0	03.05.98	16.01.99
	50,000			50,000	–	88.0	01.11.98	16.01.99
	50,000			50,000	–	98.0	01.05.99	16.01.99
	100,000			100,000	–	69.5	06.11.99	16.01.99
	300,000			300,000	–	66.0	23.04.00	16.01.99
RC Smurthwaite	102,600			102,600	–	114.1	04.11.91	12.01.99
	153,900			153,900	–	80.0	26.05.96	12.01.99
	230,850			230,850	–	102.4	20.06.97	12.01.99
	100,000			100,000	–	96.0	13.04.98	12.01.99
AC Wightman	153,900		153,900		–	49.7	04.06.93	16.01.99
	205,200			205,200	–	63.4	14.05.94	16.01.99
	205,200			205,200	–	80.0	26.05.96	16.01.99
	307,800			307,800	–	102.4	20.06.97	16.01.99
	150,000			150,000	–	96.0	13.04.98	16.01.99
Total	2,859,945	700,000	153,900	2,068,375	1,337,670			

None of the non-executive directors held any interests in the share options of the company throughout the year.

The mid-market price of the ordinary shares at 31 January 1999 was 48.5p and the range during the year was 41p to 74p.

On 15 January 1999 Mr AC Wightman elected to exercise his option over 153,900 shares at 49.7p and in accordance with the scheme rules the shares were allotted on 22 January 1999. At this date the mid-market price was 58.5p.

The latest exercise dates for Mr PF Mostyn and Mr AC Wightman were changed to 16 January 1999, and for Mr RC Smurthwaite to 12 January 1999, as part of the settlement agreement on loss of office.

David Richards

David Richards
Chairman

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) make judgements and estimates that are reasonable and prudent;

(iii) state whether applicable accounting standards have been followed;

(iv) prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have prepared these financial statements under the above requirements.

Auditors' Report

To the Members of Walker Greenbank PLC

We have audited the financial statements on pages 30 to 55 and the directors' remuneration information on pages 25 and 26 which have been prepared under the accounting policies set out on pages 34 and 35.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report including, as described on page 27, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 22 and 23 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 January 1999 and the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
10 Bricket Road
St Albans
Hertfordshire AL1 3JX
6 April 1999

Advisors

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Warburg Dillon Read
2 Finsbury Avenue
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Stockbrokers
Warburg Dillon Read
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Group Profit and Loss Account

For the year ended 31 January 1999

	note	Before exceptional items £000	Exceptional items £000	1999 Total £000	1998 Total restated (note 1) £000
Turnover					
– Continuing operations	2, 3	52,450	–	52,450	54,621
– Discontinued operations	2, 3	21,910	–	21,910	41,572
		74,360	–	74,360	96,193
Group operating profit					
– Continuing operations		673	(2,719)	(2,046)	3,691
– Discontinued operations		2,312	(100)	2,212	6,467
		2,985	(2,819)	166	10,158
Share of associated undertaking's operating loss		(19)	–	(19)	–
Operating profit	2, 3, 6	2,966	(2,819)	147	10,158
Profit/(loss) on sale of discontinued operations	4	–	32,896	32,896	(1,681)
Amounts written off investments	5	–	(317)	(317)	–
Profit on ordinary activities before interest		2,966	29,760	32,726	8,477
Net interest receivable/(payable)	9	396	–	396	(636)
Profit on ordinary activities before taxation		3,362	29,760	33,122	7,841
Taxation on profit on ordinary activities	10	(1,617)	1,061	(556)	(1,854)
Profit after taxation		1,745	30,821	32,566	5,987
Dividends (including non-equity)	1, 20	(1,140)	–	(1,140)	(4,380)
Retained profit for the period		605	30,821	31,426	1,607
Earnings per share					
– Basic	11			36.92p	5.09p
– Underlying	11			0.94p	6.65p
– Diluted	11			36.99p	5.15p
Dividend per ordinary share	20			2.00p	3.70p

Balance Sheets

At 31 January 1999

	note	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Fixed assets					
Tangible assets	14	12,073	26,151	6,113	12,144
Walker Greenbank PLC shares	15	2,023	3,070	2,023	3,070
Investment – in associated undertaking	16	169	–	–	–
– other	16	–	–	17,571	17,571
		14,265	29,221	25,707	32,785
Current assets					
Stocks	17	12,212	19,770	–	–
Debtors	18	12,793	20,863	42,389	46,713
Cash at bank and in hand		19,140	3,573	18,511	920
		44,145	44,206	60,900	47,633
Creditors: due within one year	19	(14,209)	(23,822)	(33,876)	(35,419)
Net current assets		29,936	20,384	27,024	12,214
Total assets less current liabilities		44,201	49,605	52,731	44,999
Creditors: due after more than one year	21	(1,153)	(1,711)	–	(1,469)
Provisions for liabilities and charges	24	(261)	(497)	(177)	(187)
Net assets		42,787	47,397	52,554	43,343
Capital and reserves (including non-equity interests)					
Share capital	25	1,593	18,206	1,593	18,206
Share premium account	26	457	24,652	457	24,652
Profit and loss account	26	388	5,062	9,619	485
Other reserves	26	40,349	(523)	40,885	–
Shareholders' funds	27	42,787	47,397	52,554	43,343

