

Wallace Group Limited
Annual report for the
for the year ended 31 May 2006

Registered Number 245921



Wallace Group Limited
Annual report
for the year ended 31 May 2006

Contents

Directors and advisors	1
Directors' report	2
Independent auditors' report to the members of Wallace Group Limited	4
Consolidated profit and loss account for the year ended 31 May 2006	6
Balance sheets as at 31 May 2006	7
Cash flow statement for the year to 31 May 2006	8
Accounting policies	9
Notes to the financial statements for the year ended 31 May 2006	11

Wallace Group Limited

Directors and advisors

Directors

H Cairns

R McIntyre

A McMillan

H Turnbull

J Turnbull

Secretary

H Turnbull

Independent auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

Glasgow

G2 2LW

Solicitors

Burness

120 Bothwell Street

Glasgow

G2 7JL

Registered Office

Wallace House

Whitehouse Road

Stirling

FK7 7TA

Bankers

Clydesdale Bank plc

23 South Methven Street

Perth

PH1 5PQ

Wallace Group Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 May 2006

Business review and principal activities

Wallace Group Ltd ("the company") comprises Stirling Stone Ltd, Toffolo Stirling Ltd, Natstone Developments Ltd, Natural Stone Quarries Ltd and Construction Materials Consultants Ltd, offering a unique, diverse service within the dimensional stone industry throughout the United Kingdom

The results for the company show a pre tax profit of £69,000 (2005 £41,000) for the year and sales of £9,539,000 (2005 £6,915,000) The consolidated profit and loss account for the year is set out on page 6

The company has net funds of £228,000 (2005 £144,000)

Research and development

The directors regard the investment in research and development as integral to the continuing success of the business and ensuring we provide our clients with the most efficient cost effective service implementing the latest technology

Future outlook

The directors are very positive and confident of the further development of the company taking advantage of the progressive up turn in market conditions

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks The key business risks affecting the company are considered to relate to competition from other stone companies, employee retention, and material availability

Key performance Indicators ("KPIs")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Dividends and transfers to reserves

The directors do not recommend payment of a dividend to equity holders Non-equity appropriations amounted to £16,593 (2005 £15,178) for the year ended 31 May 2006 The profit for the year of £52,127 (2005 £29,000) will be transferred to reserves

Directors

The directors of the company at 31 May 2006, all of whom were directors for the whole of the year ended on that date except where stated, are listed on page 1

Wallace Group Limited

Directors' interests

The interests of the directors in the shares of the company at 31 May 2006 were as follows

	2006 Number	2005 Number
H Turnbull	42,501	42,501
J Turnbull	20,000	20,000
H Cairns	20,000	20,000
A McMillan	20,000	20,000
K Turnbull	12,500	12,500
R McIntyre	5,000	5,000
	120,001	120,001

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 May 2006 and that applicable accounting standards have been followed.

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

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



H Turnbull
Director

29 March 2007

Wallace Group Limited

Independent auditors' report to the members of Wallace Group Limited

We have audited the group and parent company financial statements of Wallace Group Limited for the year ended 31 May 2006 which comprise the Consolidated Profit and Loss Account, Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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 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.

Wallace Group Limited

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2006 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers US

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Glasgow

29 March 2007

Wallace Group Limited

Consolidated profit and loss account for the year ended 31 May 2006

	Note	2006 £'000	2005 Restated £'000
Turnover	2	9,539	6,915
Cost of sales		(7,099)	(5,048)
Gross profit		2,440	1,867
Administration expenses		(2,385)	(2,324)
Other operating income		18	32
Operating profit/(loss)	5	73	(425)
Gain on sale of fixed asset		-	485
Interest payable and similar charges	6	(4)	(19)
Profit on ordinary activities before taxation		69	41
Tax on profit on ordinary activities	7	-	3
Profit for the financial year		69	44
Dividends – non-equity	8	(17)	(15)
Retained profit for the financial year	9	52	29

All items dealt with in arriving at operating profit relate to continuing operations

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented

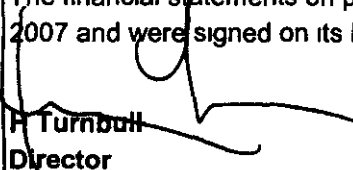
There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents

