

WALKER GREENBANK PLC

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDING

31ST JANUARY 2003



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Company Number 61880

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 2003.

Group Result

The loss before taxation amounted to £7,975,000 (2002: loss of £6,633,000 as restated). The directors do not recommend payment of a final ordinary dividend (2002: no dividend paid), which leaves a deficit of £7,361,000 transferred from reserves (2002: £6,602,000 as restated).

Review of the Business

Further information on the business and future of the group is included in the Chairman's Statement on pages 2 and 3, and the Operating Review on pages 4 and 5 and the Financial Review on pages 6 and 7.

Directors

The board of directors as at the date of this report is set out on page 8, together with biographical details. Details of directors' service contracts are set out in the Directors' Remuneration Report on pages 13 to 15. Details of directors who held office during the year are included in the report on Corporate Governance on page 11. At the forthcoming Annual General Meeting ('AGM') JD Sach will retire by rotation and being eligible will offer himself for re-election.

Directors' Share Interests

The interests of the directors in office at 31 January 2003 in the share capital of the company were:

| | 1p Ord Shares 31 January 2003 Number | 1p Ord Shares 31 January 2002 Number |
|-------------|--|--|
| PM Harkness | 100,000 | 100,000 |
| JD Sach | 50,000 | 50,000 |

The movement in share options held by the directors during the year is shown as part of the Directors' Remuneration Report on page 13 to 15.

None of the directors' share interests changed between 31 January 2003 and 22 May 2003.

Executive Share Option Schemes

During the year, no options over ordinary shares were exercised or granted and options over 456,760 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 2003 are as shown below.

| Date granted | Number of shares | Subscription price | Exercisable | |
|-----------------|------------------|--------------------|-------------|----------|
| | | | From | To |
| 10 January 1994 | 41,040 | 92.6p | 10.01.97 | 09.01.04 |
| 9 February 1994 | 51,300 | 110.2p | 09.02.97 | 08.02.04 |
| 4 May 1994 | 51,300 | 98.5p | 04.05.97 | 03.05.04 |
| 20 June 1994 | 51,300 | 105.0p | 20.06.97 | 19.06.04 |
| 13 April 1995 | 35,000 | 96.0p | 13.04.98 | 12.04.05 |
| 1 May 1996 | 30,000 | 98.0p | 01.05.99 | 30.04.06 |
| 6 November 1996 | 50,000 | 69.5p | 06.11.99 | 05.11.06 |
| 23 April 1997 | 155,000 | 66.0p | 23.04.00 | 22.04.07 |
| 7 May 1997 | 15,000 | 66.0p | 07.05.00 | 06.05.07 |
| 5 June 2001 | 1,000,000 | 40.0p | 05.06.04 | 04.06.11 |
| 5 June 2001 | 1,000,000 | 22.0p | 05.06.04 | 04.06.11 |
| 15 June 2001 | 100,000 | 19.5p | 15.06.04 | 14.06.11 |
| | 2,579,940 | | | |

Report of the Directors *continued*

Directors' Interests in Material Contracts

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

Pensions

The group operates defined benefit and defined contribution schemes in the UK and overseas for all qualifying employees. Further information on the schemes and details of the valuations are given in note 35 to the accounts.

Employees

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

Substantial Shareholdings

At 22 May 2003 the company had been notified of the following substantial shareholdings in its ordinary share capital. Palmco LLP 25.18%, Walker Greenbank EBT 4.32%, British Airways Pension Trustees Ltd 4.17%, Prudential plc 3.73% and Framlington One Thousand Smallest Companies Trust PLC 3.39%.

Special Business

At the AGM on 14 July 2003 item 5 will be proposed as Special Business. Details of the business can be found in the notice of the AGM.

Payments to Suppliers

The group agrees terms and conditions for its business transactions with suppliers and makes payment in accordance with those terms and conditions subject to the supplier meeting its obligations. The amount of trade creditors shown in the consolidated balance sheet at 31 January 2003 represents 66 days (2002: 79 days) of average purchases during the year for the group.

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

Post Balance Sheet Events

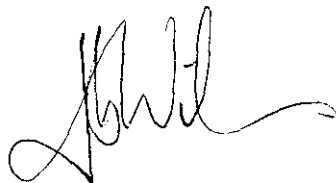
On 15 April 2003, the company's entire issued share capital was transferred from the Official List of the London Stock Exchange to the Alternative Investment Market ("AIM").

On 20 May 2003, the trade and assets of the group's business trading as Riverside was sold for £2,801,000 with an anticipated loss on disposal of £3,507,000 subject to final adjustments.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 28 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors to fill the vacancy. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the next Annual General Meeting.

By order of the board



Julian Wilson
Company Secretary
22 May 2003

Registered Office:
Bradbourne Drive
Tilbrook, Milton Keynes
Buckinghamshire MK7 8BE

Registered number 61880

Corporate Governance

The board is accountable to the company's shareholders for good corporate governance. The following statement refers to the four main areas highlighted in the Combined Code ("the Code") annexed to the Financial Services Authority ("FSA") Listing Rules and how the principles and provisions are applied by the company.

The board believes that the company has complied with the provisions of the Code throughout the accounting period, apart from the limited exception outlined below.

The provisions of the Code require that the board and Audit Committee should include three non-executive directors. Since 19 June 2002 the board has only had two non-executive directors, both of whom are members of the Audit Committee. This complies with the recommended framework for smaller companies.

The ordinary shares of the company are no longer traded on the Official List, but are now traded on AIM with effect from 15 April 2003. The company considers it is appropriate to continue to make a Corporate Governance statement in respect of this Annual Report and Accounts.

1 Directors

Board Composition and Appointment

At the end of the year the board of directors comprised two executive directors and two non-executive directors. The Viscount Thurso resigned his directorship on 15 April 2002. I Kirkham was appointed by the board to fill the vacancy on 15 April 2002 and re-elected by the shareholders at the last AGM. Sir Malcolm Field retired at the last AGM, on 19 June 2002. Biographies of the board members can be found on page 8.

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 making.

Directors are appointed to the board following careful consideration by a Nominations Committee comprising the two non-executive directors. This committee makes recommendations to the board for approval. An induction program is provided for all directors newly appointed to the board.

All directors stand for re-election on retirement by rotation at least every three years and have contracts that can be terminated by notice of not more than twelve months.

Directors appointed to fill vacancies submit themselves for re-election at the next opportunity after their appointment.

Board Process

The board meets ten times a year and follows an agenda reviewing performance and 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 meet 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.

2 Directors' Remuneration

The details of compliance with the Directors' Remuneration Report Regulations 2002 are contained in the Directors' Remuneration Report on pages 13 to 15.

3 Relationship with Shareholders

The board seeks 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.

The group communicates formally at the 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.

Corporate Governance *continued*

4 Accountability and Audit

Financial Reporting

The directors' responsibilities for preparing the accounts are explained on page 16 and the group's report on going concern is on page 7.

Internal Control

The directors acknowledge their responsibility for the group's system of internal controls and consider that it is appropriately designed to provide reasonable but not absolute assurance that assets are safeguarded against material loss and 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, which are reviewed by the board before formal adoption. The operating units are required to report in accordance with group financial controls and procedures, including risk assessment. Regular reviews of the operating units are carried out by head office employees, who fulfil an internal audit function. Key business risks are identified, reported to the board and monitored on a monthly basis.

The group businesses give serious attention to issues of health and safety at work and the impact on the environment with particular regard to manufacturing processes. A non-executive director takes special responsibility for health, safety and environmental matters.

An ongoing process for identifying, evaluating and managing the significant risks faced by the group was maintained during the year. This process is reviewed periodically by the board and accords with the Internal Control Guidance for directors in the Combined Code.

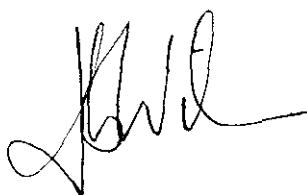
The group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures. Where businesses are being acquired, the group's procedures include detailed "due diligence" reviews by the group's own employees with the assistance of external advisers.

