Walker Greenbank PLC

Annual report and accounts

Year ended 31 January 2002

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 2002.

Group Results

The loss before taxation amounted to £6,672,000 (2001: loss of £5,487,000). The directors do not recommend payment of a final ordinary dividend (2001: 1.00p per share, amounting to £590,000), which leaves a deficit of £6,641,000 transferred from reserves (2001: £5,953,000).

Review of the Business

Further information on the business and future of the group is included in the Chairman's Statement on page 1, Chief Executive's Review on pages 3 to 5 and 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 and those retiring at the forthcoming Annual General Meeting ("AGM") are set out in the Report on Directors' Remuneration on page 13. Details of directors who held office during the year are included in the report on Corporate Governance on page 11.

Research and Development

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

Directors' Share Interests

The interests of the directors in office at 31 January 2002 in the share capital of the company were:

	1p Ord Shares 31 January 2002 Number	1p Ord Shares 31 January 2001 Number
PM Harkness	**100,000**	–
JD Sach	**50,000**	50,000
The Viscount Thurso	**1,282,026**	1,282,026

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

None of the directors' share interests changed between 31 January 2002 and 25 April 2002.

Executive Share Option Schemes

No options were exercised during the year. Options over 2,100,000 ordinary shares have been granted and options over 1,267,020 ordinary shares have lapsed. Options over ordinary shares outstanding at 31 January 2002 are shown below:

Date granted	Number of shares	Subscription price	Exercisable
26 May 1993	41,040	80.0p	26.05.96 to 25.05.03
10 January 1994	41,040	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	148,770	98.5p	04.05.97 to 03.05.04
20 June 1994	179,550	105.0p	20.06.97 to 19.06.04
13 April 1995	75,000	96.0p	13.04.98 to 12.04.05
1 May 1996	30,000	98.0p	01.05.99 to 30.04.06
6 November 1996	100,000	69.5p	06.11.99 to 05.11.06
23 April 1997	240,000	66.0p	23.04.00 to 22.04.07
7 May 1997	30,000	66.0p	07.05.00 to 06.05.07
5 June 2001	1,000,000	40.0p	05.06.04 to 04.06.11
5 June 2001	1,000,000	22.0p	05.06.04 to 04.06.11
15 June 2001	100,000	19.5p	15.06.04 to 14.06.11
	3,036,700		

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 37 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 25 April 2002 the company had been notified of the following substantial shareholdings in its ordinary share capital.
Mr P Gyllenhammar 12.88%, Edinburgh Fund Managers 8.77%, Merrill Lynch Investment Managers 6.09%, Schroder Investment Managers 5.36%, British Airways Pension Trustees Ltd 4.17%, Prudential plc 3.75%, Framlington One Thousand Smallest Company's Trust 3.39% and Barnard Nominees Limited 3.08%.

Special Business
At the AGM on 19 June 2002 item 4 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. 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 2002 represents 79 days (2001: 76 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
PricewaterhouseCoopers have indicated their willingness to continue in office as auditors and a resolution to re-appoint them and to authorise the directors to agree their remuneration will be proposed at the next AGM of the company.

By order of the board

Julian Wilson
Company Secretary
25 April 2002

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

Registered number 61880

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 accounting policies set out in the statement of accounting policies.

Respective Responsibilities of Directors and Auditors

Directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 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 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. The other information comprises only the Report of the Directors, the Chairman's Statement, the Chief Executives Review and Financial Review and the report on Corporate Governance.

We review whether the report on Corporate Governance reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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. 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 circumstances of the company and the group, 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 as at 31 January 2002 and of the loss 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 & Registered Auditors
10 Bricket Road
St Albans
Herts AL1 3JX
25 April 2002

Group Profit and Loss Account

Year ended 31 January 2002

	note	Before exceptional items £000	Exceptional items £000	Total 2002 £000	Total 2001 £000
Turnover	2,3	**61,115**	–	**61,115**	64,067
Operating loss	3	**(3,487)**	**(2,600)**	**(6,087)**	(5,269)
Profit on sale of properties	4	–	**320**	**320**	–
(Loss)/profit on disposal of operations	5	–	**(140)**	**(140)**	680
Fundamental restructuring of overseas operations	6	–	–	–	(123)
Amounts written off investments	7	–	**(237)**	**(237)**	(527)
Loss on ordinary activities before interest		**(3,487)**	**(2,657)**	**(6,144)**	(5,239)
Net interest payable	11	**(528)**	–	**(528)**	(248)
Loss on ordinary activities before taxation	2,8	**(4,015)**	**(2,657)**	**(6,672)**	(5,487)
Tax on loss on ordinary activities	12	**31**	–	**31**	67
Loss on ordinary activities after taxation		**(3,984)**	**(2,657)**	**(6,641)**	(5,420)
Dividends	25	–	–	–	(533)
Deficit for the year		**(3,984)**	**(2,657)**	**(6,641)**	(5,953)
Loss per share - Basic and diluted	13			**(11.76p)**	(9.60p)
Dividend per ordinary share	25			–	1.00p

Balance Sheets

At 31 January 2002

	note	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Fixed assets					
Goodwill	17	**1,454**	1,201	–	–
Tangible assets	18	**21,666**	24,036	**9,615**	7,525
Investment in – own shares	19	**809**	1,046	**809**	1,046
– in subsidiaries	20	–	–	**32,963**	32,963
		23,929	26,283	**43,387**	41,534
Current assets					
Asset held for resale	21	–	292	–	514
Stocks	22	**15,445**	15,245	–	–
Debtors	23	**15,091**	16,935	**23,878**	30,699
Cash at bank and in hand		**2,234**	2,402	**28**	2,721
		32,770	34,874	**23,906**	33,934
Creditors: due within one year	24	**(22,734)**	(19,234)	**(13,049)**	(20,265)
Net current assets		**10,036**	15,640	**10,812**	13,669
Total assets less current liabilities		**33,965**	41,923	**54,199**	55,203
Creditors: due after more than one year	26	**(2,445)**	(3,840)	**(709)**	(1,233)
Provisions for liabilities and charges	29	**(456)**	(352)	**(372)**	(245)
Net assets		**31,064**	37,731	**53,118**	53,725
Capital and reserves					
Share capital	30	**590**	590	**590**	590
Share premium account	31	**457**	457	**457**	457
Profit and loss account	31	**(10,490)**	(3,823)	**10,183**	10,790
Other reserves	31	**40,507**	40,507	**41,888**	41,888
Equity shareholders' funds		**31,064**	37,731	**53,118**	53,725