Wallace Group Limited

Balance sheets as at 31 May 2006

	Note	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Fixed assets					
Intangible assets	10	214	-	226	
Tangible assets	11	111	-	123	
Investments	12	-	40		40
		325	40	349	40
Current assets					
Stocks	14	279	-	351	
Debtors	15	1,136	147	1,218	168
Cash at bank and in hand		271	53	213	32
		1,686	200	1,782	200
Creditors, amounts falling due within one year	16	(1,722)	-	(1,786)	
Net current (liabilities)/assets		(36)	200	(4)	200
Total assets less current liabilities		289	240	345	240
Creditors: amounts falling due after more than one year	17	(127)	-	(235)	
Net assets		162	240	110	240
Capital and reserves					
Called up share capital	19	195	125	195	125
Profit and loss account	20	(33)	115	(85)	115
Total shareholders' funds	21	162	240	110	240
Analysis of shareholders' funds.					
Equity		92	240	40	240
Non-equity		70	-	70	-
		162	240	110	240

The financial statements on pages 6 to 23 were approved by the board of directors on 29 March 2007 and were signed on its behalf by


H. Turnbull
Director

Wallace Group Limited

Cash flow statement for the year ended 31 May 2006

	Note	2006 £	2005 £
Net cash inflow/(outflow) from operating activities	24	101	(296)
Returns on investment and servicing of finance			
Interest paid		(4)	(8)
Interest element of finance lease payments		-	(3)
Net cash inflow/(outflow) from returns on investment and servicing of finance		97	(307)
Taxation		-	
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(26)	(9)
Sale of tangible fixed assets		13	731
Net cash inflow before financing		84	415
Financing			
Repayment of principal under hire purchase contracts		(8)	(18)
Repayment of bank loan		-	(171)
Repayment of other loan		(18)	
Increase in cash	23	58	226

Wallace Group Limited

Accounting policies

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the group and all its subsidiary undertakings made up to 31 May 2006. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition.

Intangible assets

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is amortised through the profit and loss account over its estimated economic life. The estimated economic life of goodwill is twenty years.

Tangible fixed assets

The cost of tangible fixed assets in their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets over the expected useful economic life of the asset concerned. The principal annual rates used for this purpose are:

Buildings	2%	(straight line)
Plant and machinery	25%	(reducing balance)
Fixtures and fittings	2%	(reducing balance)

Finance and operating leases

Assets obtained under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the obligations is charged to the profit and loss account over the period of the contract and represents a constant proportion of the balance of capital repayments outstanding.

Assets acquired under finance leases are capitalised and depreciated on a straight line basis over the period of the lease term.

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks

Stocks are valued at the lower of cost and net realisable value after making the due allowance for obsolete and slow moving items.

Government grants

Grants that are related to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the related asset's useful life. Other grants are credited to the profit and loss account when received.

Wallace Group Limited

Turnover

Turnover represents amounts invoiced to outside customers, net of trade discounts and value added tax, except in respect of contracting activities where turnover represents the value of work carried out during the year including amounts not invoiced. Turnover from the sale of goods is recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company.

Profit on individual contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Full provision is made for all known or expected losses on individual contracts immediately such losses are foreseen.

Taxation

The tax charge is composed of current tax and deferred tax. Current tax is based on the profit for the year at the current rate. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. A deferred tax asset is not recognised unless it is more likely than not that there will be sufficient future taxable profits from which the future reversal of the underlying timing difficulties can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

Pension

The Pension costs charged against profits represent the amounts of contributions payable into individual plans for the benefit of employees.

Wallace Group Limited

Notes to the financial statements for the year ended 31 May 2006

1 Prior year restatement

The comparative turnover and cost of sales figures have been restated due to the incomplete elimination of Intercompany transactions in the prior year. This restatement reduces sales and cost of sales by £443,407 and thus has no impact on either the gross profit or retained profit for the year ended 31 May 2005.

2 Turnover

All sales are made in the United Kingdom.

3 Directors' emoluments

The remuneration paid to the directors of the company was

	2006 £'000	2005 £'000
Aggregate emoluments	516	616
Company pension contributions to money purchase schemes	10	14

Retirement benefits are accruing to four (2005: four) directors under a money purchase pension scheme.