The board has reviewed the effectiveness of the system of internal 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 two non-executive directors and is chaired by I Kirkham. It meets formally three times 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 without management being present.

By order of the board



Julian Wilson
Company Secretary
22 May 2003

Directors' Remuneration Report

The directors' remuneration report complies with requirements introduced by the Directors' Remuneration Report Regulations 2002. The report covers all directors, both executive and non-executive. A resolution to approve the report will be put to shareholders at the AGM.

The report sets out the company's policy on remuneration of the directors for the period to 31 January 2004 and, so far as is practicable, for subsequent years, however, the Remuneration Committee considers that a successful remuneration policy needs to take into account future changes in the Company's business. Any changes in policy for subsequent years will be described in future directors' remuneration reports.

Remuneration Committee

Constitution and Operation

The committee is responsible for appraising the performance of the executive directors and setting the level of their remuneration.

The committee members are all non-executive directors. The committee was chaired by Sir Malcolm Field until his retirement in June 2002. PM Harkness served on the committee for the whole year and was appointed Chairman in July 2002. I Kirkham was appointed to the committee in April 2002. The Viscount Thurso left the committee on ceasing to be a director in April 2002. The members have no personal financial interest, other than as shareholders, in the committee's decisions. The committee meets three times a year and additionally where appropriate. In its constitution and operation the committee complies with the Combined Code on Corporate Governance. The committee will review the result of the resolution put to the shareholders on the remuneration report and take it into account in reaching its future decisions.

The Remuneration Committee, in consultation with the Company Secretary who attends all meetings, appoints external professional advisers, as it thinks fit, to provide specialist advice and services on particular remuneration matters. For the year ending 31 January 2003, no external advisers were used.

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 management within the terms of reference set by the board. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing competitive packages which attract, retain and motivate executive directors and management.

The main components of each executive director's remuneration are basic salary, a performance related bonus, share options and pension contributions.

- 1) Basic salary is determined by the Remuneration Committee taking into account the performance of the individual and market information.
- 2) Performance related bonuses are payable to the executive directors in office during the year and are not pensionable.
- 3) Share options form part of the executive directors' remuneration, the details of which are fully disclosed on page 14.
- 4) Details of pension contributions are disclosed on page 14.

Salary

Each executive director receives a fixed sum payable monthly, which is reviewed annually at the beginning of the financial year.

Bonus

Each executive director is eligible to participate in a performance related bonus scheme. The Remuneration Committee reviews and sets targets and levels of eligibility annually. No bonus was achieved for the year ending 31 January 2003. The bonus awards for 2003/4 will be based on the achievement of certain strategic initiatives and financial targets of the group. Bonus awards will not exceed 45% of basic salary.

The information from here to the end of page 14 forms the auditable information of the Directors' Remuneration Report.

Remuneration Excluding Share Options and Pension Contributions

| | Salary/ fees £000 | Benefits £000 | Total excluding pensions 2003 £000 | Total excluding pensions 2002 £000 |
|--|-------------------------|------------------|--|--|
| Executive directors | | | | |
| D Medcalf | 185 | 1 | 186 | 151 |
| JD Sach | 123 | 2 | 125 | 108 |
| P Billington (resigned 28 March 2001) | - | - | - | 35 |
| PL Cadle (resigned 28 March 2001) | - | - | - | 19 |
| AJ Connolly (resigned 27 March 2001) | - | - | - | 26 |
| Non-executive directors | | | | |
| The Viscount Thurso (resigned 15 April 2002) | 11 | - | 11 | 50 |
| I Kirkham (appointed 15 April 2002) | 40 | - | 40 | - |
| Sir Malcolm Field (retired 19 June 2002) | 8 | - | 8 | 20 |
| PM Harkness | 20 | - | 20 | 17 |
| | 387 | 3 | 390 | 426 |

(i) D Medcalf was the highest paid director; (ii) benefits include the value attributed to the provision of medical insurance and other taxable benefits in kind; (iii) compensation for loss of office of £29,167 was paid during the year to the Viscount Thurso; and (iv) contributions payable in respect of directors' pensions were £38,847 (2002: £42,000).

Directors' Remuneration Report *continued*

Share Options

The company operates an executive share option scheme. Options may be granted to executives at an exercise price no lower than the market value of a share at the date the option is granted. Options do not become exercisable until the third anniversary of being granted, and may be subject to performance conditions being achieved and the discretion of the Remuneration Committee. Options must then be exercised within the following seven years.

Movement in Share Options Held by Directors

| Director | At start & end of the year Number | Performance Condition | Option Price Pence | Exercise dates | |
|-----------|---|--------------------------|-----------------------|----------------|------------|
| | | | | Earliest | Latest |
| D Medcalf | 1,000,000 | 2 | 40.0 | 05.06.2004 | 04.06.2011 |
| | 1,000,000 | 2 | 22.0 | 05.06.2004 | 04.06.2011 |
| | 100,000 | 2 | 19.5 | 15.06.2004 | 14.06.2011 |
| JD Sach | 51,300 | None | 110.2 | 09.02.1997 | 08.02.2004 |
| | 25,000 | None | 96.0 | 13.04.1998 | 12.04.2005 |
| | 50,000 | 1 | 69.5 | 06.11.1999 | 05.11.2006 |
| | 40,000 | 1 | 66.0 | 23.04.2000 | 22.04.2007 |
| Total | 2,266,300 | | | | |

The mid-market price of the ordinary shares at 31 January 2003 was 13p and the range during the year was between 13p and 23.25p.

Performance Conditions of the Share Option Scheme

The performance conditions of the share option awards are detailed below. The Remuneration Committee considers that the conditions are appropriate as an incentive to improve future performance and growth of the company. Where no performance condition applies, the options were granted prior to the option holder being appointed as a director and it is not the practice of the company to subsequently impose performance conditions.

Condition 1

On average over a period of 3 years, the growth in the company's earnings per share exceeds the growth in the RPI Percentage for the same period by at least 2% per annum.

Condition 2

- the business of the company and its subsidiaries has been restored to profitability and shows progressive and sustainable growth in profits before tax (taking into account exceptional items) by comparison with the position set out in the company's report and accounts for the financial year ended 31 January 2001
- growth in earnings per share is not less than 7.5% compound per annum for each of the financial years ending 31 January 2002, 2003 and 2004 by comparison with the earnings per share for the financial year ended 31 January 2001
- a progressive and sustainable policy of dividend growth is introduced and maintained
- the increase in the company's quoted share price has been greater than the growth in the "Household Goods and Textiles" sector on the London Stock Exchange.

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

Other benefits

Pensions

JD Sach was a member of the Walker Greenbank Pension Plan until 30 June 2002 and is a member of the Abaris Holdings Limited Pension Scheme since that date. The retirement benefit is based on final remuneration and length of service, subject to statutory limitations. Each scheme is administered by a separate trust. The company pays contributions as recommended by the independent actuary. JD Sach contributes 5% of salary.

| Name | Accrued pension as at 31.01.03 £000 | Increase in Accrued pension in the year £000 | Transfer value as at 31.01.02 £000 | Transfer value as at 31.01.03 £000 | Increase in transfer value less contributions made by the director £000 |
|---------|--|--|---|---|---|
| JD Sach | 14 | 2 | 79 | 85 | 1 |

The company contributed £29,070 to the personal pension plan of D Medcalf in the year ending 31 January 2003.

Service Contracts

Policy

The committee's policy on all directors' service contracts is for them to contain a maximum notice period of one year.

Executive Directors' Contracts

Each executive director's service contract expires at age 60, but is subject to earlier termination either on one year's notice by either party or earlier for cause.

D Medcalf's contract with the company is dated 27 March 2001 and contains a twelve month notice period. He is entitled to a contribution to be made to his personal pension plan, private medical insurance for himself and immediate family, life assurance and permanent health insurance benefits.

JD Sach's contract with the company is dated 7 September 1999 and contains a twelve month notice period. He is entitled to membership of a final salary pension scheme, private medical cover for himself and immediate family, life assurance and permanent health insurance benefits.

