COLEFAX GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2008

Colefax Group is an international designer and distributor of luxury furnishing fabrics and wallpapers and a leading international decorating company. Sales are made under the brand names Colefax and Fowler, Cowtan and Tout, Jane Churchill, Larsen and Manuel Canovas. The Group has offices in the UK, USA, France, Germany and Italy which form part of an expanding worldwide distribution network.

CONTENTS

2001

THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT
COLEFAX & FOWLER LTD

FINANCIAL HIGHLIGHTS

	2008 £'000	2007 £'000	Increase/ (Decrease)
Revenue	**78,181**	71,013	10%
Profit from operations	**6,081**	5,842	4%
Profit before taxation	**5,942**	5,806	2%
Profit attributable to shareholders	**4,065**	3,899	4%
Basic earnings per share	**27.5p**	24.8p	11%
Diluted earnings per share	**26.1p**	23.9p	9%
Dividends per share	**4.20p**	4.00p	5%
Equity	**19,229**	15,269	26%
Operating cash flow	**7,027**	8,034	(13)%
Net funds	**2,419**	363	566%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2008 increased by 2% to £5.94 million (2007 – £5.81 million) on sales up 10% at £78.18 million (2007 – £71.01 million). Earnings per share increased by 11% to 27.5p (2007 – 24.8p). The Group ended the year with net funds of £2.42 million (2007 – £363,000).

During the year the Group purchased for cancellation 303,932 shares at an average price of £1.53 per share and representing 1.9% of the Group's issued share capital at the start of the year.

The Board has decided to recommend that the final dividend is increased by 4% to 2.65p per share (2007 – 2.55p), making a total for the year of 4.20p (2007 – 4.00p) an increase of 5%. The final dividend will be paid on 10th October 2008 to shareholders on the register at the close of business on 12th September 2008.

Trading conditions remained good throughout the year although our two major markets, the US and the UK started weakening in the last quarter of the year. The decline of the US dollar adversely impacted our results by £823,000 on a constant currency basis during the year and the re-organisation of the Accessories division in France resulted in £413,000 of exceptional costs being taken during the year. We ended the year with a strong balance sheet which puts us in a good position to handle current market conditions.

Product Division

- **Fabric – Portfolio of Brands: "Colefax and Fowler", "Cowtan & Tout", "Jane Churchill", "Manuel Canovas", and "Larsen"**

Sales in the Fabric Division, which represent 79% of the Group's sales, increased by 7% to £62.15 million (2007 – £58.29 million) and by 8% on a constant currency basis.

Sales in the US, which represent 50% (2007 – 52%) of the Fabric Division's sales, increased by 8% on a constant currency basis (2007 – 5%). We are expanding our agent showroom in Florida which is an important market. We are also refurbishing our Los Angeles showroom which is a significant market offering good growth opportunities.

UK sales, which represent 21% (2007 – 21%) of the Fabric Division's sales, increased by 10% (2007 – 16%). This performance reflects favourable trading conditions throughout the year. Sales growth slowed towards the end of the year and we expect market conditions to become progressively more difficult.

Sales in Continental Europe, which represent 25% (2007 – 24%) of the Fabric Division's sales, increased by 5% (2007 – 11%) on a constant currency basis. The majority of European countries performed well during the year but sales in France, which is our largest market, were down by 5% on a constant currency basis. This has reduced the overall growth rate in Europe.

Sales in the rest of the world, which represent 4% (2007 – 3%) of the Fabric Division's sales, increased by 13% (2007 – 32%) on a constant currency basis although it is still a small proportion of overall sales. We are starting to see growth in newer markets such as Russia and China and believe that these trends will continue.

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 4% (2007 – 4%) of Group sales, increased by 10% to £2.92 million (2007 – £2.65 million) and produced a good profit for the year. However, as this area of the Group's activities is the most sensitive to the current problems in the UK, we expect a weakening in trading.