David Richards

DG Richards

AJ Connolly

Directors

These accounts were approved by the directors on 6 April 1999

Group Cash Flow Statement

Year ended 31 January 1999

	note	1999 £000	1999 £000	1998 restated £000	1998 restated £000
Net cash inflow from operating activities	29		3,845		13,794
Returns on investment and servicing of finance					
Interest received		977		263	
Interest paid		(577)		(894)	
Interest element of finance lease payments		(19)		(3)	
Dividends paid on non-equity shares		(64)		(76)	
Dividend income (Employee Share Option Plan)		107		120	
			424		(590)
Taxation			(1,979)		(2,639)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(3,725)		(4,345)	
Purchase of Walker Greenbank PLC shares		(520)		(1,000)	
Proceeds from share repurchase (Employee Share Option Plan)		1,250		–	
Proceeds from disposal of investment properties		–		485	
Proceeds from disposal of tangible fixed assets		54		507	
			(2,941)		(4,353)
Acquisitions and disposals					
Proceeds from sale of discontinued operation less exceptional disposal costs	12	63,547		332	
Purchase of associated undertaking	13	(201)		(32)	
			63,346		300
Equity dividends paid			(2,909)		(4,422)
Cash inflow before use of liquid resources and financing			59,786		2,090
Management of liquid resources					
Bills of exchange receivable			19		(70)
Financing					
Repurchase of share capital		(40,885)		–	
Issue of ordinary share capital		77		4	
Proceeds from finance leases		1,200		–	
Principal repayments of finance lease obligations		(50)		(7)	
Repayment of borrowings		(815)		(1,086)	
			(40,473)		(1,089)
Increase in cash	31		19,332		931

Statement of Total Recognised Gains and Losses

Year ended 31 January 1999

	1999 £000	1998 £000
Profit for the financial year	32,566	5,987
Currency translation differences	3	(558)
Total recognised gains and losses relating to the year	32,569	5,429

Note of Historical Cost Profit and Losses

Year ended 31 January 1999

	1999 £000	1998 £000
Profit on ordinary activities before taxation	33,122	7,841
Realisation of property revaluation gains	–	112
Difference between historical cost depreciation charge and actual depreciation charge	13	14
Historical cost profit on ordinary activities before taxation	33,135	7,967
Historical cost profit for the year retained after taxation and dividends	31,439	1,733

Reconciliation of Movements in Shareholders' Funds

Year ended 31 January 1999

	1999 £000	1998 restated £000
Profit for the financial year	32,566	5,987
Dividends	(1,140)	(4,380)
Retained profit for the year	31,426	1,607
Currency translation differences	3	(558)
Redemption of "B" shares	(40,885)	–
New share capital subscribed	77	4
Goodwill written off	–	(32)
Goodwill transferred to profit and loss account on disposal of discontinued operation	4,769	1,507
Net addition to shareholders' funds	(4,610)	2,528
Opening shareholders' funds	47,397	44,869
Closing shareholders' funds	42,787	47,397

Notes to the Accounts

1 ACCOUNTING POLICIES

Accounting Convention

The accounts are prepared under the historical cost convention modified for the revaluation of certain properties and in accordance with applicable accounting standards.

Basis of Consolidation

The group accounts consolidate the financial statements of the parent and its subsidiary undertakings made up to 31 January 1999. Profits arising on trading between group undertakings are excluded.

The group profit and loss account includes the results of all companies acquired during the year from their effective date of acquisition using the acquisition method.

No profit and loss account is presented for Walker Greenbank PLC as provided by Section 230 of the Companies Act 1985. £51,159,000 (1998: £2,005,000) of the profit attributable to shareholders has been dealt with in the accounts of the parent company.

Associated Undertakings

An associated undertaking is an entity in which the group does not have control but does have a significant influence. The consolidated financial statements include the group's share of the operating profit, interest payable, tax payable and net assets.

Goodwill

Goodwill, representing the excess of the cost of acquisition of a business over the fair value of net assets at the date of acquisition, is written off to reserves for acquisitions made before 1998. On subsequent disposal of all or part of these businesses the appropriate proportion of the goodwill is charged to the profit or loss on disposal.

Following the introduction of the new Financial Reporting Standard No. 10 on intangible assets, goodwill arising on acquisitions is capitalised and amortised over a period of not more than 20 years.

Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, if hedged, at the forward contract rate. All differences are taken to the profit and loss account.

The balance sheets of overseas subsidiary undertakings are translated at the rates of exchange ruling at the balance sheet date. The profit and loss accounts are translated at the average rates of exchange applicable to the accounting period. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are dealt with through reserves.

Employee Share Option Plan (including prior year restatement)

The net income of the Employee Share Option Plan ("ESOP") has been consolidated in the group profit and loss account. Dividend income earned, net interest receivable and taxation are shown within the respective headings on the profit and loss account. The comparative year has been restated in accordance with the new provisions in Financial Reporting Standard No. 14 to separately analyse the ESOP income and costs under these headings. The effect of this restatement is to reduce dividends payable by £120,000 and increase interest payable by £120,000.

The shares held in the consolidated balance sheet are recorded at the lower of cost or net realisable value.

Turnover

The group turnover represents the invoiced value, excluding VAT, of sales to external customers.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials, on a first-in, first-out basis, and direct labour plus attributable production overheads based on a normal level of activity. Net realisable value is based on estimated selling prices less anticipated costs of disposal.