D Medcalf

JD Sach
Directors

These accounts were approved by the directors on 25 April 2002

Group Cash Flow Statement

Year ended 31 January 2002

	note	2002 £000	2002 £000	2001 £000	2001 £000
Net cash outflow from operating activities	34		**(1,436)**		(931)
Returns on investment and servicing of finance					
Interest received		**105**		216	
Interest paid		**(338)**		(251)	
Interest element of finance lease payments		**(256)**		(196)	
Dividend income (Employee Share Option Plan)		**–**		57	
			(489)		(174)
Taxation			**96**		164
Capital expenditure					
Purchase of tangible fixed assets		**(1,388)**		(6,113)	
Proceeds from assets held for resale		**593**		–	
Proceeds from disposal of property		**360**		–	
Proceeds from disposal of tangible fixed assets		**22**		9	
			(413)		(6,104)
Acquisitions, disposals and fundamental restructuring					
Acquisitions	15,16	**(575)**		(10,522)	
Net proceeds from disposal of operations	14	**307**		2,689	
Fundamental restructuring costs		**–**		(523)	
			(268)		(8,356)
Equity dividends paid			**(590)**		(1,180)
Cash outflow before use of liquid resources and financing			**(3,100)**		(16,581)
Management of liquid resources			**–**		–
Financing					
Proceeds from new loans		**624**		1,507	
Proceeds from finance leases		**–**		3,400	
Principal repayments of finance lease obligations		**(1,063)**		(819)	
Repayment of borrowings		**(314)**		(31)	
			(753)		4,057
Decrease in cash	35		**(3,853)**		(12,524)

Statement of Total Recognised Gains and Losses

Year ended 31 January 2002

	2002 £000	2001 £000
Loss for the financial year	(6,641)	(5,420)
Reversal of surplus on revaluation of properties reclassified as asset held for resale	–	(222)
Currency translation differences	(26)	74
Total recognised gains and losses relating to the year	(6,667)	(5,568)

Note of Historical Cost Profit and Losses

Year ended 31 January 2002

	2002 £000	2001 £000
Loss on ordinary activities before taxation	(6,672)	(5,487)
Difference between historical cost depreciation charge and actual depreciation charge	–	4
Historical cost loss on ordinary activities before taxation	(6,672)	(5,483)
Historical cost loss for the year after taxation and dividends	(6,641)	(5,949)

Reconciliation of Movements in Shareholders' Funds

Year ended 31 January 2002

	2002 £000	2001 £000
Loss for the financial year	(6,641)	(5,420)
Dividends	–	(533)
Deficit for the year	(6,641)	(5,953)
Currency translation differences	(26)	74
Revaluation reserve reversed on transfer of property for resale to current assets	–	(222)
Goodwill transferred to profit and loss account	–	1,390
Net reduction to shareholders' funds	(6,667)	(4,711)
Opening shareholders' funds	37,731	42,442
Closing shareholders' funds	31,064	37,731

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.

Basis of Consolidation
The group accounts consolidate the financial statements of the parent and its subsidiary undertakings for the year ended 31 January 2002. Sales, purchases and profits 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 loss of £607,000 (2001: £1,429,000 profit) 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 20% and 33%

Land and buildings are stated at cost less provision for impairment.

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 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 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.

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

The group has adopted Financial Reporting Standard, no.19 in the year. The prior year comparatives have not been restated as the group's basis for accounting for deferred tax was consistent with the new accounting standard in previous years. 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 2002 £000	Turnover 2001 £000
Fabrics	**34,978**	35,678
Wallcoverings	**24,352**	26,819
Other	**1,785**	1,570
	61,115	64,067

(b) Geographical segments	Turnover 2002 £000	Turnover 2001 £000	Loss before taxation 2002 £000	Loss before taxation 2001 £000	Non-interest bearing operating net assets 2002 £000	Non-interest bearing operating net assets 2001 £000
By origin:						
United Kingdom	**49,357**	50,948	**(7,071)**	(6,054)	**37,462**	41,833
Continental Europe	**5,350**	6,472	**275**	224	**1,181**	1,019
North America	**6,408**	6,647	**124**	343	**1,429**	1,148
	61,115	64,067	**(6,672)**	(5,487)	**40,072**	44,000

	Turnover 2002 £000	Turnover 2001 £000
By destination:		
United Kingdom	**43,011**	44,002
Continental Europe	**9,393**	11,203
North America	**8,002**	7,469
Rest of the World	**709**	1,393
	61,115	64,067

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

The businesses acquired in the year have not been analysed separately on the grounds of materiality.

Notes to the Accounts continued

3 ANALYSIS OF OPERATING LOSS

	Total 2002 £000	Total 2001 £000
Turnover	**61,115**	64,067
Cost of sales	**(34,949)**	(34,638)
Gross profit	**26,166**	**29,429**
Net operating expenses		
Distribution costs	**(11,172)**	(11,752)
Administrative expenses	**(21,035)**	(23,010)
Other operating (costs)/ income	**(46)**	64
Operating loss	**(6,087)**	(5,269)

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.

In the previous year, the operating loss included £3,334,000 of exceptional items. This comprised £1,193,000 of redundancies, £711,000 relating to inefficiencies arising from the consolidation of the Anstey and Sileby manufacturing operations onto one site, £541,000 of costs incurred as a result of problems with the group's new I.T. system, £589,000 of costs incurred directly as a result of the move of the Anstey and Sileby operations and £300,000 of legal and professional fees incurred defending an action brought by a telecoms provider and professional advice received in respect of the proposed offer for the company.

4 PROFIT ON SALE OF PROPERTIES

During the year the group's property in Anstey, Leicestershire was sold for £643,000, net of expenses, generating an exceptional profit of £351,000. Later in the 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)/PROFIT ON DISPOSAL OF OPERATIONS

On 3 September 2001, the trade and certain of the assets of the businesses 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 previous year, the businesses trading as Cole & Son and John Perry were sold for £3,000,000 which after accounting for related costs and goodwill resulted in a profit on disposal of £555,000. A further £125,000 was recognised for deferred consideration from a previous disposal where the recoverability was originally uncertain.

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

The businesses disposed of have not been classed as discontinued operations on the grounds of materiality.

6 FUNDAMENTAL RESTRUCTURING

Costs of £123,000 were incurred in the prior year over and above those amounts provided at 31 January 2000 relating to the fundamental restructuring of the group's overseas distribution businesses in Holland, Germany and France. There was no tax effect from this restructuring.

7 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 £237,000 written off in the year (2001: £527,000).

8 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002 £000	2001 £000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit fee – group auditors	100	107
– other auditors	18	15
Other services – group auditors	–	48
Depreciation of owned assets	2,601	2,929
Depreciation of assets held under finance leases and hire purchase contracts	920	450
Hire of motor vehicles and plant and machinery	505	481
Other operating leases	486	495

Auditors' remuneration for audit services to the group includes £33,000 (2001: £33,000) in respect of the company. An amount of £380,000 was also included in the cost of investment in the previous year, relating to the advisory work in connection with the acquisition of Standfast Dyers and Printers and Weavestyle.

9 EMOLUMENTS OF DIRECTORS

The emoluments, including share options, of the directors who held office during the year are shown in the Report on Directors' Remuneration on pages 14 and 15.