- **Accessories – Manuel Canovas**

Manuel Canovas is based in Paris and sales which comprise beachwear and scented candles account for 3% (2007 – 4%) of Group sales. During the year sales decreased by 12% to £2.47

CHAIRMAN'S STATEMENT

million (2007 – £2.82 million). As reported in our interim results, a full review of this activity has been carried out and this resulted in a complete change of management together with certain operational changes. These changes incurred a one-off cost of £413,000 in the year. We now have a new team in place and a strategy that should return this activity to profit.

Interior Decorating Division

Interior decorating sales which account for 14% of Group sales (2007 – 10%), increased by 47% to £10.64 million (2007 – £7.26 million) during the year, producing our best result for over 10 years. The decorating order book remains healthy and as this part of the Group operates in a market less affected by the current economic problems, we are optimistic for the coming year. However, we do not expect results for the current financial year to match the excellent performance reported for the year to 30th April 2008. This is partly due to lower antique sales, which are being affected by the downturn in the UK and US.

Prospects

Current trading conditions in our two principal markets, the US and UK, look increasingly challenging due to the downturn in the housing markets, and are difficult to forecast with any certainty. Historically we have been last in to a recession and last out and my experience of any downturn is that it is always deeper and lasts longer than everyone forecasts. For now our focus will be on conserving our cash and reducing costs where possible but not to the long term detriment of the Group. We have a strong balance sheet and are well placed to handle any downturn and take advantage of any market opportunities which may arise.

I would like to thank all our staff for their contribution to this year's results and for their continued hard work and support.

David B. Green
Chairman
24th July 2008

REVIEW OF OPERATIONS AND FINANCE

Key Performance Indicators

	2008	2007
Constant Currency Sales Growth	**10.9%**	8.1%
Gross Profit Margin	**53.4%**	55.5%
Operating Profit Margin	**7.8%**	8.2%
Basic Earnings Per Share	**27.5p**	24.8p
Operating Cash Flow	**£7.0m**	£8.0m
Stock Turn (Days)	**134**	139
Cost of Equity Capital	**16.7%**	10.4%

Sales Growth

Group sales increased by 10.1% to £78.18 million (2007 – £71.01 million) and by 10.9% on a constant currency basis. This compares to an 8.1% constant currency increase in 2007 and 3.2% in 2006. The strong sales growth reflects the unprecedented housing boom which took place in the UK, the US and certain parts of Europe in 2006 and the first half of 2007. These conditions came to an abrupt halt with the onset of the worldwide credit crunch which started in the middle of last year. The impact of the credit crunch is not reflected in our results to 30th April because of the lag that exists between housing transactions and decorating activity. Looking ahead it seems inevitable that trading conditions are going to become increasingly challenging and the collapse in housing transactions in the UK and US is a major concern. We believe that people spend significantly more money when they move house compared to re-decorating their existing home.

A significant part of this year's sales increase is due to a very strong performance by our decorating division which increased sales by 47% to £10.6 million. In our core fabric division like for like sales increased by 10.1% in the UK, 8% in the US, 4.5% in Europe and 13% in the Rest of the World. The performance in Europe is distorted by a weak performance in France where sales decreased by 5% on a like for like basis. We have restructured our senior management in France and believe this will improve our performance in this market.

Gross Profit Margin

The Group's gross profit margin declined by 2.1% from 55.5% to 53.4%. This is the main reason why this year's sales growth has not translated into higher operating profits. There are two main factors behind the decline in our reported gross profit margin. The first is simply the change in the mix of sales between the lower margin decorating division and the higher margin fabric division. This has reduced the reported gross margin by 0.9%. The second is the weakness of the US dollar which averaged $2.01 during the year compared to $1.92 last year.

The US market represents over 40% of the Group's total sales and 50% of fabric sales. All of our US fabric sales are invoiced in US dollars but mainly sourced in Euros or Sterling. The change in the average dollar rate adversely impacted our gross margin by £608,000 or 0.8%. This equates to approximately £60,000 per one cent movement in the dollar. The Group seeks to hedge its US dollar exposure through forward contracts to sell dollars for Sterling. Gains and losses on forward contracts are included in the cost of goods sold. This year net gains on forward contracts were £87,000 compared to £302,000 last year. So together with the change in the average rate the total impact of the weaker dollar was to reduce gross margin and profit by £823,000. Since the year end the US dollar has strengthened slightly. The Group has forward contracts covering 25% of its exposure for the year ending 30 April 2009 at 1.95 and so there is significant upside potential from any further strengthening of the dollar.