Pensions

The group operates both defined benefit and defined contribution schemes. The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods during which members are employed. Any surplus of assets over liabilities is apportioned over the expected remaining service lives of current employees in the schemes.

Research and Development

Research and development expenditure is written off as incurred.

Fixed Assets

Depreciation is charged on a straight-line basis on the original cost or subsequent valuation of assets (excluding freehold land) after deduction of any estimated residual value. The principal annual rates are:

Freehold Buildings	2%
Short and Long Leaseholds	Over the unexpired period of the lease
Plant, Equipment and Vehicles	Between 5% and 33%

Land and buildings are stated at cost plus any revaluation reserve less provision for permanent diminution in value.

Leasing and Hire Purchase Commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the profit and loss account as incurred.

Deferred Taxation

Deferred taxation is provided on all timing differences only to the extent that they are expected to reverse in the foreseeable future, calculated at the rate at which it is estimated that tax will be payable.

2 SEGMENTAL ANALYSIS

(a) Classes of Business	Turnover 1999 £000	Turnover 1998 £000	Operating profit/(loss) 1999 £000	Operating profit/(loss) 1998 £000	Non-interest bearing operating net assets/(liabilities) 1999 £000	Non-interest bearing operating net assets/(liabilities) 1998 £000
Continuing operations:						
Fabrics, wallcoverings and other businesses	52,450	54,621	(2,065)	3,691	27,928	38,121
Discontinued operations:	21,910	41,572	2,212	6,467	(146)	17,765
Group	74,360	96,193	147	10,158	27,782	55,886

(b) Geographical Segments	Turnover 1999 £000	Turnover 1998 £000	Operating profit/(loss) 1999 £000	Operating profit/(loss) 1998 £000	Non-interest bearing operating net assets/(liabilities) 1999 £000	Non-interest bearing operating net assets/(liabilities) 1998 £000
By origin on continuing operations:						
United Kingdom	36,252	38,761	(1,519)	3,640	26,723	35,980
Continental Europe	11,359	11,863	(495)	(431)	104	881
North America	4,839	3,997	(51)	482	1,101	1,260
	52,450	54,621	(2,065)	3,691	27,928	38,121
By origin on discontinued operations:						
United Kingdom	19,281	37,656	2,139	6,500	(209)	17,847
Continental Europe	2,629	3,916	73	(33)	63	(82)
	21,910	41,572	2,212	6,467	(146)	17,765
Group	74,360	96,193	147	10,158	27,782	55,886
By destination on continuing operations:						
United Kingdom	29,432	30,803				
Continental Europe	15,021	15,669				
North America	5,995	4,805				
Rest of the World	2,002	3,344				
	52,450	54,621				
By destination on discontinued operations:						
United Kingdom	16,529	31,720				
Continental Europe	3,308	5,956				
North America	237	393				
Rest of the World	1,836	3,503				
	21,910	41,572				
Group	74,360	96,193				

Non-interest bearing operating net assets are defined as tangible assets plus net current assets, but excluding cash, borrowings, tax, and dividends.

3 ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	Continuing operations 1999 £000	Discontinued operations 1999 £000	Total 1999 £000	Continuing operations 1998 £000	Discontinued operations 1998 £000	Total 1998 £000
Turnover	52,450	21,910	74,360	54,621	41,572	96,193
Cost of sales	(24,876)	(8,058)	(32,934)	(25,438)	(14,737)	(40,175)
Gross profit	27,574	13,852	41,426	29,183	26,835	56,018
Net operating expenses						
Distribution costs	(11,196)	(6,702)	(17,898)	(11,218)	(10,985)	(22,203)
Administrative expenses	(18,466)	(4,938)	(23,404)	(14,297)	(9,383)	(23,680)
Other operating income	23	–	23	23	–	23
Operating (loss)/profit	(2,065)	2,212	147	3,691	6,467	10,158

The continuing operations' operating loss included £903,000 (1998: £1,359,000) of non operating income representing management charges made to the discontinued businesses.

The continuing operations' operating loss also included £2,719,000 of exceptional costs. This comprised £1,399,000 as a result of a permanent diminution in the carrying value of the visualiser project, £500,000 incurred when Cole & Son and Warner Fabrics were brought under the management of Zoffany and £51,000 for the initial costs in rationalising the John Perry factory.

The exceptional costs also included £208,000 incurred as a result of the first steps in the re-organisation of the group's European subsidiaries and a £561,000 provision made against the carrying value of stock previously under the management of the discontinued business, before it was transferred to the commercial fabrics business on 1 February 1998.

The discontinued operations' operating profit included £100,000 of exceptional costs incurred in a legal dispute.

The tax effect of these exceptional costs is to decrease the tax charge by £768,000.

4 PROFIT ON SALE OF DISCONTINUED OPERATIONS

On 13 August 1998 the trade and certain of the assets and liabilities of the group's commercial wallcoverings businesses, trading as Muraspec and Brymor, were sold.

The proceeds were initially agreed to be £70 million subject to the level of the net assets included in the disposal. At the date of disposal net assets were £2,055,000 less than the agreed adjustment level and as a result the proceeds were adjusted down to £67,945,000. After accounting for related costs and goodwill the exceptional profit on disposal was £32,896,000.