10 EMPLOYEE INFORMATION, EXCLUDING DIRECTORS

	2002 £000	2001 £000
Wages and salaries	15,660	16,451
Social security costs	1,340	1,434
Other pension costs	867	990
	17,867	18,875

The average monthly numbers of employees during the year	Number	Number
Sales, warehousing and administration	393	415
Manufacturing	347	342
	740	757

The average number of employees in the acquisitions in the year that were not subject to the initial redundancy programmes was 34, employed at a total cost of £735,000. All of these employees were in the manufacturing sector of the group.

11 NET INTEREST PAYABLE

	2002 £000	2001 £000
Interest receivable:		
Bank and other short term deposit interest receivable	142	214
Interest payable:		
Bank and other short term interest on loans and overdrafts wholly repayable within 5 years	(414)	(266)
Finance charges payable under finance leases and hire purchase contracts	(256)	(196)
	(670)	(462)
Net interest payable	(528)	(248)

Notes to the Accounts continued

12 TAXATION

		2002 £000	2001 £000
UK Corporation tax at 30% (2001: 30%)	- current year	–	–
	- prior years	–	(319)
Overseas taxation	- current year	**126**	284
	- prior years	**(183)**	–
Total current tax		**(57)**	(35)
Deferred tax	- current year	**32**	37
	- prior years	**(6)**	(69)
Total deferred tax		**26**	(32)
Tax on loss on ordinary activities		**(31)**	(67)

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:

	2002 £000	2001 £000
Loss on ordinary activities before taxation	**(6,672)**	(5,487)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**(2,001)**	(1,646)
Adjustments in respect to prior years	**(183)**	(319)
Expenses not deductible for tax purposes	**220**	740
Utilisation of prior year losses	**(57)**	(757)
Capital allowances in excess of depreciation	**(27)**	(10)
Losses not recognised	**1,996**	1,984
Other timing differences	**(5)**	(27)
Total current tax	**(57)**	(35)

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 £6,641,000 (2001: £5,420,000) and the weighted average of 56,457,016 (2001: 56,457,016) ordinary shares in issue during the year.

14 DISPOSAL OF WARNER FABRICS

	£000
Proceeds from sale	**453**
Deferred proceeds	**(116)**
Professional fees and other related costs	**(30)**
Net cash inflow	**307**
The disposal comprised the following:	
Tangible fixed assets	**10**
Stock	**553**
	563
Loss on disposal	**(140)**
Deferred proceeds	**(116)**
Net cash inflow	**307**

On 3 September 2001, the group sold the trade and assets of the Warner Fabrics business.

15 ACQUISITION OF STRINES TEXTILES

	Book value £000	Fair value adjustment £000	Provisional fair value £000
Assets acquired comprised:			
Tangible fixed assets	125	–	125
Stock	450	–	450
	575	–	575
Goodwill			426
Cost of acquisition			**1,001**
Satisfied by:			
Cash			325
Deferred consideration			676
			1,001

On 11 June 2001, the group completed its purchase of the trade and certain of the assets of Strines Textiles, a fabric printing business based in the UK.

16 ACQUISITION OF BRUSHSTROKES

	Book value £000	Fair value adjustment £000	Provisional fair value £000
Assets acquired comprised:			
Tangible fixed assets	8	–	8
Stock	242	–	242
Cash cost of acquisition	**250**	–	**250**

On 18 July 2001, the group purchased the trade and certain of the assets of Brushstrokes, the UK's leading manufacturer of stencils for the DIY decorative market. No goodwill was recognised on this acquisition.

17 GOODWILL

	£000
Cost:	
At 1 February 2001	1,323
Goodwill on acquisitions (see note 15)	426
Currency movements	1
At 31 January 2002	**1,750**
Amortisation:	
At 1 February 2001	122
Amortisation for the period	173
Currency movements	1
At 31 January 2002	**296**
Net book amount at 31 January 2002	**1,454**
Net book amount at 31 January 2001	1,201

The goodwill on the acquisition of Strines Textiles effectively represents a guaranteed minimum royalty payable to the vendor. This amount is being written off over 3 years, representing the total period under which further consideration can be earned by the vendor.

Notes to the Accounts continued

18 FIXED ASSETS

	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
Group				
Cost:				
1 February 2001	12,757	18,313	7,157	38,227
Additions	127	802	236	1,165
Acquisition	–	133	–	133
Disposals	(298)	(859)	(14)	(1,171)
Currency movements	46	21	–	67
31 January 2002	**12,632**	**18,410**	**7,379**	**38,421**
Depreciation:				
1 February 2001	2,478	8,850	2,863	14,191
Charge	208	2,122	1,191	3,521
Disposals	(187)	(804)	(9)	(1,000)
Currency movements	27	16	–	43
31 January 2002	**2,526**	**10,184**	**4,045**	**16,755**
Net book amount:				
31 January 2002	**10,106**	**8,226**	**3,334**	**21,666**
1 February 2001	10,279	9,463	4,294	24,036

	£000
The net book amount of land and buildings comprises:	
Freehold land	1,754
Freehold buildings	8,239
Short leaseholds	113
Net book amount at 31 January 2002	**10,106**

18 FIXED ASSETS CONTINUED

	Land and buildings £000	Plant, equipment and vehicles £000	Computer assets £000	Total £000
Company				
Cost:				
1 February 2001	8,171	258	408	8,837
Additions	50	–	–	50
Disposals	(154)	(17)	–	(171)
Transfers from group undertakings	2,403	–	–	2,403
31 January 2002	**10,470**	**241**	**408**	**11,119**
Depreciation:				
1 February 2001	764	163	385	1,312
Charge	193	28	12	233
Disposals	(58)	(15)	–	(73)
Transfers from group undertakings	32	–	–	32
31 January 2002	**931**	**176**	**397**	**1,504**
Net book amount:				
31 January 2002	**9,539**	**65**	**11**	**9,615**
1 February 2001	7,407	95	23	7,525

	£000
The net book amount of land and buildings comprises:	
Freehold land	1,679
Freehold buildings	7,860
Net book amount at 31 January 2002	**9,539**

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 2002	**1,833**	**1,605**	–	–
31 January 2001	2,000	2,125	–	–

Notes to the Accounts continued

19 WALKER GREENBANK PLC 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 2001	1,046	25	1,046	25
Provision (note 7)	(237)	–	(237)	–
31 January 2002	**809**	**25**	**809**	**25**

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 £11,000 (2001: £10,000) in the year.

At 31 January 2002, 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 £465,000. All of these shares were held under option to employees.

20 INVESTMENTS

	Company 2002 £000	Company 2001 £000
Shares in subsidiary undertakings:		
1 February 2001	**32,963**	16,963
Recapitalisation of Abaris Holdings Limited	–	16,000
31 January 2002	**32,963**	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
Textile Wallcoverings International Inc*	– incorporated in the USA
Walker Greenbank Inc*	– incorporated in the USA
Whittaker & Woods SRL	– incorporated in Italy

*shares held by subsidiary company

21 ASSET HELD FOR RESALE

The asset that was held for resale was a freehold property at Anstey, Leicestershire, which was sold during the year.