Non-executive Directors' Contracts

I Kirkham's contract is dated 15 April 2002 and contains a twelve month notice period. He receives no pension or any other benefit in kind.

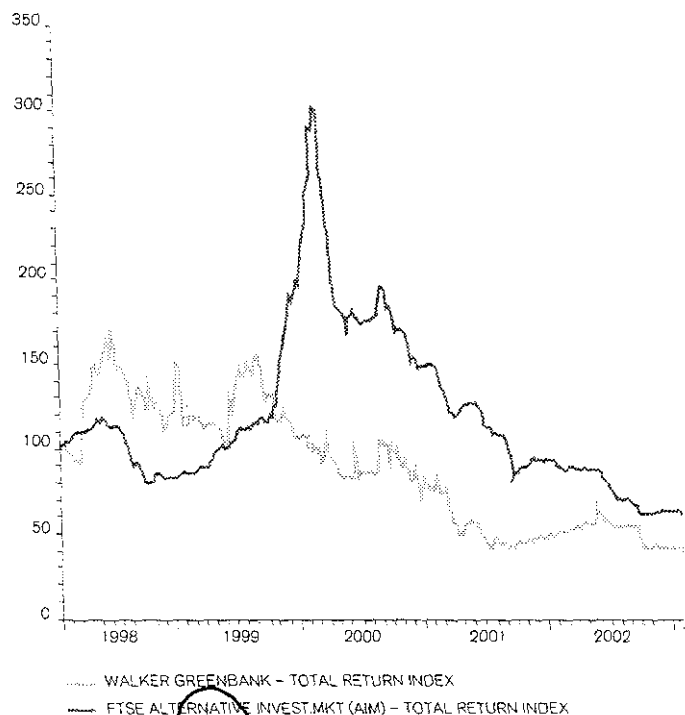
PM Harkness' contract is dated 28 March 2001 and contains a twelve month notice period. He receives no pension or any other benefit in kind.

Payment for past directors

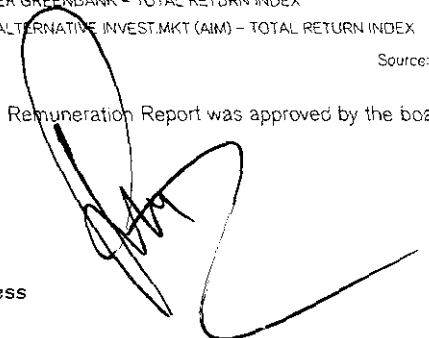
The Viscount Thurso, who ceased to be a director on 15 April 2002, was paid £29,167, in accordance with the terms of the contract for his services.

Total Shareholder Return

The graph below shows the comparison in value of the company's Total Shareholder Return with that of the FTSE AIM over the last five years. This index is considered appropriate for comparison as it reflects the size of the company and its recent move to AIM.



This Directors' Remuneration Report was approved by the board and signed on its behalf by PM Harkness.


Peter Harkness
Chairman
Remuneration Committee
22 May 2003

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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Auditors' Report

Independent Auditors' Report to the Members of Walker Greenbank PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

We review whether the Corporate Governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

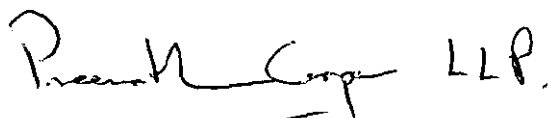
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report 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 2003 and the loss and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
10 Bricket Road
St Albans
Herts AL1 3JX
22 May 2003

Group Profit and Loss Account

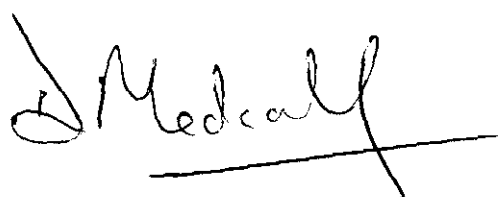
Year ended 31 January 2003

| | note | 2003 £000 | 2002 restated (note 29) £000 |
|---|------|--------------|---------------------------------------|
| Turnover | 2,3 | 58,261 | 61,115 |
| Operating loss | 3 | (3,802) | (6,542) |
| Profit on sale of properties | 4 | 175 | 320 |
| Loss on disposal of operations | 5 | (3,825) | (140) |
| Amounts written off investments | 6 | (207) | (237) |
| Loss on ordinary activities before interest | | (7,659) | (6,599) |
| Net interest payable | 10 | (504) | (528) |
| Other finance income | 11 | 188 | 494 |
| Loss on ordinary activities before taxation | 2,7 | (7,975) | (6,633) |
| Tax on loss on ordinary activities | 12 | 614 | 31 |
| Loss on ordinary activities after taxation | | (7,361) | (6,602) |
| Dividends | 23 | - | - |
| Deficit for the year | | (7,361) | (6,602) |
| Loss per share – Basic and diluted | 13 | (13.04p) | (11.69p) |
| Dividend per ordinary share | 23 | - | - |

Balance Sheets

At 31 January 2003

| | note | Group 2003 £000 | Group 2002 restated (note 29) £000 | Company 2003 £000 | Company 2002 £000 |
|---|------|-----------------------|--|-------------------------|-------------------------|
| Fixed assets | | | | | |
| Goodwill | 15 | 969 | 1,454 | - | - |
| Tangible assets | 16 | 17,239 | 21,666 | 7,964 | 9,615 |
| Investment in - own shares | 17 | 602 | 809 | 602 | 809 |
| - in subsidiaries | 18 | - | - | 32,963 | 32,963 |
| | | 18,810 | 23,929 | 41,529 | 43,387 |
| Current assets | | | | | |
| Assets held for resale | 19 | 2,044 | - | 1,724 | - |
| Stocks | 20 | 11,045 | 15,445 | - | - |
| Debtors | 21 | 12,162 | 15,091 | 24,010 | 23,833 |
| Cash at bank and in hand | | 496 | 2,234 | 2 | 28 |
| | | 25,747 | 32,770 | 25,736 | 23,861 |
| Creditors: amounts falling due within one year | 22 | (18,577) | (22,734) | (11,952) | (13,049) |
| Net current assets | | 7,170 | 10,036 | 13,784 | 10,812 |
| Total assets less current liabilities | | 25,980 | 33,965 | 55,313 | 54,199 |
| Creditors: amounts falling due after more than one year | 24 | (1,278) | (2,445) | (405) | (709) |
| Provisions for liabilities and charges | 27 | (121) | (456) | (126) | (372) |
| Net assets excluding pension liability | | 24,581 | 31,064 | 54,782 | 53,118 |
| Pension liability | 35 | (11,839) | (3,643) | - | - |
| Net assets | | 12,742 | 27,421 | 54,782 | 53,118 |
| Capital and reserves | | | | | |
| Share capital | 28 | 590 | 590 | 590 | 590 |
| Share premium account | 29 | 457 | 457 | 457 | 457 |
| Profit and loss account | 29 | (28,812) | (14,133) | 11,847 | 10,183 |
| Other reserves | 29 | 40,507 | 40,507 | 41,888 | 41,888 |
| Equity shareholders' funds | | 12,742 | 27,421 | 54,782 | 53,118 |



D Medcalf



JD Sach
Directors

These accounts were approved by the directors on 22 May 2003

Group Cash Flow Statement

Year ended 31 January 2003

| | note | 2003 £000 | 2003 £000 | 2002 £000 | 2002 £000 |
|---|------|--------------|--------------|--------------|--------------|
| Net cash inflow/(outflow) from operating activities | 32 | | 2,289 | | (1,436) |
| Returns on investment and servicing of finance | | | | | |
| Interest received | | 54 | | 105 | |
| Interest paid | | (425) | | (338) | |
| Interest element of finance lease payments | | (150) | | (256) | |
| | | | (521) | | (489) |
| Taxation | | | (138) | | 96 |
| Capital expenditure | | | | | |
| Purchase of tangible fixed assets | | (1,208) | | (1,388) | |
| Proceeds from assets held for resale | | - | | 593 | |
| Proceeds from disposal of property | | 175 | | 360 | |
| Proceeds from disposal of tangible fixed assets | | 25 | | 22 | |
| | | | (1,008) | | (413) |
| Acquisitions and disposals | | | | | |
| Acquisitions of Strines Textiles and Brushstrokes in the prior year | | (307) | | (575) | |
| Net proceeds from disposal of operations | 14 | 81 | | 307 | |
| | | | (226) | | (268) |
| Equity dividends paid | | | - | | (590) |
| Cash inflow/(outflow) before use of liquid resources and financing | | | 396 | | (3,100) |
| Management of liquid resources | | | - | | - |
| Financing | | | | | |
| Proceeds from new loans | | - | | 624 | |
| Principal repayments of finance lease obligations | | (1,151) | | (1,063) | |
| Repayment of borrowings | | (1,225) | | (314) | |
| | | | (2,376) | | (753) |
| Decrease in cash | 33 | | (1,980) | | (3,853) |