In the previous year the healthcare division was sold for a cash consideration of £981,000. The loss on disposal of £1,681,000 included a charge of £1,507,000 for goodwill previously written off direct to reserves and £649,000 of legal fees and other payments for a related legal dispute.

The taxation effect of these disposals is to decrease the taxation charge by £293,000 (1998: decrease of £201,000).

5 AMOUNTS WRITTEN OFF INVESTMENTS

Following the capital re-organisation, the Employee Share Option Plan ("ESOP") held an insufficient number of shares to cover all the options granted to employees. This position was rectified prior to the year end and the shares held by the ESOP are now matched by options outstanding.

The cost of the shares held by the ESOP at 31 January 1999 exceeded the anticipated income from the options to be exercised by employees and a permanent diminution of £317,000 was recognised.

6 OPERATING PROFIT

	1999 £000	1998 £000
Operating profit is after charging:		
Auditors' remuneration:		
Audit fees – group auditors	93	120
– other auditors	21	–
Other services – group auditors	156	83
Depreciation of owned assets	3,557	3,024
Depreciation of assets held under finance leases and hire purchase contracts	35	104
Hire of motor vehicles and plant and machinery	845	1,231
Other operating leases	964	1,192

Auditors' remuneration for audit services to the group includes £30,000 (1998: £30,000) in respect of the company.

7 EMOLUMENTS OF DIRECTORS

The emoluments of the directors who held office during the year are shown in the Report on Directors' Remuneration on pages 25 and 26.

8 EMPLOYEE INFORMATION, EXCLUDING DIRECTORS

	1999 £000	1998 £000
Wages and salaries	18,236	23,702
Social security costs	1,918	2,455
Other pension costs	1,155	776
	21,309	26,933

The average weekly number of employees during the year:	Number	Number
Sales, warehousing and administration	600	786
Manufacturing	239	372
	839	1,158

9 NET INTEREST RECEIVABLE/(PAYABLE)

	1999 £000	1998 £000
Interest receivable:		
Bank and other short term deposit interest receivable	986	263
Interest payable:		
Bank and other short term interest on loans and overdrafts wholly repayable within 5 years	(577)	(884)
Bank interest on loans not wholly repayable within 5 years	–	(12)
Finance charges payable under finance leases and hire purchase contracts	–	(3)
	(577)	(899)
Associated undertaking	(13)	–
Net interest receivable/(payable)	396	(636)

10 TAXATION

	1999 £000	1998 £000
Corporation tax at 31% (31%)	1,287	2,318
Deferred taxation (note 24)	(874)	117
Overseas taxation	231	232
	644	2,667
Adjustments with respect to prior years	(88)	(813)
	556	1,854

The adjustments with respect to prior years relate to the release of reserves set aside in previous years for tax liabilities which are now not expected to materialise.

11 EARNINGS PER SHARE

Earnings per share is based on the profit on ordinary activities after taxation and non-equity dividends, amounting to £32,499,000 (1998: £5,917,000) and the weighted average of 88,033,303 (1998: 116,252,767 – as restated) ordinary shares in issue during the year. The prior year weighted average number of shares has been restated for the changes in Financial Reporting Standard No. 14.

The underlying earnings per share has been disclosed as in the opinion of the directors this provides additional information to shareholders on the results of the group's activities.

The underlying earnings per share can be reconciled to the basic earnings per share as follows:

	1999 Pence per share	1999 £000	1998 Pence per share as restated	1998 £000 as restated
Profit attributable to ordinary shareholders	36.92	32,499	5.09	5,917
Discontinued operations (profit)/loss after taxation	(1.81)	(1,595)	0.11	134
(Profit)/loss on sale of discontinued operations	(37.37)	(32,896)	1.45	1,681
Exceptional operating items after taxation	3.20	2,819	–	–
	0.94	827	6.65	7,732

11 EARNINGS PER SHARE continued

The diluted earnings per share can be reconciled to the basic earnings per share as follows:

	1999		1998	
	Pence per share	£000	Pence per share	£000
Profit attributable to ordinary shareholders	36.92	32,499	5.09	5,917
Dilutive effect of preference shares and share options	–	–	0.01	–
"B" share dividends	0.04	35	–	–
Preference share dividends	0.03	32	0.05	70
	36.99	32,566	5.15	5,987

12 DISPOSAL OF THE COMMERCIAL WALLCOVERINGS BUSINESSES

	£000
Proceeds from sale	70,000
Net asset adjustments (note 4)	(2,055)
	67,945

The disposal comprised the following:

Tangible fixed assets	14,423
Stock	6,670
Debtors	8,797
Creditors	(4,008)
	25,882
Other costs:	
Severance payments	2,876
Professional fees and other related costs	1,522
	4,398
Goodwill	4,769
Profit on disposal	32,896
Net cash inflow before other costs	67,945
Other costs	(4,398)
Net cash inflow	63,547

13 ACQUISITION OF ASSOCIATED UNDERTAKING – INSIDE PARTNERS A.S.

	£000
The share of fair value of net assets acquired comprised:	
Tangible fixed assets	114
Current assets	306
Creditors: due within one year	(174)
Creditors: due after more than year	(265)
	(19)
Goodwill	220
Consideration paid	**201**