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Amount transferred from fixed assets	–	–	514	514
Less: revaluation reserve	–	–	(222)	–
Historical cost	–	–	292	514

22 STOCKS

	Group 2002 £000	Group 2001 £000
Raw materials	**2,526**	2,410
Work in progress	**3,297**	2,332
Finished goods	**9,622**	10,503
	15,445	15,245

The company does not hold stock.

23 DEBTORS

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Trade debtors	**12,294**	13,932	**215**	150
Amounts owed by subsidiary undertakings	–	–	**23,135**	29,625
Other debtors	**1,594**	1,712	**435**	705
Prepayments	**1,203**	1,291	**93**	219
	15,091	16,935	**23,878**	30,699

Amounts owed by subsidiary undertakings to the company include long term loans recoverable after more than one year of £937,000 (2001: £955,000).

24 CREDITORS: DUE WITHIN ONE YEAR

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Current instalments due on loans	**1,222**	304	**567**	274
Bank overdrafts	**5,707**	2,031	**4,180**	–
Obligations under finance leases and hire purchase contracts	**1,151**	1,062	–	–
Trade creditors	**9,483**	10,186	**202**	555
Amounts owed to subsidiary undertakings	–	–	**7,339**	18,211
Corporation tax	**695**	646	**332**	331
Other taxes and social security	**457**	997	**42**	–
Proposed dividends	–	590	–	590
Other creditors	**1,122**	729	**42**	44
Accruals	**2,897**	2,689	**345**	260
	22,734	19,234	**13,049**	20,265

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 2002 an amount of £1,175,000 (2001: £4,122,000) was guaranteed by the company.

25 DIVIDENDS

	2002 £000	2001 £000
Equity:		
Proposed	–	590
	–	590
Dividend income – Employee Share Option Plan	–	(57)
	–	533
Total dividends	–	533

The directors do not propose a final dividend in respect of the year ended 31 January 2002 (2001: 1.00p per ordinary share).

Notes to the Accounts continued

26 CREDITORS: DUE AFTER MORE THAN ONE YEAR

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Loans (note 28)	**716**	1,269	**709**	1,233
Obligations under finance leases and hire purchase contracts (note 28)	**1,303**	2,455	**–**	–
Overseas tax	**107**	116	**–**	–
Other	**319**	–	**–**	–
	2,445	3,840	**709**	1,233

27 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	5	66	–	–
Between one and five years	300	125	26	17
Over five years	163	–	60	–
	468	191	86	17

28 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 2002 £000	Group 2001 £000
Cash at bank and in hand	**2,234**	2,402

Borrowings

	Group 2002 £000	Group 2001 £000
Finance leases	**2,454**	3,517
Bank overdrafts	**5,707**	2,031
Loans:		
Secured		
US dollar bank loan repayable by instalments, bearing interest at 84.2% of prime rate of USA lender	**37**	66
Unsecured		
US dollar bank loan, bearing interest at 1.25% over the US Interbank rate	**1,277**	1,507
Commercial loan repayable by instalments and bearing interest at 1% over the Barclays Bank base rate	**624**	–
Total loans	**1,938**	1,573
Total borrowings	**10,099**	7,121

28 FINANCIAL INSTRUMENTS CONTINUED

	Group 2002 £000	Group 2001 £000
Repayment of total borrowings		
Between two and five years:		
Finance leases	**683**	1,304
Loans	**–**	690
Between one and two years:		
Finance leases	**620**	1,151
Loans	**716**	579
After more than one year:		
Finance leases	**1,303**	2,455
Loans	**716**	1,269
Within one year:		
Finance leases	**1,151**	1,062
Bank overdrafts	**5,707**	2,031
Loans	**1,222**	304
Total borrowings	**10,099**	7,121

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

Interest rate and currency profile of financial net assets

Currency	Floating rate assets 2002 £000	Floating rate assets 2001 £000
Sterling	**12**	18
US Dollar	**355**	471
Euro	**355**	723
Norwegian Kroner	**1,356**	1,017
Other	**156**	173
	2,234	2,402

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

Interest rate and currency profile of financial liabilities

At 31 January 2002

Currency	Total £000	Floating rate borrowings £000	Fixed rate borrowings £000	Fixed rate borrowing: 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

At 31 January 2001

Currency	Total £000	Floating rate borrowings £000	Fixed rate borrowings £000	Fixed rate borrowing: Weighted average interest rate %	Fixed rate borrowing: Weighted average time for which rate is fixed Years
Sterling	5,335	1,818	3,517	7.90%	1.94
US Dollar	1,786	1,786	–	–	–
	7,121	3,604	3,517	7.90%	1.94

Notes to the Accounts continued

28 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 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)

At 31 January 2001

	Sterling £000	US Dollar £000	Euro £000	Norwegian Kroner £000	Other £000	Total £000
Functional currency of entity						
Sterling	–	(16)	1,224	47	83	1,338
US Dollar	(142)	–	–	–	29	(113)
Euro	(499)	–	–	–	–	(499)
Norwegian Kroner	(10)	(34)	(176)	–	(49)	(269)
	(651)	(50)	1,048	47	63	457

Borrowing facilities

The group's undrawn committed borrowing facilities available at 31 January 2002 in respect of which all conditions had been met comprised $1,000,000 in the USA and £8,000,000 in the UK. These facilities are renewable within 1 year from 31 January 2002.

Gains and losses on hedges

There were no significant unrecognised or deferred gains and losses on hedges at 31 January 2002 or 31 January 2001.

Fair values of assets and liabilities

The fair value of finance leases which bear interest at a fixed rate is £99,000 lower (2001: £64,000 lower) than the discounted future cash flows for these financial liabilities.

29 PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Deferred taxation	341	315	272	245
Provision for vacant property	115	–	100	–
Provision for fundamental restructuring	–	37	–	–
	456	352	372	245

Deferred taxation

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Deferred taxation provided in the accounts is as follows:				
Capital allowances in excess of depreciation	921	908	122	95
Other timing differences	(580)	(593)	150	150
	341	315	272	245

	Group £000	Company £000
Deferred taxation movement for the year		
1 February 2001	315	245
Current year charge	27	27
Currency movements	(1)	–
31 January 2002	341	272

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

Provision for vacant property

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
1 February 2001	–	–	–	–
Current year charge	115	–	100	–
31 January 2002	115	–	100	–

The provision has been established to cover the potential future under recovery from subletting leased premises.

Provision for fundamental restructuring

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
1 February 2001	37	437	–	–
Current year utilisation	(37)	(400)	–	–
31 January 2002	–	37	–	–

The fundamental restructuring relates to the restructuring of the overseas sales operations and comprised £37,000 in respect of redundancies which was paid during the year.