Statement of Total Recognised Gains and Losses

Year ended 31 January 2003

| | 2003 £000 | 2002 restated (note 29) £000 |
|--|--------------|---------------------------------------|
| Loss for the financial year | (7,361) | (6,602) |
| Actual less expected return on pension scheme assets | (7,741) | (5,838) |
| Experienced losses arising on pension scheme liabilities | (577) | (44) |
| Currency translation differences | 181 | (26) |
| Total recognised gains and losses relating to the year | (15,498) | (12,510) |
| Prior year adjustment (note 29) | (3,643) | |
| Total recognised losses since the last annual report | (19,141) | |

Reconciliation of Movements in Shareholders' Funds

Year ended 31 January 2003

| | 2003 £000 | 2002 restated (note 29) £000 |
|--|--------------|---------------------------------------|
| Loss for the financial year | (7,361) | (6,602) |
| Dividends | - | - |
| Deficit for the year | (7,361) | (6,602) |
| Other recognised gains and losses relating to the year | (8,137) | (5,908) |
| Goodwill previously set off to reserves in respect of the disposal of operations | 819 | - |
| Net reduction to shareholders' funds | (14,679) | (12,510) |
| Opening shareholders' funds (originally £31,064,000 before deducting prior year adjustment of £3,643,000) | 27,421 | 39,931 |
| Closing shareholders' funds | 12,742 | 27,421 |

Notes to the Accounts

1 Accounting Policies

Accounting Convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Changes in Accounting Policy

The group has adopted FRS 17 'Retirement Benefits' in the financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of adopting FRS 17 is given in note 29.

Basis of Consolidation

The group accounts consolidate the financial statements of the parent and its subsidiary undertakings for the year ended 31 January 2003. Transactions arising on trading between group undertakings are excluded.

No profit and loss account is presented for Walker Greenbank PLC as provided by Section 230 of the Companies Act 1985. A profit of £1,664,000 (2002: £607,000 loss) has been dealt with in the accounts of the parent company.

Goodwill

For acquisitions made before 1 February 1998, goodwill representing the excess of the cost of acquisition of a business over the fair value of the net assets at the date of acquisition was written off to reserves. On subsequent disposal of all or part of these businesses, the appropriate proportion of goodwill is charged to the profit and loss account on disposal.

For acquisitions since 1 February 1998, goodwill representing the excess of the cost of acquisition of a business over the fair value of the net assets at the date of acquisition is capitalised and amortised over a period not exceeding 20 years.

Fixed Assets

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

| | |
|-------------------------------|--|
| Freehold Buildings | 2% |
| Short and Long Leaseholds | Over the unexpired period of the lease |
| Plant, Equipment and Vehicles | Between 5% and 33% |
| Computer Assets | Between 12.5% and 33% |

Land and buildings are stated at cost less provision for impairment. The useful economic life of some assets has been revised in the year, see note 16.

Impairment of Fixed Assets and Goodwill

Fixed assets and goodwill are subject to review for impairment in accordance with Financial Reporting Standard, No.11. Any impairment is recognised in the profit and loss account in the year in which it occurs.

Financial Instruments

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the date of transaction or, if hedged, at the forward contract rate. All differences are taken to the profit and loss account. Full disclosure of treasury policy is detailed on pages 6 and 7.

Foreign Currency

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

Employee Share Option Plan

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 shares held in the consolidated balance sheet are recorded at cost less any provision for permanent diminution in value.

Turnover

The group turnover represents the invoiced value of sales to external customers excluding VAT and is recognised at the point of despatch of goods.

1 Accounting Policies continued

Stocks

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

Pensions

The group operates both defined benefit and defined contribution schemes. The cost of providing retirement pensions and related benefits is charged to the profit and loss account in the period in accordance with Financial Reporting Standard No.17. Full provision being made at the balance sheet date for any surplus or deficit of assets over liabilities.

Leasing and Hire Purchase Commitments

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Operating lease rentals are charged to the profit and loss account as they are incurred.

Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, that give rise to an obligation to pay more tax in the future or a right to pay less. No provision has been made for any further liability arising from the distribution of past earnings of subsidiary undertakings.

The deferred tax provision has been calculated using the average rates that are expected to apply when the timing differences reverse and the liability has not been discounted.

2 Segmental Analysis

(a) Classes of business

| | Turnover | |
|---------------|--------------|--------------|
| | 2003 £000 | 2002 £000 |
| Fabrics | 35,417 | 34,978 |
| Wallcoverings | 19,328 | 23,382 |
| Other | 3,516 | 2,755 |
| | 58,261 | 61,115 |

(b) Geographical segments

| | Turnover | | Loss before taxation restated | | Non-interest bearing operating net assets restated | |
|--------------------|--------------|--------------|----------------------------------|--------------|---|--------------|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| By origin: | | | | | | |
| United Kingdom | 46,188 | 49,357 | (8,993) | (7,032) | 19,236 | 33,819 |
| Continental Europe | 5,827 | 5,350 | 576 | 275 | 1,043 | 1,181 |
| North America | 6,246 | 6,408 | 442 | 124 | 163 | 1,429 |
| | 58,261 | 61,115 | (7,975) | (6,633) | 20,442 | 36,429 |

Notes to the Accounts *continued*

2 Segmental Analysis continued

(b) Geographical segments continued

| | 2003 £000 | Turnover 2002 £000 |
|--------------------|--------------|--------------------------|
| By destination: | | |
| United Kingdom | 40,335 | 43,011 |
| Continental Europe | 9,006 | 9,393 |
| North America | 8,292 | 8,002 |
| Rest of the World | 628 | 709 |
| | 58,261 | 61,115 |

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 Operating Loss

| | 2003 £000 | 2002 restated £000 |
|--------------------------------|--------------|--------------------------|
| Turnover | 58,261 | 61,115 |
| Cost of sales | (31,745) | (34,949) |
| Gross profit | 26,516 | 26,166 |
| Net operating expenses: | | |
| Distribution costs | (11,169) | (11,172) |
| Administrative expenses | (19,198) | (21,490) |
| Other operating income/(costs) | 49 | (46) |
| Operating loss | (3,802) | (6,542) |

In the previous year, the operating loss included £2,600,000 of exceptional items. This comprised £1,183,000 for the costs of closing the Strines factory and transferring the business to the group's existing factory operated by Standfast including £480,000 of redundancy costs, £996,000 of further redundancies in the year, of which, £247,000 was paid to a past director as compensation for loss of office, £211,000 of professional fees in connection with the previously announced proposed offer for the company, £95,000 of costs resulting from moving the Anstey factory and £115,000 for the provision for vacant leasehold property.

4 Profit on Sale of Properties

An additional £175,000 was received in the year, after achieving certain conditions regarding planning permission specified in the contract, for the disposal of the group's property in Anstey, Leicestershire. In the previous year, the property was sold for an initial consideration of £643,000, net of expenses, that generated an exceptional profit of £351,000. Later in that year the property in Cowling, West Yorkshire was sold for £360,000 net of expenses with a loss on disposal of £31,000. There is no tax effect on these disposals.