14 FIXED ASSETS

	Land and buildings £000	Plant, equipment and vehicles £000	Total £000
Group			
Cost or valuation:			
1 February 1998	15,567	30,978	46,545
Additions	95	4,093	4,188
Disposals	(7,409)	(18,956)	(26,365)
Currency movements	–	32	32
31 January 1999	8,253	16,147	24,400
Depreciation:			
1 February 1998	2,117	18,277	20,394
Charge	173	3,419	3,592
Disposals	(150)	(11,536)	(11,686)
Currency movements	–	27	27
31 January 1999	2,140	10,187	12,327
Net book value:			
31 January 1999	6,113	5,960	12,073
1 February 1998	13,450	12,701	26,151
Analysis of cost and valuation:			
At cost	6,532	16,147	22,679
At valuation 1993	1,721	–	1,721
	8,253	16,147	24,400

Land and buildings were valued on 31 January 1993 at open market value on the basis of existing use.

	£000
The net book value of land and buildings comprises:	
Freehold land	1,593
Freehold buildings	4,313
Short leaseholds	207
Net book value at 31 January 1999	6,113

	Group and Company £000
If shown on a historical cost basis, land and buildings would be stated at:	
Cost	7,327
Depreciation	(2,059)
31 January 1999	5,268

14 FIXED ASSETS continued

	Land and buildings £000	Plant, equipment and vehicles £000	Total £000
Company			
Cost or valuation:			
1 February 1998	12,796	682	13,478
Additions	49	40	89
Disposals	(6,000)	(136)	(6,136)
31 January 1999	6,845	586	7,431
Depreciation:			
1 February 1998	924	410	1,334
Charge	145	107	252
Disposals	(170)	(98)	(268)
31 January 1999	899	419	1,318
Net book value:			
31 January 1999	5,946	167	6,113
1 February 1998	11,872	272	12,144

Included in the amounts for plant, equipment and vehicles above are the following amounts relating to leased assets:

	Group finance leases £000	Company finance leases £000
Net book value:		
31 January 1999	1,205	–
31 January 1998	56	–

15 WALKER GREENBANK PLC SHARES

	Group Cost £000	Company Cost £000	Group Nominal value £000	Company Nominal value £000
Shares held:				
2,549,146 ordinary shares of 1p each (1998: 3,573,151 of 15p each) in Walker Greenbank PLC				
1 February 1998	3,070	3,070	536	536
Additions	520	520	5	5
Repurchase of "B" shares and share consolidation	(1,250)	(1,250)	(521)	(521)
Write down (note 5)	(317)	(317)	–	–
31 January 1999	2,023	2,023	20	20

The above shares are held by the Walker Greenbank PLC Employee Benefit Trust ("the Trust") which was set up in June 1994. It holds a number of shares in Walker Greenbank PLC with options being granted to beneficiaries, being employees of the group, at the discretion of the remuneration committee. The options do not become exercisable until the third anniversary of the date of being granted and must then be exercised within the following seven years.

The expenses borne by Walker Greenbank PLC in relation to the Trust amounted to £15,000 (1998: £17,000) in the year.

At 31 January 1999, the Trust held 2,549,146 ordinary shares of 1p each in Walker Greenbank PLC, representing 4.3% of the total called up share capital, with a market value on that date of £1,236,000. Of these, 2,528,200 shares were held under options to employees.

16 INVESTMENTS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Associated undertaking:				
Fixed assets	107	–	–	–
Current assets	295	–	–	–
Creditors: due within one year	(166)	–	–	–
Creditors: due after more than one year	(288)	–	–	–
Exchange	1	–	–	–
Unamortised goodwill	220	–	–	–
	169	–	–	–
Shares in subsidiary undertakings	–	–	17,571	17,571
	169	–	17,571	17,571

16 INVESTMENTS continued

The principal group operating companies which are all wholly owned are as follows:

Abaris Holdings Limited
 – registered in England and Wales
John O Borge a.s. – incorporated in Norway
Textile Wallcoverings International Limited*
 – incorporated in the USA

Whittaker & Woods Inc* – incorporated in the USA
Whittaker & Woods BV – incorporated in Holland
Whittaker & Woods GmbH – incorporated in Germany
Whittaker & Woods SRL – incorporated in Italy

The shares in the associated undertaking acquired on 1 August 1998 are a 35% holding in Inside Partners a.s., a company incorporated and trading in Norway. The shares are held by the subsidiary John O Borge a.s. The group's share of the turnover in this operation was £259,000.

*shares held by subsidiary company.

17 STOCKS

	Group 1999 £000	Group 1998 £000
Raw materials	937	2,024
Work in progress	1,785	1,901
Finished goods	9,490	15,845
	12,212	19,770

18 DEBTORS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Trade debtors	10,361	18,129	169	18
Amounts owed by subsidiary undertakings	–	–	41,261	45,417
Other debtors	1,501	1,138	926	951
Prepayments	931	1,596	33	327
	12,793	20,863	42,389	46,713

Amounts owed by subsidiary undertakings to the company include long term loans recoverable after more than one year of £3,466,000 (1998: £3,993,000).