During the second half of the year the Euro appreciated in value by approximately 13.5% from 1.44 to 1.27. The Group has a natural hedge between Euro costs and Euro revenues but this is dependent on maintaining Euro sales at their current levels. The impact of a stronger Euro will be to push our reported gross profit margin lower next year. At constant volumes the quantum of gross margin will not change but if revenues and the cost of goods sold increase by an equal and opposite amount due to changes in exchange rates then our reported margin will fall. The strong Euro is also starting to impact our balance sheet pushing up the Sterling value of stock, debtors and creditors.

REVIEW OF OPERATIONS AND FINANCE

The average and closing US dollar and euros rates were as follows:

	2008	2007	% change
US dollar average	**2.01**	1.92	4.76%
US dollar closing	**1.98**	2.00	(0.97%)
Euro average	**1.39**	1.47	(5.31%)
Euro closing	**1.27**	1.47	(13.46%)

Operating Profit Margin

Group profit from operations increased by 4.1% to £6.08 million (2007 – £5.84 million) representing an operating profit margin of 7.8% (2007 – 8.2%). The decline in our operating profit margin is due to two main factors. The first is the effect of the weak dollar which had an impact of £823,000 as reported above. The second is due to reorganisation costs of £413,000 in France which underperformed during the year and is now under new management for both our fabric sales and accessories operations.

The Group is highly operationally geared with a high gross profit margin and a relatively fixed cost base. More difficult trading conditions will inevitably put pressure on operating margins. The key driver of sales in our core product division is new product investment and we expect that returns on investment will fall in the current economic climate. As a result the Group will focus on cash flow and maintaining a tight control over working capital.

Although tougher trading conditions will put pressure on operating margins we believe that the Group is well placed to weather any downturn in market conditions for three reasons. Firstly the Group has a strong balance sheet with net cash at the start of 2008 of £2.4 million and unused bank facilities of £7.3 million. Secondly the Group is orientated towards the luxury end of the market which may prove more resilient to adverse conditions. Thirdly the Group makes 69% of its sales overseas and has a reasonable spread of geographic risk between the UK, the US and Europe.

Taxation

The Group tax charge was £1.88 million (2007 – £1.91 million), an effective tax rate of 31.6% (2007 – 32.8%). The reduction in the effective rate is primarily due to the change in the mix of profits between the UK and the US where corporate tax rates are approximately 40%. Profits at our US subsidiary company Cowtan and Tout have been impacted by the weak dollar and a similar overall tax rate is expected in 2009. The Group balance sheet includes a significant deferred tax asset of £2.0 million (2007 – £2.1 million) nearly all of which relates to temporary differences in the US.

Basic Earnings Per Share

Group earnings per share increased by 11% to 27.5p (2007 – 24.8p). This follows a 42.5% increase in EPS in 2007 and is partly explained by the effect of share buybacks in the current and prior years. During the year the Group bought for cancellation 303,932 shares representing 1.9% of the issued share capital at a cost of £465,000 or £1.53 per share. In the prior year the Group bought for cancellation 1,510,068 shares at an average price of 2.05p. These buybacks have reduced the weighted average number of shares in issue compared to last year by 6%.

Cost of Equity Capital

The Group Board is in favour of share buybacks for so long as they continue to enhance shareholder value through their effect on earnings per share, net assets per share and return on capital employed. The Group's cost of equity capital measured in terms of earnings as a percentage of the share price is 16.7% up from 10.4% in 2007 and well in excess of the Group's post tax cost of debt of 4.3%. The Group was ungeared at the year end with net cash of £2.4 million and after the year end on 22nd May 2008 the Group bought for cancellation a further 500,000 shares representing 3.3% of the issued share capital at a total cost of £850,000 or £1.70 per share. The Company has significant distributable reserves of £6.0 million to cover further share buybacks but this will depend on cash generation and market conditions.