30 SHARE CAPITAL

	Number of shares	£
Ordinary shares of 1p each:		
Authorised share capital:		
1 February 2001 and 31 January 2002	85,000,000	850,000
Allotted, called up and fully paid:		
1 February 2001 and 31 January 2002	59,006,162	590,062

Notes to the Accounts continued

31 RESERVES

	Share premium account £000	Profit and loss account £000	Other reserves Capital reserve £000	Other reserves Merger reserve £000	Total £000
Group					
1 February 2001	457	(3,823)	43,457	(2,950)	40,507
Retained loss for the year	–	(6,641)	–	–	–
Currency translation movements	–	(26)	–	–	–
31 January 2002	**457**	**(10,490)**	**43,457**	**(2,950)**	**40,507**

	Share premium account £000	Profit and loss account £000	Other reserves Capital reserve £000	Other reserves Merger reserve £000	Total £000
Company					
1 February 2001	457	10,790	41,888	–	41,888
Retained loss for the year	–	(607)	–	–	–
31 January 2002	**457**	**10,183**	**41,888**	**–**	**41,888**

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 £5,339,000 (2001: £5,339,000).

32 CAPITAL COMMITMENTS

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Authorised and contracted	**155**	303	**150**	–

33 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.

34 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £000	2002 £000	2001 £000	2001 £000
Operating loss		**(6,087)**		(5,269)
Depreciation and amortisation	**3,694**		3,458	
Loss on disposal of fixed assets	**20**		52	
Increase in stocks	**(25)**		(481)	
Decrease in debtors	**2,009**		779	
(Decrease)/increase in creditors	**(1,047)**		530	
		4,651		4,338
Net cash outflow from operating activities		**(1,436)**		(931)

35 ANALYSIS OF NET DEBT

	1 February 2001 £000	Cash flow £000	Other movements £000	Exchange movement £000	31 January 2002 £000
Cash at bank and in hand	2,402	**(185)**	–	**17**	**2,234**
Overdrafts	(2,031)	**(3,668)**	–	**(8)**	**(5,707)**
	371	**(3,853)**	–	**9**	**(3,473)**
Debt due within one year	(304)	**(310)**	**(597)**	**(11)**	**(1,222)**
Debt due after one year	(1,269)	–	**597**	**(44)**	**(716)**
Finance leases	(3,517)	**1,063**	–	–	**(2,454)**
	(5,090)	**753**	–	**(55)**	**(4,392)**
	(4,719)	**(3,100)**	–	**(46)**	**(7,865)**

36 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £000	2001 £000
Decrease in cash in the period	**(3,853)**	(12,524)
Decrease/(increase) in debt and lease financing	**753**	(4,057)
Cash outflow from cash flows	**(3,100)**	(16,581)
Exchange movement	**(46)**	67
Cash outflow in period	**(3,146)**	(16,514)
Net funds at 1 February	**(4,719)**	11,795
Net debt at 31 January	**(7,865)**	(4,719)

37 PENSIONS

The group operates defined benefit and defined contribution 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 subject to triennial actuarial reviews with the most recent ones having been at 6 April 2001 for the major scheme and 6 April 2001 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 2001. These valuations have been rolled forward to 31 January 2002 for the purposes of the transitional rules in Financial Reporting Standard no. 17 ("FRS 17") used in the disclosure below.

The total pension cost for the group charged under the guidelines of the Statement of Standard Accounting Practice no. 24, was £909,000 (2001: £1,076,000) of which £378,000 (2001: £526,000) related to the major defined benefit scheme.

Financial assumptions applied when valuing the defined benefit schemes at 31 January 2002

Valuation method	Projected unit
Discount rate	5.75%
Inflation rate	2.5%
Increase to deferred benefits during deferment	2.5%
Increases to pensions in payment	2.5%
Salary increases	3.0%

Consolidated net deficit in the pension schemes and the expected rates of return

	Long-term rate of return expected at 31 January 2002 £000	Value at 31 January 2002 £000
Equities	7.9%	22,788
Bonds	5.5%	9,383
Cash	4.0%	1,341
Total market value of assets		33,512
Present value of the schemes liabilities		(35,817)
Deficit in the schemes		**(2,305)**

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.

Effect on the group's net assets and reserves from full adoption of FRS17

	2002 Group £000
Group net assets	
Net assets excluding pension deficit	31,064
Pension deficit	(2,305)
Group net assets including pension deficit	**28,759**

	2002 Group £000
Group reserves	
Profit and loss reserve excluding pension deficit	(10,490)
Pension deficit	(2,305)
Group profit and loss reserve	**(12,795)**

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Hardwick High Great Chamber
The High Great Chamber is part of Zoffany's National Trust collection. The National Trust collection is produced under licence from the National Trust (Enterprises) Limited, the trading subsidiary of the National Trust, charity No 205846.

Advisors

Financial Advisors
KPMG Corporate Finance
8 Salisbury Square
London EC4Y 8BB

Stockbrokers and Advisors
Brewin Dolphin Securities
National House
36 St Ann Street
Manchester M60 2EP

Auditors
PricewaterhouseCoopers
10 Bricket Road
St Albans
Hertfordshire AL1 3JX

Tax Advisors
WJB Chiltern Group plc
Sceptre House
169-173 Regent Street
London W1R 7FB

Public Relations
Helsen Communications
Bank Chambers
2 The High Street
Thames Ditton
Surrey KT7 0RY

Solicitors
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London EC1A 4DD

DLA
Princes Exchange
Princes Square
Leeds LSI 4BY

Registrars
Capita IRG
Balfour House
390-398 High Road
Ilford
Essex IG1 1NQ

Bankers
HSBC Bank plc
33 Park Row
Leeds LS1 1LD

Wachovia Bank, NA
3333 Riverwood Parkway
Suite 290
Atlanta
Georgia 30339
USA

Directors

Ian Kirkham (52) Non-executive Chairman (A,R,N)
Ian joined the board in April 2002 and was elected as Chairman. He has considerable experience in manufacturing businesses and in the development of consumer brands. He was for seven years the Chief Executive of Headlam Plc and is currently the Chief Executive of the Latium Group, a manufacturing business in the building industry.

Sir Malcolm Field (64) Non-executive Director (A,R,N)
Chairman of Audit and Remuneration Committees, Sir Malcolm joined the board in June 1997. He was Chairman of the CAA from 1996 to 2001 and has had a distinguished career serving on the boards of a number of major public companies.

Peter Harkness (52) Non-executive Director (A,R,N)
Peter joined the Board as a non-executive director in March 2001. He is Chairman of IT analysts, the Butler Group Ltd and of Professional, Managerial & Healthcare Publications Ltd. Since 1987 he has been instrumental in a series of management buy-out transactions in the media sector.

David Medcalf (52) Chief Executive Officer
David joined the board in March 2001. He has been the Chief Executive of a number of companies, managing them through periods of change, most recently A G Stanley Ltd, which was returned to profitability and successfully sold in 1999.

John Sach (46) Group Finance Director
John was appointed to the board in September 1999 as Group Finance Director. He joined the group in 1994 as Group Financial Controller. Prior to this he held a number of senior financial roles in private companies.