19 CREDITORS: DUE WITHIN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Current instalments due on loans	1,497	777	1,469	750
Bank overdrafts	315	4,095	–	10,744
Obligations under finance leases and hire purchase contracts	214	–	–	–
Trade Creditors	6,394	8,149	789	209
Amounts owed to subsidiary undertakings	–	–	29,437	19,369
Corporation tax	1,013	2,204	531	329
Other taxes and social security	311	853	–	44
Proposed dividends	1,180	2,906	1,180	2,906
Other creditors	1,094	2,025	390	767
Accruals	2,191	2,813	80	301
	14,209	23,822	33,876	35,419

The overdrafts of the company and certain subsidiary undertakings are covered by cross guarantees given by the company and those subsidiary undertakings. As at 31 January 1999 an amount of £1,148,000 (1998: £24,000) was guaranteed by the company.

20 DIVIDENDS

	1999 £000	1998 £000
Equity:		
Ordinary – paid	–	1,556
– proposed	1,180	2,874
	1,180	4,430
Dividend income – Employee Share Option Plan	(107)	(120)
	1,073	4,310
Non-equity:		
"B" shares – paid	35	–
Preference – paid	32	38
– proposed	–	32
	67	70
Total dividends	1,140	4,380

The directors propose a final dividend in respect of the year ended 31 January 1999 of 2.00p (1998: 2.40p) per ordinary share payable on 6 July 1999 to shareholders registered at the close of business on 11 June 1999. This makes a total dividend for the year of 2.00p (1998: 3.70p) per ordinary share.

21 CREDITORS: DUE AFTER MORE THAN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Loans (note 23)	86	1,583	–	1,469
Obligations under finance leases and hire purchase contracts	936	–	–	–
Overseas tax	131	128	–	–
	1,153	1,711	–	1,469

Finance Leases

Future minimum payments under finance leases are as follows:

	1999 £000	1998 £000
Within one year	280	–
In more than one year, but not more than five	1,049	–
Total gross payments	1,329	–
Less finance charges included above	(179)	–
	1,150	–

22 OPERATING LEASE COMMITMENTS

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

	Group Land & buildings £000	Group Other £000	Company Land & buildings £000	Company Other £000
Operating leases which expire:				
Within one year	6	21	–	2
Between one and five years	52	228	–	31
Over five years	291	–	86	–
	349	249	86	33

23 LOANS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Secured loans:				
US dollar bank loan repayable by instalments				
at 84.2% of prime rate of USA lender	114	141	–	–
Unsecured loans:				
Bank loans				
– French franc loan repaid October 1998, bearing				
interest at 7.75% per annum	–	500	–	500
– US dollar loan repayable October 1999, bearing				
interest at 7.0% per annum	762	762	762	762
– US dollar loan repayable November 1999, bearing				
interest at 0.7% over LIBOR	457	457	457	457
– repayable by June 1999, bearing interest at				
9.3125% per annum and repayable in equal				
annual instalments of £250,000	250	500	250	500
Total loans	1,583	2,360	1,469	2,219
Amounts due at 31 January 1999 are repayable as follows:				
Over five years	–	4	–	–
Between two and five years	59	82	–	–
Between one and two years	27	1,497	–	1,469
After more than one year (note 19)	86	1,583	–	1,469
Within one year (note 21)	1,497	777	1,469	750
	1,583	2,360	1,469	2,219

The secured loan is secured against the freehold property occupied by Walker Greenbank Inc.

Exchange losses of £38,000 (1998: exchange gains of £93,000) on translation of foreign currency borrowings have been taken directly to reserves and exchange losses of £nil (1998: exchange gains of £61,000) on translation of foreign currency borrowings have been taken to the profit and loss account.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Deferred taxation:				
Deferred taxation provided in the accounts is as follows:				
Capital allowances in excess of depreciation	334	1,436	46	119
Other timing differences	(73)	(213)	131	68
Total deferred taxation provided	261	1,223	177	187
Advance corporation tax	–	(726)	–	–
	261	497	177	187

	Group £000	Company £000
Deferred taxation movement for the year:		
1 February 1998	1,223	187
Current year credit	(874)	(10)
Adjustment in respect of prior years	(88)	–
31 January 1999	261	177

The group and company have no unprovided deferred tax liabilities (1998: £nil).

25 SHARE CAPITAL

	Number of shares	£
Ordinary shares of 1p each:		
Authorised share capital:		
1 February 1998 – ordinary shares of 15p each	170,000,000	25,500,000
Capital re-organisation	(84,738,198)	(24,647,382)
31 January 1999 – ordinary shares of 1p each	85,261,802	852,618
Allotted, called up and fully paid:		
1 February 1998	119,736,609	17,960,491
Creation of "B" shares	–	(17,407,873)
Consolidation of shares	(64,474,807)	–
Conversion of non-repurchased "B" shares	1,903,375	19,034
Conversion of preference shares	1,687,085	16,870
Shares issued on the exercise of share options	153,900	1,539
31 January 1999	59,006,162	590,061

	Number of shares	£
Cumulative convertible redeemable preference shares of 25p each:		
Authorised share capital:		
1 February 1998	6,000,000	1,500,000
Cancellation of authorised share capital	(5,015,448)	(1,253,862)
31 January 1999	984,552	246,138
Allotted, called up and fully paid:		
1 February 1998	984,552	246,138
Conversions into ordinary shares	(984,552)	(246,138)
31 January 1999	–	–

	Number of shares	£
Deferred shares of 0.1p each		
Authorised: 31 January 1999	1,003,312,400	1,003,312
Allotted, called up and fully paid:		
1 February 1998	–	–
Issued during the year	1,003,312,400	1,003,312
31 January 1999	1,003,312,400	1,003,312

25 SHARE CAPITAL continued

Creation of "B" shares

With effect from 14 August 1998, the company capitalised £24,499,953 standing to the credit of the share premium account in paying up in full 119,736,609 undesignated shares of $20\frac{6}{13}$ pence each. These shares were then consolidated with the existing ordinary shares in issue of 15 pence each on the basis of one undesignated share for each existing ordinary share and the resulting share was split into one ordinary share of $\frac{6}{13}$ pence and one "B" share of 35 pence, resulting in a reduction to ordinary share capital of £17,407,873.