At our AGM on 16th September, the Group will seek approval to buy back up to 15% of the issued share capital of the company or 2.22 million shares. The shareholding of David Green, Chairman

REVIEW OF OPERATIONS AND FINANCE

and Chief Executive, is currently 29.9% (30.9% including outstanding share options) and as a result further share buybacks will require the renewal of an existing authority to waive Rule 9 of the Takeover Code. Under Rule 9 any person or persons acting in concert with a shareholding of 30% or more are required to make an offer for the entire issued share capital of the company. An Extraordinary General Meeting to seek approval of the waiver will be held on 16th September 2008 after our Annual General Meeting.

Dividends
The Board has proposed a 4.0% increase in the final dividend to 2.65p (2007 – 2.55p) making a total for the year of 4.20p (2007 – 4.00p) which is an increase of 5.0%. This is consistent with the Group's progressive dividend policy. The total cost of the dividend is £604,000 which represents dividend cover of 6.7 times (2007 – 6.2 times). This remains a high level of cover but currently the Board's opinion is that the interests of shareholders are best served by utilising the Group's distributable reserves for share buybacks or to fund acquisitions which fit with the Group's existing brand portfolio.

Cashflow
The Group has a strong operating cashflow and generated cash from operations of £7.0 million in 2008 compared to £8.0 million last year. The net increase in working capital was £744,000 comprising an increase in stock of £1.2 million, an increase in debtors of £672,000 and an increase in creditors of £1.1 million. There was considerable pressure on working capital during the year driven by the 10.1% increase in Group sales. This pressure was exacerbated by the dramatic strengthening of the Euro in December which has had the effect of increasing the Sterling value of stock, debtors and creditors in our balance sheet.

Our fabric ranges require a significant investment in stock to satisfy customer service expectations and as a result inventory management is of critical importance to cashflow especially if there is a downturn in business. During the year our stock turn reduced slightly from 139 to 134 days.

Tax cashflows increased to £2.3 million from £1.8 million last year. This payment is higher than the profit and loss charge of £1.8 million and is due to timing differences and changes in deferred tax. Capital expenditure during the year was £1.4 million compared to depreciation of £1.7 million.

Cash generation before dividends and share buybacks was exactly the same as last year at £3.1 million and compares to profit after tax of £4 million. Dividend payments were £604,000 (2007 – £600,000) and share buybacks were £465,000 (2007 – £3.09 million). As a result the Group has ended the year with net cash of £2.4 million

IFRS
The Group has adopted IFRS for the year ending 30th April 2008. The first reporting under the new accounting rules was for the interim period ending 31st October 2007. Restated balance sheets for 30th April 2006 and 30th April 2007 were announced at the same time as our interim results on 24th January 2008 and are included in our Annual Report. The impact of adopting IFRS is relatively modest and resulted in a reduction in equity at 30th April 2007 of £422,000.

Going Concern
The Directors are confident having made appropriate enquiries that the Group and the 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.

R. M. Barker

Rob Barker
Group Finance Director

DIRECTORS, BANKERS AND ADVISERS

Directors

D. B. Green, *Chairman and Chief Executive*
R. M. Barker BSc ACA, *Finance Director*
W. Nicholls, *Decorating Managing Director*
K. Hall, *Chief Executive Officer – USA*
A. K. P. Smith, *Non-Executive Director*

Secretary and Registered Office

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Registrars and Transfer Office

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Bristol BS99 7NH

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2008.

Principal Activities
The principal activities of the Group are the design, marketing, distribution and retailing of furnishing fabrics, wallpapers, trimmings, related products and upholstered furniture in the UK and overseas and the sale of antiques; interior and architectural design, project management, decoration and furnishing for private and commercial clients.

Review of the Business and Future Developments
Details of the Group's activities during the year and of future plans are contained in the Chairman's Statement on pages 2 and 3, and in the Review of Operations and Finance on pages 4 to 6.

Financial Instruments
Details of the use of financial instruments by the Group are contained in note 20 on pages 35 and 36 of the financial statements.

Share Capital
At the forthcoming Annual General Meeting, certain resolutions are to be proposed relating to the allotment and purchase of shares.