5 Loss on Disposal of Operations

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| a) Provision for impairment on assets included in the disposal of Riverside | (3,507) | - |
| b) Loss on disposal of TWIL | (204) | - |
| c) Loss on disposal of Warner Fabrics | (14) | (140) |
| d) Provision against deferred consideration outstanding for the disposal of Cole & Sons | (100) | - |
| | (3,825) | (140) |

a) On 20 May 2003, the trade and assets of the business trading as Riverside was sold for £2,801,000. The assets held at the balance sheet date have been impaired by the anticipated loss on disposal of £3,507,000. The loss comprises the following:

| | note | £000 |
|--|------|---------|
| Impairment of goodwill | 15 | (267) |
| Recognition of goodwill previously set off to reserves | 29 | (819) |
| Plant and equipment - fully impaired | 19 | (615) |
| Additional stock provision | | (1,806) |
| | | (3,507) |

5 Loss on Disposal of Operations continued

- b) On 24 January 2003, the trade and assets of Textile Wallcoverings International Limited ('TWIL') was sold for a consideration of £878,000, of which £81,000 had been received in cash by 31 January 2003. After accounting for related costs the exceptional loss on disposal was £204,000, of which £142,000 was provision against the recoverability of the deferred consideration. The deferred consideration is dependent on sales by TWIL over the three year period following completion and is payable quarterly.
- c) In the previous year, the trade and certain of the assets of the business trading as Warner Fabrics were sold. The proceeds were agreed at £453,000, of which £337,000 had been received in cash at 31 January 2002. After accounting for related costs the exceptional loss on disposal was £140,000. In the current year, £14,000 of this consideration has been waived.
- d) A further provision of £100,000 has been made against the deferred consideration that remains outstanding on the sale of Cole & Sons in a prior year.

There is no tax effect on the disposals in either year due to capital losses brought forward from previous periods.

The disposal of the Riverside business has not been classed as a discontinued operation owing to the date of completion, being more than three months since the balance sheet date.

6 Amounts Written off Investments

The directors believe there is likely to be a shortfall between the cost of the shares held by the ESOP and anticipated future proceeds and have decided to recognise this shortfall with an amount of £207,000 written off in the year (2002: £237,000).

7 Loss on Ordinary Activities before Taxation

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Loss on ordinary activities before taxation is stated after charging: | | |
| Auditors' remuneration: | | |
| Audit fee – group auditors | 119 | 100 |
| – other auditors | 15 | 18 |
| Depreciation of owned assets | 2,390 | 2,601 |
| Depreciation of assets held under finance leases and hire purchase contracts | 491 | 920 |
| Loss on disposal of fixed assets | 2 | 20 |
| Hire of motor vehicles and plant and machinery | 421 | 505 |
| Other operating leases | 517 | 486 |

Auditors' remuneration for audit services to the group includes £33,000 (2002: £33,000) in respect of the company.

8 Emoluments of Directors

The emoluments, including share options, of the directors who held office during the year are shown in the Directors' Remuneration Report on pages 13 to 15.

9 Employee Information, Excluding Directors

| | 2003 £000 | 2002 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 15,089 | 15,660 |
| Social security costs | 1,266 | 1,340 |
| Other pension costs | 767 | 867 |
| | 17,122 | 17,867 |

| The average monthly numbers of employees during the year | Number | Number |
|--|--------|--------|
| Sales, warehousing and administration | 332 | 393 |
| Manufacturing | 333 | 347 |
| | 665 | 740 |

Notes to the Accounts *continued*

10 Net Interest Payable

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Interest receivable: | | |
| Bank and other short term deposit interest receivable | 54 | 142 |
| Interest payable: | | |
| Bank and other short term interest on loans and overdrafts wholly repayable within 5 years | (408) | (414) |
| Finance charges payable under finance leases and hire purchase contracts | (150) | (256) |
| | (558) | (670) |
| Net interest payable | (504) | (528) |

11 Other Finance Income

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Expected return on pension scheme assets | 2,256 | 2,504 |
| Interest on pension scheme liabilities | (2,068) | (2,010) |
| Net return | 188 | 494 |

12 Taxation

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| UK Corporation tax (credit)/charge at 30% (2002: 30%) | | |
| – current year | – | – |
| – prior years | (622) | – |
| Overseas taxation | | |
| – current year | 243 | 126 |
| – prior years | – | (183) |
| Total current tax | (379) | (57) |
| Deferred tax | | |
| – current year | 11 | 32 |
| – prior years | (246) | (6) |
| Total deferred tax | (235) | 26 |
| Tax on loss on ordinary activities | (614) | (31) |

The difference between the loss on ordinary activities at the corporation tax rate of 30% ruling in the UK and the actual current tax shown above is explained below:

| | 2003 £000 | 2002 restated £000 |
|---|--------------|--------------------------|
| Loss on ordinary activities before taxation | (7,975) | (6,633) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%) | (2,393) | (1,990) |
| Adjustments in respect to prior years | (622) | (183) |
| Expenses not deductible for tax purposes | 1,178 | 220 |
| Utilisation of prior year losses | (52) | (57) |
| Capital allowances in excess of depreciation | 229 | (27) |
| Losses not recognised | 1,355 | 1,985 |
| Other timing differences | (74) | (5) |
| Total current tax | (379) | (57) |

13 Loss Per Share

The basic loss per share and diluted loss per share are based on the loss on ordinary activities after taxation, amounting to £7,361,000 (2002: £6,602,000 loss) and the weighted average of 56,457,016 (2002: 56,457,016) ordinary shares in issue during the year.

14 Disposal of Textile Wallcoverings International Limited ('TWIL')

On 24 January 2003, the group sold the trade and assets of the TWIL business.

| | £000 |
|--|-------|
| Proceeds from sale | 878 |
| Provision against deferred consideration | (142) |
| Deferred proceeds | (655) |
| Net cash inflow | 81 |
| The disposal comprised the following: | |
| Stock | 510 |
| Debtors | 278 |
| | 788 |
| Loss on disposal | (204) |
| Accrued professional fees and severance payments | 124 |
| Provision for impairment of fixed assets still held by the group | 28 |
| Deferred proceeds | (655) |
| Net cash inflow | 81 |

15 Goodwill

| | £000 |
|------------------------------------|-------|
| Cost: | |
| At 1 February 2002 | 1,750 |
| Disposal of Riverside | (362) |
| Currency movements | 12 |
| At 31 January 2003 | 1,400 |
| Amortisation: | |
| At 1 February 2002 | 296 |
| Amortisation for the period | 230 |
| Disposal of Riverside | (95) |
| Currency movements | - |
| At 31 January 2003 | 431 |
| Net book amount at 31 January 2003 | 969 |
| Net book amount at 31 January 2002 | 1,454 |

Notes to the Accounts *continued*

16 Fixed Assets

| | Land and buildings £000 | Plant, equipment and vehicles £000 | Computer assets £000 | Total £000 |
|--|-------------------------------|---|----------------------------|---------------|
| Group | | | | |
| Cost: | | | | |
| 1 February 2002 | 12,632 | 18,410 | 7,379 | 38,421 |
| Additions | 212 | 859 | 118 | 1,189 |
| Disposals | (224) | (181) | (520) | (925) |
| Transferred to current assets | (2,651) | (2,217) | - | (4,868) |
| Currency movements | (172) | (1) | - | (173) |
| 31 January 2003 | 9,797 | 16,870 | 6,977 | 33,644 |
| Depreciation: | | | | |
| 1 February 2002 | 2,526 | 10,184 | 4,045 | 16,755 |
| Charge | 277 | 1,866 | 738 | 2,881 |
| Disposals | (224) | (154) | (520) | (898) |
| Transferred to current assets | (607) | (1,602) | - | (2,209) |
| Currency movements | (106) | (18) | - | (124) |
| 31 January 2003 | 1,866 | 10,276 | 4,263 | 16,405 |
| Net book amount: | | | | |
| 31 January 2003 | 7,931 | 6,594 | 2,714 | 17,239 |
| 1 February 2002 | 10,106 | 8,226 | 3,334 | 21,666 |
| | | | | £000 |
| The net book amount of land and buildings comprises: | | | | |
| Freehold land | | | | 1,429 |
| Freehold buildings | | | | 6,477 |
| Short leaseholds | | | | 25 |
| Net book value at 31 January 2003 | | | | 7,931 |

The decision was taken during the year to revise the useful life of the group's IT platform introduced in December 1999 from 5 years to 8 years, reflecting the minimal future upgrade or replacement costs currently anticipated. The effect of this change was to reduce the depreciation charge for the year by £436,000.