A – Audit Committee
R – Remuneration Committee
N – Nominations Committee

Chairman's Statement

"Whilst the performance of the group was clearly unsatisfactory, a substantial amount of positive change has been implemented in readiness for the coming year"

This has been a difficult year for Walker Greenbank. A great deal of work has gone into restructuring the business units while our markets have experienced inconsistent and unpredictable demand.

The new management team has been in place for a year and whilst the performance of the group was clearly unsatisfactory, a substantial amount of positive change has been implemented in readiness for the coming year.

I join at an interesting time. David Medcalf, the Group Chief Executive and I have previously worked successfully together in similar market circumstances and I look forward to meeting the challenge of restoring the group's fortunes.

Shareholders have had a poor return and our prime objective will be to build on the foundations put in place in the last year and to begin to deliver shareholder value.

I would like to thank my predecessor, The Viscount Thurso, for his efforts over the last three years and to express the board's thanks to all our employees for their contribution in what has been a difficult year.

I am conscious of the fact that shareholders have been promised better results on a number of occasions in recent years. I am also acutely aware of the very short period of time I have been with the group. However, the trading results of the first months of this year are markedly better than the corresponding period last year. The challenge to all employees within Walker Greenbank will be to achieve consistent month by month improvements in all areas of our business and to provide a platform for profitable growth.

I look forward to updating you on our progress in due course.

Ian Kirkham
Chairman

"I believe we have now adjusted to the fundamental shift in market conditions we have witnessed over the past two years"

Chief Executive's Review

Overview

Despite a huge effort to deliver improvement and to implement positive change it is disappointing to report an unsatisfactory set of trading results. We had achieved significant cost reductions in the previous year but these have not been sufficient to compensate for the further decline in market conditions. The task to restore the group to profitability at these lower volumes required us to make further cost reductions and structural changes. This resulted in a second year of high exceptional costs and disrupted performance.

Much has been made in the public arena of the massive impact on business of the foot and mouth crisis and the catastrophic events of last September. Both of these events occurred at times which had the maximum negative impact on our results being the weeks leading up to our strong Spring and Autumn trading peaks. Our manufacturing base, which acts as a barometer of consumer demand in the marketplace, was disrupted disproportionately as customers strove to empty the supply pipeline by limiting or delaying their order commitments.

Financial Results

The principal features of our results and of trading last year were:

- Sales were down £3.0 million at £61.1million from £64.1million in 2001.
- The operating loss before exceptional operating costs was £3.5 million (2001: £1.9 million).
- The exceptional operating costs amounting to £2.6 million arose principally from redundancy costs incurred across UK operations to bring costs in line with lower turnover levels and the cost of closing the Strines factory and transferring it to Standfast.
- The integration of the Strines business was completed at the end of 2001.
- The consolidation of our weaving operations onto one site at Silsden and our wallcovering operations onto one site at Loughborough continued throughout the year and were completed in January 2002 with the implementation of further redundancy programmes.
- Two surplus freehold properties were sold in the year generating £950,000 of cash and a profit on disposal of £320,000.
- The opportunity was taken in July 2001 to buy the trade and assets of the Brushstrokes stencils and accessories business from the receiver for £250,000.
- The loss before tax after interest and other items amounted to £6.7 million compared to £5.5 million in 2001. The basic loss per share was 11.76p (2001: 9.60p).
- Cash outflow from operating activities during the period amounted to £1.4 million compared with £0.9 million for the previous year.
- Net assets were 55p per share at the balance sheet date and the net gearing level was 25%. The balance sheet continues to be underpinned by approximately £10.0 million of freehold properties and substantial other tangible and current assets.
- In view of the financial performance no dividend will be proposed. The dividend will be restored following a return to profitability.

Chief Executive's Review continued

Divisional Review

The group's top-end brand Zoffany, reported a small increase in world-wide sales compared to the previous year despite the economic difficulties cited above. Profitability has also improved significantly following the redundancy programme in January 2001 and further cost savings in the year. We have also now untangled the combination of Cole and Sons, Warner Fabrics and Zoffany, which was managed on a unified basis by the Zoffany management team. This proved ineffective and the disposal of Warner in September 2001 completed this change of strategy. Since the change, the focus on the Zoffany brand has improved considerably and following recent launches of their new collections in the US and the UK we have seen an uplift in sales.

The group's other core brand, Harlequin saw sales fall year on year, being more exposed than Zoffany to weaker levels of confidence in the middle marketplace. The strategy for Europe was also adjusted in the year following lower than expected sales in this important territory. This change along with a now more established management team, and coupled with tight control of costs, stronger product offerings and investment in marketing and promotions, has led to a strong start to the new year. A complete review was carried out in the early part of last year on the direct costs of the business and this combined with better margins has produced a significant turnaround in profitability compared to the previous year. This improvement is expected to continue going forward.

Cirka had a more testing year with sales lower than in the previous year and profits down significantly following intensive pressure from the multiple DIY customers that represent the majority of the sales of this brand. New management was appointed during the year and a new strategy has been adopted, the benefits of which, will not be experienced until next year. To complement the Cirka brand, the Brushstrokes stencils and accessories business was acquired in July 2001. The full benefit of this purchase could not be harnessed until the business was moved from Oxford into our Loughborough premises, which took place in December. Having now completed this process, overheads have been reduced and we anticipate a solid return on our investment.

Manufacturing

We now believe that all of the synergistic benefit from combining Weavestyle, which was acquired last year, and our contract fabrics business has been achieved. Unfortunately, this came too late to improve the results in the year. In January 2002, following a consultancy project to maximise factory efficiency a redundancy programme was carried out. This has left the combined operation on a firm footing to go forward and take maximum benefit from the expected increase in sales next year, following a period when the contract textiles business serviced by this company was so dramatically affected by the events of last September.

"We had achieved significant cost reductions in the previous year but these have not been sufficient to compensate for the further decline in market conditions"

"After only two months into the new financial year we can clearly see a significant improvement in performance and I firmly believe that the right strategy and people are in place to ensure this continues"

The core Standfast business saw a significant downturn in the market at the end of the previous year that continued throughout the year. The market it serves has seen a substantial reduction in demand, which has prompted consolidation across the industry. We have taken advantage of this situation and following the acquisition of Strines Textiles in June 2001, our factory output has risen well above the breakeven levels previously difficult to achieve and maintain. Consequently, Standfast is now one of a small number of Vat fabric printers remaining in the UK, and has also become a registered supplier of camouflage fabrics. The large orders in this area of the market expected at acquisition were starting to be printed at the end of the year and have continued into the early part of the new year.

The greatest area of difficulty for the group last year was the Anstey wallcoverings factory. Unfortunately, the redundancy programme in January 2001 proved insufficient to bring the business back to profitability following a continued decline in its core markets. New management was appointed in the latter part of the year and further redundancies were made in January 2002. A clear plan has been devised to maximise the potential from the factory and in early 2002 we are finally seeing margins improve on levels previously achieved. Unfortunately, there are no signs of a significant recovery in the world-wide market for wallcoverings and this may result in this part of the group failing to show a positive contribution in the coming year. Every effort is being taken to explore new avenues and markets.