Resolution Number 6, proposed as an ordinary resolution, would authorise the Directors to allot shares in the Company up to a maximum of the authorised but unissued share capital of the Company (this represents 123% of the issued share capital as at 24th July 2008) for a period expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

Resolution Number 7, proposed as a special resolution, would authorise the Directors to allot shares for cash, other than to existing shareholders in proportion to their existing holdings, in respect of a maximum of 5% of the existing issued share capital of the Company, for a period again expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

Resolution Number 8, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £222,900 of the Company's ordinary shares at prices from 10p up to a maximum of 5% above the middle market quotations for the preceding five business days. This represents 15% of the issued share capital as at 24th July 2008. This power will only be exercised by the Board when it is satisfied that any purchase would have a beneficial impact on earnings per share, would not have a material adverse impact upon attributable assets and would be in the interests of shareholders. Excluding the Company's ESOP share options the number of options for ordinary shares which were outstanding at 24th July 2008, the latest practical date prior to publication of this report, was 15,000 (0.1% of the current issued ordinary share capital). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 0.1% of the issued ordinary share capital.

Results and Dividends
The Group's profit on ordinary activities after taxation was £4,065,000 (2007 – £3,899,000). An interim dividend of 1.55p (2007 – 1.45p) per share was paid to shareholders on 10th April 2008. The Directors recommend the payment of a final dividend of 2.65p (2007 – 2.55p) per share to be paid on 10th October 2008 to shareholders on the register at the close of business on 12th September 2008. The total dividend is 4.20p (2007 – 4.00p) per share and the total of the interim and proposed final dividend is £599,000 (2007 – £596,000).

Employees
The Group values the involvement of its employees and keeps them informed on matters affecting them and on factors affecting the performance of the Group. Information is given at formal and informal meetings throughout the year.

The Group believes in the policy of equal opportunities. Recruitment and promotion are undertaken on the basis of merit, regardless of gender, race, age, marital status, sexual orientation, religion, nationality, colour and disability.

Disabled Persons
It is the policy of the Group to employ disabled persons wherever appropriate. Such disabled employees are given the same opportunities for training and promotion as other employees. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

DIRECTORS' REPORT

Payment to Suppliers
It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30th April 2008, the Group had an average of 35 days purchases outstanding to trade creditors (2007 – 38 days). The parent company makes no payments to suppliers.

Charitable Donations
During the year the Group made various charitable donations totalling £25,685 (2007 – £34,442).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2008.

In accordance with Article 14.1 of the Company's Articles of Association, A. K. P. Smith will retire by rotation at the Annual General Meeting. Resolution 5 proposes his re-election as Director. A. K. P. Smith has a service contract, which is terminable by one year's notice by either the Company, or the Director.

Non-Executive Directors
A. K. P. Smith was appointed as non-executive Director in February 1994. He is also the non-executive Chairman of Space NK Ltd.

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 24th July 2008:

	Number of shares	%
D. B. Green	4,442,862	29.9
Discretionary Unit Fund Managers	3,000,000	20.2
Schroder Investment Management	2,144,927	14.4
Hunter Hall Investment Management	1,490,000	10.0
Colefax Group Plc ESOP	797,422	5.4

Directors' Interests
The Directors' interests in the share capital of the Company at the end of the financial year were as follows:

	Ordinary shares of 10p each	
	2008	2007
D. B. Green	**4,442,862**	4,442,862
R. M. Barker	**105,000**	125,000
W. Nicholls	**260,354**	260,354
A. K. P. Smith	**45,000**	45,000
K. Hall	**50,000**	50,000

D. B. Green's shareholding included 402,400 (2007 – 402,400) ordinary shares in which his interest was non-beneficial. No Director was interested in the shares of any subsidiary company. On 25th September 2007, R. M. Barker sold 20,000 shares at a price of 245p per share.

DIRECTORS' REPORT

Share Options

The following options are outstanding in respect of the Colefax Group plc Employee Share Ownership Plan Trust. The options each have an exercise price of £1 in total.