Consolidation of Ordinary Shares

Each ordinary share of $\frac{6}{13}$ pence was then sub-divided into 6 shares of $\frac{1}{13}$ pence, every 13 of which were then consolidated into one new ordinary share of 1 pence each, reducing the number of shares in issue by 64,474,807.

Redemption of "B" Shares

On 18 August 1998 and 21 October 1998, 116,815,620 "B" shares were repurchased at 35 pence per share. The remaining 2,920,989 shares were compulsorily converted into 1,903,375 ordinary shares of 1 pence each on 16 November 1998.

Issue of Deferred Shares

The Articles of Association of the company preclude the reduction of the nominal value of the shares in issue without prior shareholder approval at an Annual General Meeting (AGM) or Extraordinary General Meeting (EGM).

The final compulsory conversion of 2,920,989 "B" shares of 35 pence each to 1,903,375 ordinary shares of 1 pence each represented a reduction in nominal value of £1,003,312. Accordingly, 1,003,312,400 deferred shares of 0.1 pence each were issued, and it is proposed that these will be repurchased by the company for a total consideration of 1 pence for cancellation after the next AGM subject to shareholder approval.

The holders of the deferred shares are not entitled to any dividend or other right to participate in the profits of the company and shall not be entitled to receive notice of or to vote at any general meeting of the company. On a return of capital or winding up, the holders of the deferred shares shall be paid the nominal value of the shares, after the return of capital of the ordinary shares together with any premiums paid up and an additional payment of £5,000 on each such ordinary share.

Preference Shares

The preference shares had a fixed cumulative preferential dividend of 6.5 pence per share per annum, and were convertible into ordinary shares at the preference shareholders' option, and in certain circumstances the company's option.

It was resolved at shareholder meetings on 23 September 1998 that the rate of conversion be increased to 8.694 ordinary shares of 1 pence each for every 5 preference shares, for conversions made on 30 September 1998. On this date, 684,741 preference shares were converted in this manner.

Other conversions in the year amounting to 299,811 preference shares were converted at the rate of 8.28 ordinary shares of 1 pence each for every 5 preference shares.

26 RESERVES

	Share premium account £000	Profit and loss account £000	Other reserves: Revaluation reserve £000	Other reserves: Capital reserve £000	Other reserves: Merger reserve £000	Total £000
Group						
1 February 1998	24,652	5,062	858	1,569	(2,950)	(523)
Creation of undesignated shares	(24,500)	–	–	–	–	–
Issue of ordinary shares	305	–	–	–	–	–
Goodwill previously written off to reserves	–	4,769	–	–	–	–
Transfer of additional depreciation on revalued assets	–	13	(13)	–	–	(13)
Retained earnings for year	–	31,426	–	–	–	–
Redemption of "B" shares	–	(40,885)	–	40,885	–	40,885
Currency translation movements	–	3	–	–	–	–
31 January 1999	457	388	845	42,454	(2,950)	40,349

	Share premium account £000	Profit and loss account £000	Other reserves: Revaluation reserve £000	Other reserves: Capital reserve £000	Other reserves: Merger reserve £000	Total £000
Company						
1 February 1998	24,652	485	–	–	–	–
Creation of undesignated shares	(24,500)	–	–	–	–	–
Issue of ordinary shares	305	–	–	–	–	–
Retained earnings for year	–	50,019	–	–	–	–
Redemption of "B" shares	–	(40,885)	–	40,885	–	40,885
31 January 1999	457	9,619	–	40,885	–	40,885

Capital reserve represents:

	£000
Share premium of companies acquired and accounted for under merger accounting principles	1,276
Capital reserve arising on consolidation	293
Capital redemption reserve for "B" Shares	40,885
	42,454

Revaluation reserve represents:

Tangible fixed assets – land and buildings	845

The cumulative amount of goodwill which has been written off to the profit and loss account reserve in respect of existing group companies is £7,704,000 (1998: £12,473,000).

27 SHAREHOLDERS' FUNDS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Equity:				
Ordinary share capital	590	17,960	590	17,960
Share premium	457	24,047	457	24,047
Profit and loss account	388	5,062	9,619	485
Other reserves	40,349	(523)	40,885	–
	41,784	46,546	51,551	42,492
Non-equity:				
Deferred share capital	1,003	–	1,003	–
Preference share capital	–	246	–	246
Share premium	–	605	–	605
	1,003	851	1,003	851
Total shareholders' funds	42,787	47,397	52,554	43,343

28 CAPITAL EXPENDITURE

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Authorised and contracted	44	61	–	–

29 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1999 £000	1999 £000	1998 £000	1998 £000
Operating profit		166		10,158
Depreciation	3,592		3,128	
Loss/(profit) on disposal of tangible fixed assets	202		(103)	
Decrease in stocks	913		1,014	
(Increase)/decrease in operating debtors and prepayments	(598)		1,370	
Decrease in creditors and provisions	(430)		(1,773)	
		3,679		3,636
Net cash inflow from operating activities		3,845		13,794

The discontinued operation's net inflow from operating activities was £2,585,000 for the period from the start of the year to the disposal on 13 August 1998. There were no other categories of the cash flow statement impacted by the discontinued operations other than the disposal proceeds.