Overseas

Despite the difficulties in the US market following the events of last September we have managed to secure growth in the last quarter. The benefits of improved management and stronger product ranges have combined to generate a strong improvement in trading which has continued into the new year. Consequently, we expect to significantly increase profitability going forward. Our operations in Norway and Italy have continued to perform well and made a positive contribution to the group.

Outlook

Whilst 2001 was probably the most challenging year in the group's history, I believe we have now adjusted to the fundamental shift in market conditions we have witnessed over the past two years. Although the process has been costly and disruptive, the group has now arrested the decline in its results. After only two months into the new financial year we can clearly see a significant improvement in performance and I firmly believe that the right strategy and people are in place to ensure this continues.

D Medcalf

David Medcalf
Chief Executive

Financial Review

"Shortly after the year end new banking facilities were successfully negotiated. The facilities highlight the strength of the group's balance sheet and clearly demonstrate the continuing confidence and support for the group"

Profit and Loss Format
Following a second year of significant cost reductions and structural changes the profit and loss account has again been set out in a columnar format. This presentation clarifies the impact on the current year results for the one off exceptional costs that are disclosed in note 3 of the accounts on page 24.

Acquisitions and Disposals
In the year the group purchased Strines Textiles and Brushstrokes and disposed of the Warner Fabrics business.

The Strines Textiles acquisition was structured so that the vendor's factory was occupied whilst the acquisition order book was completed and the business transferred to Standfast's existing site in Lancaster. In line with normal accounting practice the operating losses during the closure period of £0.70 million and the redundancy payments of £0.48 million have been taken to the profit and loss account as incurred. These were anticipated at acquisition and through negotiation the purchased goodwill was limited to £0.43 million as a consequence. This goodwill will be amortised over three years and depending on the success of the acquisition further consideration of a maximum £0.75 million will be payable over this period.

The purchase price of Brushstrokes reflected the fair value of the stock and fixed assets totalling £0.25 million all of which was paid in cash on acquisition. No goodwill was recognised on acquisition.

The sale of Warner Fabrics was a trade and assets disposal comprising stock and fixed assets only. Consideration was agreed at £0.45 million of which £0.31 million had been received before the year end. The historic Warner Archive purchased originally in the acquisition of Warner Fabrics has been retained by the group and continues to have no carrying value on the balance sheet.

Pension Funds
The transitional rules of FRS 17 have been adopted in the current year. If the accounting standard had been adopted in full, then the group's net assets at 31 January 2002 would be reduced by £2.30 million reflecting the net deficit on the pension schemes at that date. This is fully disclosed in note 37 on page 38 of the accounts.

Taxation
Through effective tax planning in our US subsidiary a refund was received during the year offsetting tax charges in other territories and resulting in a tax credit in the profit and loss account for the second year running. The new standard on deferred taxation, FRS 19, has had no impact on the accounts as this new standard embraces the approach of using full provision, which the group has adopted for many years.

Interest
The group currently maintains a larger proportion of its debt in floating rate instruments and this has substantially benefited the group in the year owing to the significant reduction of base rates in the UK and US. This policy remains constantly under review to ensure interest rate risk is minimised.

Cash flow
Net debt increased during the year from £4.72 million to £7.87 million at the year end. The gross capital expenditure reduced dramatically year on year from £6.11 million to £1.39 million following the significant expenditure in previous years on the investment in the group's new wallpaper factory and installation of the group wide IT system. A full cash flow statement is set out on page 20.

Treasury Policy
The group's treasury policy is controlled centrally in accordance with procedures approved by the board. It is run prudently as a central group function, providing services to the other group companies and adopts a risk adverse strategy.

The main risks covered by this policy are interest rate risk, foreign currency risk and liquidity risk.

Interest Rate Risk
The group manages its funding requirements through a combination of fixed and floating rate borrowings. At the end of the year the group had fixed rate borrowings of £2.45 million and floating rate borrowings of £7.65 million. The fixed rate borrowings represent finance leases and the weighted average time for which the rates remain fixed is 2.50 years (2001: 1.94 years) at an average rate of 7.77% (2001: 7.90%). The weighted average time has increased against the previous year as the more expensive older leases are being repaid at a faster rate and the most expensive is due to be paid off in full within 12 months of the year end.

Foreign Currency Risk
With the introduction of the euro there has been a growing number of customers requesting euro denominated invoices. The currency risk associated with this business is mitigated by a natural hedge that exists within the group as a result of approximately equal amounts of euro purchases by the UK and the group's Norwegian operations.

The group's most significant overseas market is the US and exposure to movements between the dollar and sterling can have a significant impact. To cover this risk the group entered into forward currency contracts on the dollar at the end of the previous year that have prudently secured the rates during this year and will continue into the next year.

As highlighted in note 28 of the accounts on page 34, translation risk is limited at the year end with the only significant balances being those relating to the sterling/euro cross, however these hedge each other down to an insignificant amount. This represents an improvement on the previous year where net euro debtors in the UK significantly outweighed sterling creditors in the European territories.

All foreign currencies are bought and sold centrally on behalf of the group. Regular reviews take place of foreign currency cash flows and any unmatched exposures are covered by forward contracts wherever economically practical.

The group does not trade in financial instruments and hedges are only used for known cash flows resulting in there being no significant gains and losses.

Liquidity Risk
The group ensures that it has adequate facilities available to cover both its short term and medium term commitments. At the year end the group had committed overdraft facilities of £8.0 million in the UK and $1.0 million in the US, which were maintained at reasonable cost.

Shortly after the year end new banking facilities were successfully negotiated in the UK with HSBC extending what was previously in place with Barclays Bank PLC. The facilities highlight the strength of the group's balance sheet and clearly demonstrate the continuing confidence and support for the group. When added to the existing facility in the US the directors believe that these increased facilities are adequate to cover any liquidity risk in the foreseeable future.

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

John Sach
Group Finance Director

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. Until 28 March 2001 the board only had two non-executive directors, both of whom served on the Audit Committee. Since 28 March 2001 the board and Audit Committee has comprised of three non-executive directors.

1. Directors

Board Composition and Appointment

At the end of the year the board of directors comprised two executive directors and three non-executive directors. Mr A J Connolly resigned his directorship on 27 March 2001. Mr P L Cadle and Mr P Billington resigned as directors on 28 March 2001. Mr D Medcalf and Mr P M Harkness were appointed as directors to fill vacancies on 28 March 2001 and were both re-elected as directors at the Annual General Meeting held on 13 June 2001. The Viscount Thurso resigned his directorship on 15 April 2002. Mr I Kirkham was appointed to a vacancy on 15 April 2002. Biographies of the board members can be found on page 8.

The group has always recognised the important role played by non-executive directors in maintaining its high standards of corporate governance and the wealth of experience which they bring to the group. 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.