	Exercise price	At 1st May 2007	Granted/ (Exercised) during the year	**At 30th April 2008**	Date of Grant	Exercisable from	Expiry Date
D. B. Green	£1	100,000	–	**100,000**	28.04.06	28.04.06	27.04.16
D. B. Green	£1	50,000	–	**50,000**	27.04.07	27.04.07	26.04.17
R. M. Barker	£1	75,000	–	**75,000**	28.04.06	28.04.06	27.04.16
R. M. Barker	£1	50,000	–	**50,000**	27.04.07	27.04.07	26.04.17
R. M. Barker	£1	–	100,000	**100,000**	30.04.08	30.04.08	29.04.18
K. Hall	£1	100,000	–	**100,000**	28.04.06	28.04.06	27.04.16
K. Hall	£1	50,000	–	**50,000**	27.04.07	27.04.07	26.04.17
K. Hall	£1	–	100,000	**100,000**	30.04.08	30.04.08	29.04.18

The market price of the Company's shares at 30th April 2008 was 164.0p. The range of market prices during the financial year was between 149.50p and 262.50p.

Corporate Governance

Although it is not a requirement of AIM listed companies, the Group seeks within the practical confines of a smaller company to act in compliance with the principles of good governance and the code of best practice as set out in the Combined Code on Corporate Governance. The Audit Committee and Remuneration Committee are headed by the Group's non-executive director. The whole Board acts as a Nomination Committee. The Board has identified the principal business and financial risks facing the Group and documented the key control procedures that are in place to manage these risks. This document is subject to review by the Audit Committee and updated on a regular basis.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

R. M. Barker BSc ACA
Secretary
24th July 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC

We have audited the group and parent company financial statements (the ''financial statements'') of Colefax Group Plc for the year ended 30th April 2008 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the Group Statement of Recognised Income and Expenses 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Review of Operations and Finance and the Directors' Report. We consider the implications for our reports if we become aware of any apparent misstatements or material inconsistencies within the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 group's and 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.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30th April 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30th April 2008;
- the financial statements 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.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
24th July 2008

GROUP INCOME STATEMENT

For the year ended 30th April 2008

	Notes	2008 £'000	2007 £'000
Revenue	4	**78,181**	71,013
Cost of sales		**36,467**	31,602
Gross profit		**41,714**	39,411
Operating expenses	6	**35,633**	33,569
Profit from operations	7	**6,081**	5,842
Finance income		**127**	138
Finance expense		**(266)**	(174)
	9	**(139)**	(36)
Profit before taxation		**5,942**	5,806
Tax expense			
– UK		**(1,899)**	(1,247)
– Overseas		**22**	(660)
	10	**(1,877)**	(1,907)
Profit for the year attributable to the equity holders of the parent	22	**4,065**	3,899
Basic earnings per share	12	**27.5p**	24.8p
Diluted earnings per share	12	**26.1p**	23.9p

All activity has arisen from continuing operations.

The notes on pages 18 to 41 form part of these Consolidated financial statements.

GROUP BALANCE SHEET
At 30th April 2008

	Notes	2008 £'000	2007 £'000
Non-current assets:			
Property, plant and equipment	13	**4,960**	5,135
Deferred tax asset	19	**1,991**	2,164
		6,951	7,299
Current assets:			
Inventories and work in progress	15	**13,357**	12,045
Trade and other receivables	16	**10,561**	9,558
Cash and cash equivalents	17	**3,862**	4,113
		27,780	25,716
Trade and other payables:			
Current corporation tax		**995**	1,529
Other amounts falling due in one year		**14,152**	15,979
	18	**15,147**	17,508
Net current assets		**12,633**	8,208
Total assets less current liabilities		**19,584**	15,507
Non-current liabilities:			
Deferred tax liability	19	**123**	35
Pension liability	26	**232**	203
		355	238
Net assets		**19,229**	15,269
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,536**	1,565
Share premium account	22	**11,148**	11,141
Capital redemption reserve	22	**1,338**	1,308
ESOP share reserve	22	**(20)**	(157)
Share based payment reserve	22	**664**	508
Foreign exchange reserve	22	**124**	(539)
Retained earnings	22	**4,439**	1,443
Total equity	23	**19,229**	15,269

The financial statements were approved by the board of directors and authorised for issue on 24th July 2008.