	2006 £'000	2005 £'000
Highest paid director		
Aggregate emoluments	121	98

Wallace Group Limited

4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was

	2006 Number	2005 Number
Production	32	32
Administration	27	30
	59	62

	2006 £'000	2005 £'000
Staff costs (for the above persons).		
Wages and salaries	1,718	1,800
Social security costs	201	210
Other pension costs (note 26)	45	58
	1,964	2,068

Wallace Group Limited

5 Operating profit/(loss)

	31 May 2006 £'000	31 May 2005 £'000
Operating profit/(loss) is stated after charging		
Depreciation charge for the year		
Tangible owned fixed assets	37	34
Tangible fixed assets held under hire purchase contracts	-	6
Goodwill amortisation	12	12
Auditors' remuneration		
Audit services	27	27
Non audit services	5	5
Operating lease rentals – land and buildings	120	96

6 Interest payable and similar charges

	2006 £'000	2005 £'000
Bank overdraft and other loans	3	16
Hire purchase contracts	1	3
	4	19

Wallace Group Limited

7 Tax on profit on ordinary activities

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on profits for the period	-	-
Deferred tax		
Adjustment in respect of previous periods	-	(3)
Tax on profit on ordinary activities	-	(3)

The tax assessed for the period is lower (2005 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	69	41
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	21	12
Effects of		
Expenses not deductible for tax purposes and other permanent differences	-	3
Capital allowances for the period in excess of depreciation / STTDs	11	11
Prior year losses utilised	(54)	(26)
Unutilised tax losses	22	
Current tax charge for the period	-	

A deferred tax asset of £371,777 (2005 £392,075) has not been recognised at the year-end due to the uncertainty over its future recoverability

Wallace Group Limited

8 Dividends

	2006 £'000	2005 £'000
Non-equity – Preference accrued £0.09 per £1 share	17	15

9 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows:

	2006 £'000	2005 £'000
Retained profit by subsidiary undertakings	52	31
Dealt with in the accounts of the parent company	-	(2)
Consolidated profit for the year	52	29

10 Intangible assets

Group	2006 £'000
Cost	
At 1 June 2005 and 31 May 2006	245
Accumulated amortisation	
At 1 June 2005	19
Charge for the year	12
At 31 May 2006	31
Net book amount	
At 31 May 2006	214
At 31 May 2005	226

Wallace Group Limited

11 Tangible fixed assets

Group	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 June 2005	189	3	192
Additions	26		26
Disposals	(2)		(2)
At 31 May 2006	213	3	216
Accumulated depreciation			
At 1 June 2005	68	1	69
Charge for the year	37		37
On disposals	(1)		(1)
At 31 May 2006	104	1	105
Net book amount			
At 31 May 2006	109	2	111
At 31 May 2005	121	2	123

The net book value of tangible fixed assets includes an amount of £ nil (2005 £17,415) in respect of assets held under hire purchase contracts

12 Fixed asset investments

Company	2006 £'000	2005 £'000
At 1 June 2005	40	40
At 31 May 2006	40	40

Wallace Group Limited

13 Interest in group undertakings

Name of subsidiary undertaking	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares held	Principal activity
Stirling Stone Limited	Scotland	£1 ordinary shares	100%	Supply and fixing of natural stone
Natural Stone Quarries Limited	Scotland	£1 ordinary shares	100%	Quarrying and working dimensional stone
Toffolo Stirling Limited	Scotland	£1 ordinary shares	100%	Supply and installation of marble and granite
Stone Design Limited	Scotland	£1 ordinary shares	100%	Sourcing, design and budgetary control and fixing of natural stone
Construction Materials Consultants Limited	Scotland	£1 ordinary shares	100%	Consultancy service relating to material analysis
Natstone Developments Limited	Scotland	£1 ordinary shares	100%	Developing and letting of property
Stirling Stone (Restoration) Limited	Scotland	£1 ordinary shares	100%	Dormant
Natstone Limited	Scotland	£1 ordinary shares	100%	Dormant
Stirling Sealants Limited	Scotland	£1 ordinary shares	100%	Dormant
Stirling Stone (Management) Limited	Scotland	£1 ordinary shares	100%	Dormant
Toffolo Limited	Scotland	£1 ordinary shares	100%	Dormant
Quality Stone Limited	Scotland	£1 ordinary shares	100%	Dormant
Steading Developments Limited	Scotland	£1 ordinary shares	100%	Dormant