16 Fixed Assets continued

| | Land and buildings £000 | Plant, equipment and vehicles £000 | Computer assets £000 | Total £000 |
|--|-------------------------------|---|----------------------------|---------------|
| Company | | | | |
| Cost: | | | | |
| 1 February 2002 | 10,470 | 241 | 408 | 11,119 |
| Additions | 210 | 11 | 1 | 222 |
| Intergroup transfer | 60 | - | - | 60 |
| Transferred to current assets | (2,038) | - | - | (2,038) |
| 31 January 2003 | 8,702 | 252 | 409 | 9,363 |
| Depreciation: | | | | |
| 1 February 2002 | 931 | 176 | 397 | 1,504 |
| Charge | 179 | 20 | 10 | 209 |
| Transferred to current assets | (314) | - | - | (314) |
| 31 January 2003 | 796 | 196 | 407 | 1,399 |
| Net book amount: | | | | |
| 31 January 2003 | 7,906 | 56 | 2 | 7,964 |
| 1 February 2002 | 9,539 | 65 | 11 | 9,615 |
| | | | | £000 |
| The net book amount of land and buildings comprises: | | | | |
| Freehold land | | | | 1,429 |
| Freehold buildings | | | | 6,477 |
| Net book amount at 31 January 2003 | | | | 7,906 |

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

| | Group Plant, equipment and vehicles £000 | Group Computer assets £000 | Company Plant, equipment and vehicles £000 | Company Computer assets £000 |
|------------------|--|-------------------------------------|--|---------------------------------------|
| Net book amount: | | | | |
| 31 January 2003 | 1,667 | 1,280 | - | - |
| 31 January 2002 | 1,833 | 1,605 | - | - |

17 Investment in Own Shares

| | Group Cost less provision for diminution £000 | Group Nominal value £000 | Company Cost less provision for diminution £000 | Company Nominal value £000 |
|--|---|-----------------------------------|---|-------------------------------------|
| Shares held: | | | | |
| 2,549,146 ordinary shares of 1p each at beginning and end of the year in Walker Greenbank PLC | | | | |
| 1 February 2002 | 809 | 25 | 809 | 25 |
| Provision (note 6) | (207) | - | (207) | - |
| 31 January 2003 | 602 | 25 | 602 | 25 |

Notes to the Accounts *continued*

17 Investment in Own Shares *continued*

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 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 £8,000 (2002: £11,000) in the year.

At 31 January 2003, 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 £331,000. A total of 2,351,300 of these shares were held under option to employees.

18 Investments

Company
£000

| | |
|--|--------|
| Shares in subsidiary undertakings at 1 February 2002 and 31 January 2003 | 32,963 |
|--|--------|

The principal group operating companies that traded during the year and are wholly owned are as follows:

| | |
|-------------------------|-----------------------------------|
| Abaris Holdings Limited | – registered in England and Wales |
| John O Borge a.s. | – incorporated in Norway |
| Walker Greenbank Inc* | – incorporated in the USA |
| Whittaker & Woods SRL | – incorporated in Italy |

* shares held by subsidiary company.

19 Assets Held for Resale

The assets held for resale include the freehold property in Atlanta, USA now available for disposal following the sale of TWIL, and the tangible assets sold with the Riverside business post year end.

| | Group 2003 £000 | Company 2003 £000 | Group 2002 £000 | Company 2002 £000 |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
| Land & buildings – Riverside | 1,724 | 1,724 | – | – |
| Plant & equipment – Riverside | 615 | – | – | – |
| | 2,339 | 1,724 | – | – |
| Provision for impairment | (615) | – | – | – |
| | 1,724 | 1,724 | – | – |
| Land & buildings – TWIL | 320 | – | – | – |
| Total assets held for resale after impairment | 2,044 | 1,724 | – | – |

The property has not been impaired following its sale at book value by the company.

20 Stocks

| | Group 2003 £000 | Group 2002 £000 |
|------------------|-----------------------|-----------------------|
| Raw materials | 1,372 | 2,526 |
| Work in progress | 2,224 | 3,297 |
| Finished goods | 7,449 | 9,622 |
| | 11,045 | 15,445 |

The company does not hold stock.

21 Debtors

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| Trade debtors | 9,430 | 12,294 | 6 | 215 |
| Amounts owed by subsidiary undertakings | — | — | 23,329 | 23,090 |
| Other debtors | 1,595 | 1,594 | 438 | 435 |
| Prepayments | 1,137 | 1,203 | 237 | 93 |
| | 12,162 | 15,091 | 24,010 | 23,833 |

Amounts owed by subsidiary undertakings to the company include long term loans recoverable after more than one year of £972,000 (2002: £937,000).

22 Creditors: Due within one Year

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| Current instalments due on loans | 307 | 1,222 | 303 | 567 |
| Bank overdrafts | 5,754 | 5,707 | 3,956 | 4,180 |
| Obligations under finance leases and hire purchase contracts | 620 | 1,151 | — | — |
| Trade creditors | 7,494 | 9,483 | 176 | 202 |
| Amounts owed to subsidiary undertakings | — | — | 7,321 | 7,339 |
| Corporation tax | 130 | 695 | — | 332 |
| Other taxes and social security | 908 | 457 | 52 | 42 |
| Other creditors | 1,038 | 1,122 | — | 42 |
| Accruals | 2,326 | 2,897 | 144 | 345 |
| | 18,577 | 22,734 | 11,952 | 13,049 |

The overdrafts of the company and certain subsidiary undertakings were covered by cross guarantees given by the company and those subsidiary undertakings. As at 31 January 2003 an amount of £1,798,000 (2002: £1,175,000) was guaranteed by the company.

23 Dividends

The directors do not propose a final dividend in respect of the year ended 31 January 2003 (2002: No dividend proposed).

24 Creditors: Due after more than one Year

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| Loans (note 26) | 405 | 716 | 405 | 709 |
| Obligations under finance leases and hire purchase contracts (note 26) | 683 | 1,303 | — | — |
| Overseas tax | 190 | 107 | — | — |
| Other | — | 319 | — | — |
| | 1,278 | 2,445 | 405 | 709 |

25 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 | 21 | 28 | — | — |
| Between one and five years | 378 | 393 | 27 | 6 |
| Over five years | 123 | — | 60 | — |
| | 517 | 421 | 87 | 6 |

Notes to the Accounts *continued*

26 Financial Instruments

A discussion of treasury policy is given in the Financial Review on pages 6 and 7. Short term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Financial Assets

| | Group 2003 £000 | Group 2002 £000 |
|--------------------------|-----------------------|-----------------------|
| Cash at bank and in hand | 496 | 2,234 |

Borrowings

| | Group 2003 £000 | Group 2002 £000 |
|--|-----------------------|-----------------------|
| Finance leases | 1,303 | 2,454 |
| Bank overdrafts | 5,754 | 5,707 |
| Loans: | | |
| Secured | | |
| US dollar bank loan repayable by instalments, bearing interest at 84.2% of prime rate of USA lender | 4 | 37 |
| US dollar bank loan repayable by instalments, bearing interest at 1.5% over LIBOR | 708 | - |
| Unsecured | | |
| US dollar bank loan, bearing interest at 1.25% over the US interbank rate | - | 1,277 |
| Commercial loan repayable by instalments and bearing interest at 1% over the Barclays Bank base rate | - | 624 |
| Total loans | 712 | 1,938 |
| Total borrowings | 7,769 | 10,099 |

| | Group 2003 £000 | Group 2002 £000 |
|-------------------------------|-----------------------|-----------------------|
| Repayment of total borrowings | | |
| Between two and five years: | | |
| Finance leases | 236 | 683 |
| Loans | 102 | - |
| Between one and two years: | | |
| Finance leases | 447 | 620 |
| Loans | 303 | 716 |
| After more than one year: | | |
| Finance leases | 683 | 1,303 |
| Loans | 405 | 716 |
| Within one year: | | |
| Finance leases | 620 | 1,151 |
| Bank overdrafts | 5,754 | 5,707 |
| Loans | 307 | 1,222 |
| Total borrowings | 7,769 | 10,099 |

The secured loans are secured against the freehold property occupied by the group.