D. B. Green Director
R. M. Barker Director

The notes on pages 18 to 41 form part of these Consolidated financial statements.

COMPANY BALANCE SHEET

At 30th April 2008

	Notes	2008 £'000	2007 £'000
Non-current assets:			
Investments	14	**27,562**	27,270
Current assets:			
Trade and other receivables	16	**3,472**	4,052
Cash and cash equivalents	17	**358**	–
		3,830	4,052
Trade and other payables: amounts falling due within one year	18	**10**	2,599
Net current assets		**3,820**	1,453
Net assets		**31,382**	28,723
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,536**	1,565
Share premium account	22	**11,148**	11,141
Merger reserve	22	**10,762**	10,762
Capital redemption reserve	22	**1,338**	1,308
ESOP share reserve	22	**(20)**	(157)
Share based payment reserve	22	**664**	508
Retained earnings	22	**5,954**	3,596
Total equity		**31,382**	28,723

The financial statements were approved by the board of directors and authorised for issue on 24th July 2008.

D. B. Green Director
R. M. Barker Director

The notes on pages 18 to 41 form part of these Consolidated financial statements.

GROUP CASH FLOW STATEMENT

For the year ended 30th April 2008

	Notes	2008 £'000	2007 £'000
Operating activities			
Profit before taxation		**5,942**	5,806
Finance income		**(127)**	(138)
Finance expense		**266**	174
Depreciation	13	**1,690**	1,629
Cash flows from operations before changes in working capital		**7,771**	7,471
Increase in inventories and contracts in progress		**(1,215)**	(1,355)
(Increase)/decrease in trade and other receivables		**(672)**	394
Increase in trade and other payables		**1,143**	1,524
Cash generated from operations		**7,027**	8,034
Taxation paid			
UK corporation tax paid		**(2,002)**	(1,432)
Overseas tax paid		**(307)**	(393)
		(2,309)	(1,825)
Net cash inflow from operating activities		**4,718**	6,209
Investing activities			
Payments to acquire property, plant and equipment	13	**(1,448)**	(1,648)
Receipts from sales of property, plant and equipment		**10**	45
Interest received		**125**	129
Net cash outflow from investing		**(1,313)**	(1,474)
Financing activities			
Purchase of own shares		**(465)**	(3,093)
Repayment of long-term loan		**–**	(500)
Interest paid		**(280)**	(150)
Equity dividends paid		**(604)**	(600)
Net cash outflow from financing		**(1,349)**	(4,343)
Increase in cash in the year		**2,056**	392

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSES

For the year ended 30th April 2008

	2008 £'000	2007 £'000
Profit for the financial year	**4,065**	3,899
Currency translation differences on foreign currency net investments	**704**	(861)
Deferred tax on long-term loan foreign currency movements	**(41)**	322
Total recognised income and expenses relating to the year	**4,728**	3,360

The notes on pages 18 to 41 form part of these Consolidated financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 30th April 2008

	2008 £'000	2007 £'000
Operating activities		
Profit before taxation	**378**	309
Finance income	**(562)**	(503)
Finance expense	**148**	137
Profit from operations before changes in working capital	**(36)**	(57)
Decrease in trade and other receivables	**2,470**	696
(Decrease)/increase in trade and other payables	**(32)**	7
Cash generated from operations	**2,402**	646
Taxation paid		
UK corporation tax paid	**(1,902)**	(1,432)
Net cash inflow from operating activities	**500**	(786)
Investing activities		
Interest received	**4**	113
Dividends received from subsidiaries	**3,400**	4,000
Net cash inflow from investing	**3,404**	4,113
Financing activities		
Purchase of own shares	**(465)**	(3,093)
Repayment of long-term loan	**–**	(500)
Interest paid	**(179)**	(6)
Equity dividends paid	**(604)**	(600)
Net cash outflow from financing	**(1,248)**	(4,199)
Increase/(decrease) in cash in the year	**2,656**	(872)

The notes on pages 18 to 41 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