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.

Directors are appointed to the board following careful consideration by a Nominations Committee comprising the three non-executive directors. This committee makes recommendations to the board for approval by a majority vote. Independent training is provided for all directors newly appointed to the board.

All non-executive directors hold office for specified terms and stand for re-election on retirement by rotation at least every three years.

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 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 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 principles on directors' remuneration are contained in the Report on Directors' Remuneration on pages 13 to 15.

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.

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, monitored and reported to the board.

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 on the Combined Code produced by the Turnbull working party.

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 advisors.

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 three non-executive directors and is chaired by Sir Malcolm Field. 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
25 April 2002

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 Code incorporated in Section B of the Code of Best Practice Provisions annexed to the FSA 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 Sir Malcolm Field. The committee, which meets three times a year, is responsible for appraising 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 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 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 and are not pensionable.

3) Share options form part of the executive directors remuneration the details of which are fully disclosed on page 15.

4) A Long Term Incentive Plan for the executive directors was approved by the members on 26 May 1999. No awards have been made for any of the three years ended 31 January 2002 and the scheme has now lapsed.

Directors' Pension Arrangements
The executive directors in the year ended 31 January 2002, other than the Chief Executive Officer, were members of the group's defined benefit schemes. Retirement benefits are based on final remuneration and length of service, subject as appropriate, to statutory limits. Each scheme is administered by separate trusts. The company pays contributions to the schemes on behalf of the executive based on the recommendations of an independent actuary who carries out valuations of the schemes every three years.

Directors' Service Contracts
All of the executive directors have a one year rolling contract with the company. Sir Malcolm Field will retire by rotation at the forthcoming AGM. I Kirkham will stand for re-election at the forthcoming AGM following his appointment to fill a vacancy on 15 April 2002.

Report on Directors' Remuneration continued

The following tables bring together in one place all the details of directors' remuneration as required by the Companies Act 1985 and the FSA Listing Rules.

Remuneration Excluding Share Options and Pension Contributions

	Salary/ Fees £000	Benefits £000	Total Excluding Pensions 2002 £000	Total Excluding Pensions 2001 £000
Executive directors				
D Medcalf (i) (appointed 28 March 2001)	**148**	**3**	**151**	–
JD Sach	**106**	**2**	**108**	108
P Billington (resigned 28 March 2001)	**35**	–	**35**	107
PL Cadle (resigned 28 March 2001)	**19**	–	**19**	113
AJ Connolly (iv) (resigned 27 March 2001)	**26**	–	**26**	161
Non-executive directors				
The Viscount Thurso (resigned 15 April 2002)	**50**	–	**50**	50
Sir Malcolm Field	**20**	–	**20**	20
PM Harkness (appointed 28 March 2001)	**17**	–	**17**	–
	421	**5**	**426**	559

(i) Mr D Medcalf was the highest paid director.

(ii) Benefits represent the value attributed to the provision of medical insurance and other taxable benefits in kind.

(iii) Contributions payable in respect of directors' pensions were £42,000 (2001: £86,000).

(iv) Compensation for loss of office of £247,000 was paid during the year to Mr AJ Connolly.

Directors' Pension Benefits

	Accrued pension benefit at 1 February 2001 or date of appointment £000	Increase in accrued pension benefit £000	Accrued pension benefit at 31 January 2002 or date of retirement £000	Transfer value of increase in accrued benefit £000
D Medcalf	–	–	**–**	–
JD Sach	10	2	**12**	12
P Billington	49	–	**49**	–
PL Cadle	31	–	**31**	–
AJ Connolly	11	1	**12**	12
	101	3	**104**	24

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

Report on Directors' Remuneration continued

Movements in Share Options Held by Directors

	1 February 2001 or date of appointment Number	Granted during the year Number	Lapsed during the year Number	31 January 2002 Number	Option Price (pence)	Exercise Dates Earliest	Latest
P Billington	51,300		51,300		63.37	14.05.1994	13.05.2001
	51,300		51,300		79.95	26.05.1996	31.05.2001
	76,950		76,950		105.00	20.06.1997	31.05.2001
	30,000		30,000		66.00	23.04.2000	31.05.2001
PL Cadle	41,040		41,040		63.37	14.05.1994	13.05.2001
	30,780			30,780	98.47	04.05.1997	03.05.2004
	51,300			51,300	105.00	20.06.1997	19.06.2004
	25,000			25,000	96.00	13.04.1998	12.04.2005
	50,000			50,000	69.50	06.11.1999	05.11.2006
	30,000			30,000	66.00	23.04.2000	22.04.2007
AJ Connolly	200,000		200,000		66.00	01.05.2000	27.03.2001
	700,000		700,000		66.00	01.12.2001	27.03.2001
D Medcalf		1,000,000		1,000,000	40.00	05.06.2004	04.06.2011
		1,000,000		1,000,000	22.00	05.06.2004	04.06.2011
		100,000		100,000	19.50	15.06.2004	14.06.2011
JD Sach	51,300			51,300	110.17	09.02.1997	08.02.2004
	25,000			25,000	96.00	13.04.1998	12.04.2005
	50,000			50,000	69.50	06.11.1999	05.11.2006
	40,000			40,000	66.00	23.04.2000	22.04.2007
Total	**1,503,970**	**2,100,000**	**1,150,590**	**2,453,380**			

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 2002 was 18.25p and the range during the year was 14.25p to 34.00p.

Sir Malcolm Field
Chairman
Remuneration Committee
25 April 2002

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.

Five Year Record

	1998 £000	1999 £000	2000 £000	2001 £000	2002 £000
Continuing Operations					
Turnover	54,621	52,450	49,937	64,067	**61,115**
Overseas turnover	23,818	23,018	20,990	20,065	**18,104**
Operating profit/(loss)	3,691	(2,065)	1,663	(5,269)	**(6,087)**
EBITDA	5,561	836	3,637	(1,811)	**(2,393)**
Profit/(loss) before taxation	3,055	(2,382)	386	(5,487)	**(6,672)**
Capital expenditure	2,546	2,853	6,283	6,113	**1,388**
Earnings/(loss) per share	2.75	(2.26)	0.25	(9.60)	**(11.76)**
Average number of employees	683	608	568	757	**740**
Turnover per employee	£80,000	£86,000	£88,000	£85,000	**£83,000**

	1998 £000	1999 £000	2000 £000	2001 £000	2002 £000
Total Group					
Dividends	4,500	1,247	1,180	590	–
Shareholders' funds	47,397	42,787	42,442	37,731	**31,064**
Dividend per share	3.7p	2.0p	2.0p	1.0p	–

All previous years exclude the results of discontinued operations.

Financial Calendar
Annual General Meeting 19 June 2002
Announcement of half-year results September 2002

Notes

Walker Greenbank PLC
Bradbourne Drive
Tilbrook
Milton Keynes
Buckinghamshire MK7 8BE

Telephone 08708 300 365
Facsimile 08708 300 364

www.walkergreenbank.com