26 Financial Instruments continued

Interest rate and currency profile of financial net assets

| Currency | Floating rate assets 2003 £000 | Floating rate assets 2002 £000 |
|------------------|--------------------------------------|--------------------------------------|
| Sterling | (206) | 12 |
| US Dollar | 170 | 355 |
| Euro | 116 | 355 |
| Norwegian Kroner | 242 | 1,356 |
| Other | 174 | 156 |
| | 496 | 2,234 |

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

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

Interest rate and currency profile of financial liabilities

At 31 January 2003

| Currency | Total £000 | Floating rate borrowings £000 | Fixed rate borrowings £000 | Weighted average interest rate % | Fixed rate borrowing Weighted average time for which rate is fixed Years |
|-----------|---------------|-------------------------------------|----------------------------------|---|--|
| Sterling | 6,686 | 5,384 | 1,302 | 7.37% | 1.27 |
| US Dollar | 713 | 713 | — | — | — |
| Euro | 370 | 370 | — | — | — |
| | 7,769 | 6,467 | 1,302 | — | — |

At 31 January 2002

| Currency | Total £000 | Floating rate borrowings £000 | Fixed rate borrowings £000 | Weighted average interest rate % | Fixed rate borrowing Weighted average time for which rate is fixed Years |
|-----------|---------------|-------------------------------------|----------------------------------|---|--|
| Sterling | 8,396 | 5,942 | 2,454 | 7.77% | 2.50 |
| US Dollar | 1,703 | 1,703 | — | — | — |
| | 10,099 | 7,645 | 2,454 | 7.77% | 2.50 |

Notes to the Accounts *continued*

26 Financial Instruments *continued*

Net foreign monetary assets/(liabilities)

The following summary shows the group's currency exposures that give rise to currency gains and losses recognised in the profit and loss account, resulting from exposures where monetary assets and liabilities (including intercompany trading balances) at the balance sheet date are denominated in currencies other than the functional currency of each operation.

At 31 January 2003

| | Sterling £000 | US Dollar £000 | Euro £000 | Norwegian Kroner £000 | Other £000 | Total £000 |
|-------------------------------|------------------|-------------------|--------------|-----------------------------|---------------|---------------|
| Functional currency of entity | | | | | | |
| Sterling | – | 300 | (554) | (1,024) | 30 | (1,248) |
| US Dollar | (113) | – | – | – | 7 | (106) |
| Euro | (363) | – | – | – | – | (363) |
| Norwegian Kroner | (79) | (9) | (92) | – | – | (180) |
| | (555) | 291 | (646) | (1,024) | 37 | (1,897) |

At 31 January 2002

| | Sterling £000 | US Dollar £000 | Euro £000 | Norwegian Kroner £000 | Other £000 | Total £000 |
|-------------------------------|------------------|-------------------|--------------|-----------------------------|---------------|---------------|
| Functional currency of entity | | | | | | |
| Sterling | – | 97 | 349 | – | 68 | 514 |
| US Dollar | 69 | – | – | – | 41 | 110 |
| Euro | (564) | – | – | – | – | (564) |
| Norwegian Kroner | (7) | (1) | (214) | – | – | (222) |
| | (502) | 96 | 135 | – | 109 | (162) |

Borrowing facilities

The group's undrawn committed borrowing facilities available at 31 January 2003 in respect of which all conditions had been met comprised NOK10,000,000 in Norway and an amount in the UK that was capped at £9,500,000 but varies on a daily basis in line with the trade debtors upon which £8,500,000 of this facility is secured. The facilities in the UK were renewed in May 2003 for a further year.

Gains and losses on hedges

There were no significant unrecognised or deferred gains and losses on hedges at 31 January 2003 or 31 January 2002.

Fair values of assets and liabilities

The fair value of finance leases which bear interest at a fixed rate is £20,000 lower (2002: £99,000 lower) than the discounted future cash flows for these financial liabilities.

27 Provisions for Liabilities and Charges

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|-------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Deferred taxation | 106 | 341 | 126 | 272 |
| Provision for vacant property | 15 | 115 | - | 100 |
| | 121 | 456 | 126 | 372 |

Deferred taxation

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| Deferred taxation provided in the accounts is as follows: | | | | |
| Capital allowances in excess of depreciation | 701 | 921 | 126 | 122 |
| Other timing differences | (595) | (580) | - | 150 |
| | 106 | 341 | 126 | 272 |

| | Group £000 | Company £000 |
|--|---------------|-----------------|
| Deferred taxation movement for the year: | | |
| 1 February 2002 | 341 | 272 |
| Current year charge | (235) | (146) |
| Currency movements | - | - |
| 31 January 2003 | 106 | 126 |

The group and company have no unprovided deferred tax liabilities (2001: £nil)

Provision for vacant property

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|-----------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| 1 February 2002 | 115 | - | 100 | - |
| Current year (utilisation)/charge | (100) | 115 | (100) | 100 |
| 31 January 2003 | 15 | 115 | - | 100 |

The provision was established to cover the potential future under recovery from sub-letting leased premises. Shortly after 31 January 2003, the two properties covered by this provision had been successfully assigned and sub-let. The liabilities at 31 January 2003 were crystallised at £15,000 as a result.

28 Share Capital

| | Number of shares | £ |
|-------------------------------------|------------------|---------|
| Ordinary shares of 1p each: | | |
| Authorised share capital: | | |
| 1 February 2002 and 31 January 2003 | 85,000,000 | 850,000 |
| Allotted, called up and fully paid: | | |
| 1 February 2002 and 31 January 2003 | 59,006,162 | 590,062 |

Notes to the Accounts *continued*

29 Reserves

| | Share premium account £000 | Profit and loss account £000 | Capital reserve £000 | Other reserves Merger reserve £000 | Total £000 |
|---|-------------------------------------|---------------------------------------|----------------------------|---|---------------|
| Group | | | | | |
| 1 February 2002 – as previously stated | 457 | (10,490) | 43,457 | (2,950) | 40,507 |
| Prior year adjustment | – | (3,643) | – | – | – |
| 1 February 2002 – as restated | 457 | (14,133) | 43,457 | (2,950) | 40,507 |
| Retained loss for the year | – | (7,361) | – | – | – |
| Write back of goodwill previously written off to reserves | – | 819 | – | – | – |
| Actuarial loss on pension scheme | – | (8,318) | – | – | – |
| Currency translation movements | – | 181 | – | – | – |
| 31 January 2003 | 457 | (28,812) | 43,457 | (2,950) | 40,507 |
| Company | | | | | |
| 1 February 2002 | 457 | 10,183 | 41,888 | – | 41,888 |
| Retained profit for the year | – | 1,664 | – | – | – |
| 31 January 2003 | 457 | 11,847 | 41,888 | – | 41,888 |

The prior year adjustment relates to the full adoption of Financial Reporting Standard No. 17, "Retirement Benefits". The effect of applying this standard is to increase the loss before taxation in the period ended 31 January 2002 by £39,000. If FRS 17 had not been adopted in the year ended 31 January 2003, the loss before taxation would have been increased by £218,000.

Capital reserve represents:

| | £000 |
|--|--------|
| Share premium of companies acquired and accounted for under merger accounting principles | 1,276 |
| Capital reserve arising on consolidation | 293 |
| Capital redemption reserve for deferred shares | 1,003 |
| Capital redemption reserve for "B" shares | 40,885 |
| | 43,457 |

The cumulative amount of goodwill which has been written off to the profit and loss account reserve in respect of existing group companies is £4,520,000 (2002: £5,339,000).