30 ANALYSIS OF NET (DEBT)/FUNDS

	1 February 1998 £000	Cash flow £000	Other non-cash changes £000	Exchange movement £000	31 January 1999 £000
Cash at bank and in hand	3,573	15,544		23	19,140
Overdrafts	(4,095)	3,788		(8)	(315)
		19,332			
Debt due within 1 year	(777)	815	(1,497)	(38)	(1,497)
Debt due after 1 year	(1,583)	–	1,497	–	(86)
Finance leases	–	(1,150)		–	(1,150)
		(335)			
Current asset investments	362	(19)		–	343
	(2,520)	18,978	–	(23)	16,435

31 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	1999 £000	1998 £000
Increase in cash in the period	19,332	931
(Increase)/decrease in debt and lease financing	(335)	1,093
(Decrease)/increase in liquid resources	(19)	70
Cash generated from cash flows	18,978	2,094
Exchange movement	(23)	(68)
Cash generated in period	18,955	2,026
Net debt at 1 February 1998	(2,520)	(4,546)
Net funds/(debt) at 31 January 1999	16,435	(2,520)

32 PENSIONS

The group operates defined benefit and defined contribution pension schemes in the UK for all qualifying employees. The major scheme is of the defined benefit type and the assets of each of the schemes are held in separate trustee administered funds. In addition, there are defined benefit schemes for all qualifying employees of Abaris Holdings Limited and John O Borge a.s.

The pension costs relating to the UK defined benefit schemes are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. These schemes are subjected to triennial actuarial reviews with the most recent ones having been at 6 April 1998 for the major scheme and 6 April 1998 for the Abaris Holdings Limited Pension Scheme. The John O Borge a.s. scheme was valued in accordance with The Norwegian Financial Accounting Standard for Pension Benefits at 31 December 1998.

The principal actuarial assumptions applied for the two UK schemes were as follows:

Investment returns	9.0% per annum
Salary growth	7.0% per annum

Pension increases 4.5% per annum in excess of Guaranteed Minimum Pension.

Assets have been valued using the discounted income method assuming a dividend growth rate of 5.5% per annum.

At the latest actuarial valuation, the aggregate market value of the assets of the major scheme was £22,617,000. The actuarial value of the assets of the scheme was sufficient to cover 108% of the liability for benefits which have accrued to members on an ongoing basis.

At the last actuarial valuation, the aggregate market value of the assets of the Abaris Holdings Limited Pension Scheme was £3,157,000. The actuarial value of the assets of the scheme was sufficient to cover 205% of the liability for benefits which have accrued to members on an ongoing basis.

The effect of the employer's contribution rates for the two UK schemes is to take account of the surpluses disclosed by the valuations over the average remaining service lives of the current employees who are in the schemes. The current rate of contribution also takes into account the consequences of the Muraspec and Brymor employees opting to transfer out of the scheme.

The aggregate market value of the assets of the John O Borge a.s. scheme at 31 December 1998 was £451,000 with a surplus of £172,000.

The total pension cost for the group was £1,250,000 (1998: £921,000) of which £1,086,000 (1998: £639,000) related to the major defined benefit scheme.

33 RELATED PARTY TRANSACTIONS

In the period from 14 August 1998 to 31 January 1999, the group continued to trade, in the normal course of business, with those businesses disposed of in the sale of the commercial wallcoverings businesses. The amounts involved are not considered to be material to either the group or the businesses disposed of.

Five Year Record

	1995 £000	1996 £000	1997 £000	1998 £000	1999 £000
Continuing Operations					
Turnover	37,078	53,355	57,555	54,621	52,450
Overseas turnover	16,116	24,767	25,883	23,818	23,018
Operating profit/(loss)	478	1,368	1,469	3,691	(2,065)
Profit/(loss) before taxation	425	2,541	1,602	3,055	(2,382)
Capital expenditure	2,216	2,411	4,068	2,546	2,853
Earnings per share	0.49	1.60	1.52	2.75	0.94
Average number of employees	492	637	692	683	608
Turnover per employee	£75,000	£84,000	£83,000	£80,000	£86,000

	1995 £000	1996 £000	1997 £000	1998 £000	1999 £000
Total Group					
Dividends	4,024	4,427	4,520	4,500	1,247
Shareholders' funds	46,762	44,363	44,869	47,397	42,787
Dividend per share	3.60p	3.70p	3.70p	3.70p	2.00p

All previous years have been restated for the prior year adjustment in the year ended 31 January 1998, and exclude the results of all discontinued operations.

FINANCIAL CALENDAR

Annual General Meeting 26 May 1999

Record date 11 June 1999

Final dividend payable 6 July 1999

Announcement of half-year results October 1999