14 Stocks

	2006	2005
Group	£'000	£'000
Raw materials and consumables	279	351

Wallace Group Limited

15 Debtors

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Trade debtors	797	-	837	
Amounts recoverable on contracts	325	-	313	
Amounts owed by fellow subsidiary undertakings		147		168
Prepayments	-	-	5	
Other debtors	14	-	63	
	1,136	147	1,218	168

16 Creditors falling due within one year

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Other loans	6	-	5	
Obligations under hire purchase contracts and finance leases	-	-	8	
Trade creditors	684	-	684	
Other taxation and social security	210	-	640	
Other creditors	268	-	282	
Accruals and deferred income	411	-	146	
Non-equity dividends	38	-	21	
Payments on account	105	-		
	1,722	-	1,786	

Wallace Group Limited

17 Creditors falling due after one year

	2006	2005
Group	£'000	£'000
Other loans	37	56
Other taxation and social security	-	75
Deferred income	90	104
	127	235

18 Loans and other borrowings

	2006	2005
Group	£'000	£'000
Other loans	43	61

The maturity of debt is as follows

	2006	2005
Group	£'000	£'000
In one year or less	14	13
Between one and two years	17	15
Between two and five years	12	33
	43	61

A loan was also obtained from the Business Growth Fund. Interest is charged at 10% per annum and is repayable by 31 January 2009.

A further loan was obtained from Scottish Enterprise Forth Valley upon which interest is charged at 6% per annum.

Wallace Group Limited

18 Loans and other borrowings (continued)

Hire purchase contracts

The net hire purchase obligations to which the group is committed are

Group	2006	2005
	£'000	£'000
In one year or less		8

Deferred income

Group	2006	2005
	£'000	£'000
At 1 June 2005	118	132
Released during the year	(14)	(14)
At 31 May 2006	104	118

19 Called up share capital

Group	2006	2005
	£'000	£'000
Authorised		
250,000 ordinary shares of £1 each	250	250
70,000 cumulative preference shares of £1 each	70	70
	320	320
Allotted and fully paid		
125,001 ordinary shares of £1 each	125	125
70,000 cumulative redeemable preference shares of £1 each	70	70
	195	195

The cumulative redeemable preference shares must be redeemed by 31 December 2008. On a winding up, the holders have a priority before all other classes of share. The holders have no voting rights.

Wallace Group Limited

19 Called up share capital (continued)

Company	2006 £'000	2005 £'000
Authorised		
250,000 ordinary shares of £1 each	250	250
Allotted and fully paid		
125,001 ordinary shares of £1 each	125	125

20 Profit and loss account

	Group £'000	Company £'000
At 1 June 2005	(85)	115
Profit for the year	52	
At 31 May 2006	(33)	115

21 Reconciliation of movements in shareholders' funds

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Opening shareholders' funds	110	240	81	242
Profit/(loss) for the financial year	52	-	29	(2)
Closing shareholders' funds	162	240	110	240

Wallace Group Limited

22 Financial commitments

At 31 May 2006 the group had annual commitments under non-cancellable operating leases as follows

Group	Land and buildings	Land and buildings
	2006	2005
	£'000	£'000
Expiring after 5 years	145	145

The company had no annual commitments under non cancellable operating leases

23 Analysis of net funds

	Note	At 1 June 2005 £	Cashflows £	At 31 May 2006 £
Net cash				
Cash at bank and in hand		213	58	271
		213	58	271
Debt				
Other loan		(61)	18	(43)
Hire Purchase		(8)	8	-
		(69)	26	(43)
Net funds	25	144	84	228

Wallace Group Limited

24 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2006 £	2005 £
Operating profit/(loss)	73	(425)
Depreciation	37	40
Goodwill amortisation	12	12
Decrease/(Increase) in stocks	72	(4)
Decrease in debtors	82	734
Decrease in creditors	(175)	(653)
Net cash inflow/(outflow) from operating activities	101	(296)

25 Reconciliation of net cash flow to movement in net funds

	Note	2006 £	2005 £
Increase in cash		58	226
Cash outflow from financing		26	189
Change in net funds		84	415
Opening net funds/(debt)		144	(271)
Closing net funds	23	228	144

26 Pension costs

The company operates an executive pension plan for the directors and a group personal pension scheme for all other employees. Both of these are defined contribution schemes. The contributions paid to these schemes are charged annually in the financial statements and amounted to £45,000 (2005 £58,000).

27 Ultimate controlling party

The ultimate controlling party of the group is the Turnbull family by way of their aggregate majority shareholding.