30 Capital Commitments

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Authorised and contracted | 13 | 155 | – | 150 |

31 Contingent Liability

In 1996, the company entered into an agreement with a communications conglomerate to supply the group with data transmission services over its wide area network in the UK and Europe. The company received a claim in the year ended 31 January 2001 under this contract relating to services purportedly supplied in 1998 amounting to £1,800,000. The directors continue to refute the claim and intend to defend it vigorously and continue to believe that there is no need to make a provision.

32 Reconciliation of Operating Loss to Net Cash Inflow/(Outflow) from Operating Activities

| | 2003 £000 | 2003 £000 | 2002 restated £000 | 2002 restated £000 |
|--|--------------|--------------|--------------------------|--------------------------|
| Operating loss | | (3,802) | | (6,542) |
| Depreciation and amortisation | 3,111 | | 3,694 | |
| Difference between pension charge and cash contributions | 66 | | 455 | |
| Loss on disposal of fixed assets | 2 | | 20 | |
| Decrease/(increase) in stocks | 2,136 | | (25) | |
| Decrease in debtors | 3,253 | | 2,009 | |
| Decrease in creditors | (2,477) | | (1,047) | |
| | | 6,091 | | 5,106 |
| Net cash inflow/(outflow) from operating activities | | 2,289 | | (1,436) |

33 Analysis for Net Debt

| | 1 February 2002 £000 | Cash flow £000 | Other movements £000 | Exchange movement £000 | 31 January 2003 £000 |
|--------------------------|----------------------------|-------------------|----------------------------|------------------------------|----------------------------|
| Cash at bank and in hand | 2,234 | (1,886) | – | 148 | 496 |
| Overdrafts | (5,707) | (94) | – | 47 | (5,754) |
| | (3,473) | (1,980) | – | 195 | (5,258) |
| Debt due within one year | (1,222) | 1,222 | (307) | – | (307) |
| Debt due after one year | (716) | 3 | 307 | 1 | (405) |
| Finance leases | (2,454) | 1,151 | – | – | (1,303) |
| | (4,392) | 2,376 | – | 1 | (2,015) |
| | (7,865) | 396 | – | 196 | (7,273) |

34 Reconciliation of Net Cash Flow to Movement in Net Debt

| | 2003 £000 | 2002 £000 |
|---------------------------------------|--------------|--------------|
| Decrease in cash in the period | (1,980) | (3,853) |
| Decrease in debt and lease financing | 2,376 | 753 |
| Cash inflow/(outflow) from cash flows | 396 | (3,100) |
| Exchange movement | 196 | (46) |
| Movement in period | 592 | (3,146) |
| Net debt at 1 February | (7,865) | (4,719) |
| Net debt at 31 January | (7,273) | (7,865) |

Notes to the Accounts *continued*

35 Pension

The group operates defined benefit and defined contribution schemes in the UK for all qualifying employees. The major scheme, Walker Greenbank Pension Plan, 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, Gissings Consultancy Services Limited, using the projected unit method. These schemes are subject to triennial actuarial reviews with the most recent ones having been at 6 April 2001 for both the major scheme and 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 2002. These valuations were rolled forward to 31 January 2003 for the purposes of FRS 17 used in the disclosure below.

The total pension cost charged in the year was £806,000 (2002: £909,000) of which the charge for the defined benefit pension schemes amounted to £491,000 (2002: £693,000) for current service. The amount charged for past service in the period was £nil (2002: £nil).

Financial assumptions applied when valuing the defined benefit schemes

| | 2003 | 2002 | 2001 |
|--|----------------|----------------|----------------|
| Valuation method | Projected unit | Projected unit | Projected unit |
| Discount rate | 5.75% | 5.75% | 6.0% |
| Inflation rate | 2.5% | 2.5% | 2.75% |
| Increase to deferred benefits during deferment | 2.5% | 2.5% | 2.75% |
| Increases to pensions in payment | 2.5% | 2.5% | 2.75% |
| Salary increases | 2.5% | 3.0% | 3.25% |

Consolidated net (deficit)/surplus in the pension schemes and the expected rates of return

| | 2003 Group £000 | 2002 Group £000 | 2001 Group £000 |
|--|-----------------------|-----------------------|-----------------------|
| Equities | 8.25% 16,686 | 7.9% 22,788 | 7.9% 25,451 |
| Bonds | 4.5% 9,930 | 5.5% 9,383 | 5.5% 10,479 |
| Cash | 3.75% 1,362 | 4.0% 1,341 | 4.0% 1,498 |
| Total market value of assets | 27,978 | 33,512 | 37,428 |
| Present value of the schemes liabilities | (39,817) | (37,155) | (35,228) |
| (Deficit)/surplus in the schemes | (11,839) | (3,643) | 2,200 |

The deficit of £3,643,000 in 2002 exceeds the amount previously disclosed of £2,305,000 due to an error in the actuarial calculations relied upon when preparing the accounts.

Movement in (deficit)/surplus during the period

| | 2003 Group £000 | 2002 Group £000 |
|--|-----------------------|-----------------------|
| (Deficit)/surplus at beginning of period | (3,643) | 2,200 |
| Movement in the period: | | |
| Current service cost | (491) | (693) |
| Contributions | 425 | 238 |
| Other finance income | 188 | 494 |
| Actuarial loss | (8,318) | (5,882) |
| Deficit at end of period | (11,839) | (3,643) |

A deferred tax asset has not been offset against this potential liability because of carried forward tax losses that are not expected to be fully utilised in the foreseeable future.

35 Pension continued**History of experience gains and losses**

| | 2003 | 2002 |
|---|---------|---------|
| Difference between the expected and actual return on scheme assets | | |
| Amount (£'000) | (7,741) | (5,838) |
| Percentage of scheme assets | 27.7% | 17.4% |
| Experience gains and losses on scheme liabilities | | |
| Amount (£'000) | (577) | (44) |
| Percentage of the present value of scheme liabilities | 1.4% | 0.1% |
| Total amount recognised in statement of total recognised gains and losses | | |
| Amount (£'000) | (8,318) | (5,882) |
| Percentage of the present value of scheme liabilities | 20.9% | 15.8% |

36 Post Balance Sheet Event

On 20 May 2003 the trade and assets of the group's business trading as Riverside was sold for £2,801,000 with an anticipated loss on disposal of £3,507,000 subject to final adjustments.

Five Year Record

| | 1999 £000 | 2000 £000 | 2001 £000 | 2002 £000 | 2003 £000 |
|--|--------------|--------------|--------------|--------------|--------------|
| Continuing Operations | | | | | |
| Turnover | 52,450 | 49,937 | 64,067 | 61,115 | 58,261 |
| Overseas turnover | 23,018 | 20,990 | 20,065 | 18,104 | 17,926 |
| Operating profit/(loss) – restated | (2,065) | 1,663 | (5,269) | (6,542) | (3,802) |
| EBITDA | 836 | 3,637 | (1,811) | (2,848) | (691) |
| Profit/(loss) before taxation – restated | (2,382) | 386 | (5,487) | (6,633) | (7,975) |
| Capital expenditure | 2,853 | 6,283 | 6,113 | 1,388 | 1,208 |
| Earnings/(loss) per share | (2.26) | 0.25 | (9.60) | (11.69) | (13.04p) |
| Average number of employees | 608 | 568 | 757 | 740 | 665 |
| Turnover per employee | £86,000 | £88,000 | £85,000 | £83,000 | £88,000 |

| | 1999 £000 | 2000 £000 | 2001 £000 | 2002 £000 | 2003 £000 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Group | | | | | |
| Dividends | 1,247 | 1,180 | 590 | – | – |
| Shareholders' funds – restated | 42,787 | 42,442 | 37,731 | 27,421 | 12,742 |
| Dividend per share | 2.0p | 2.0p | 1.0p | – | – |

The 2002 results have been restated for the change in accounting policy following the adoption of FRS 17 "Retirement Benefits".

Financial Calendar

Annual General Meeting
Announcement of half-year results

14 July 2003
October 2003