1. **Accounting Policies**

General Information

Colefax Group Plc (the Group) is a limited company incorporated in the United Kingdom. The address of its registered office and principal place of business are disclosed on page 7. The principal activities of the Group are the design, marketing, distribution and retailing of furnishing, fabrics, wallpapers, trimmings, related products and upholstered furniture in the UK and overseas and the sale of antiques; interior and architectural design, project management, decoration and furnishing for private individuals and commercial firms. Colefax Group Plc (the Company) is a limited company incorporated in the United Kingdom. The address of its registered office and principal place of business are disclosed on page 7. The principal activity of the Company is to act as a holding company for the Group's trading subsidiaries.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The policies have been applied to the Group and Company, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("EU adopted IFRS") and with those parts of the Companies Act 1985 applicable to companies preparing their financial statements in accordance with IFRS. This is the first time the Group has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK GAAP accounting standards. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the Group's reported financial position, financial performance and cash flows are given in note 3.

Changes in Accounting Policies

(a)Standards, interpretations and amendments to published standards effective in 2008 but which are not relevant to the group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are currently not relevant to the group's operations:

– *IRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1st March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the group as none of the group companies has a currency of a hyperinflationary economy as its functional currency.

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning after 1st January 2008 or later periods and which the group has decided not to adopt early. These are:

– *IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The group expects to apply this standard in the accounting period beginning on 1st May 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the group.

– *Revised IFRS 3,Business Combinations and complementary Amendments to IAS 27,'Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1st July 2009). The revised IFRS 3 and IAS 27 are still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

– *IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1st January 2008). IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. Management is currently assessing the impact of IFRIC 14 on the accounts.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

1. **Accounting Policies** *continued*

– *Amendment to IFRS 2 , Share-based payments: vesting conditions and cancellations (*effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 1 Presentation of Financial Statements:* A Revised Presentation (effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The revised version of IAS 1 (revised 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005 and key changes include: the requirement to aggregate information in the financial statements on the basis of shared characteristic; changes in the titles of some primary statements (non mandatory); introducing the possibility of a single Statement of Comprehensive income (combining the Income Statement and the Statement of Recognised Income and Expense); Only the total of comprehensive income is to be shown in the Statement of Changes in equity. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The amendments result in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for accounting periods beginning on or after 1st January 2009). These amendments are still to be endorsed by the EU. The amendments permits the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 Financial instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.

– *Improvements to IFRS* (effective for accounting periods beginning on or after 1st July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS, the elimination of inconsistencies between Standards, and a restructuring of IFRS 1 First-time Adoption of IFRS. Management is currently assessing the impact of the Amendment on the accounts.

The following principal accounting policies have been applied consistently in the preparation of the financial statements:

Basis of Consolidation

Where the Group has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of Colefax Group Plc and its subsidiaries as if they formed a single entity.

No income statement is presented for the Company as provided in S.230 of the Companies Act 1985. The profit dealt with in the financial statements of Company was £3,427,000 (2007 – £4,900,000). Total recognised income and expenses relating to the year for the Company consists of profit for the year only.

Acquisitions are accounted for using the acquisition or merger method as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Where merger accounting was used in business combinations prior to 1st May 2006 (transition date), the investment is still recorded in the Company's Balance Sheet at the nominal value of the shares issued, together with the fair value of any additional consideration paid as the Group has applied the IFRS 1 'First-time Adoption of International Financial Reporting Standards' exemption relating to business combinations.

In the Group Financial Statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. Any difference between the nominal value of the shares acquired by the Group and those issued by the company to acquire them is taken to reserves.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

1. **Accounting Policies** *continued*

Goodwill

Goodwill arising on acquisitions prior to 30th April 1998 was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated upon transition to IFRS.

Investments in Subsidiaries

Investments in subsidiaries in the Company Balance Sheet are stated at cost less any provision for impairment.

Revenue Recognition

Revenue, which excludes value added taxes, represents the amounts receivable from its customers for goods and services supplied. Sales of goods are recognised when goods are delivered and title has passed. Sales of services are recognised when the service has been completed

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price and costs directly incurred in bringing the asset into use. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on all property, plant and equipment other than freehold land at rates calculated to write off the cost less estimated residual value evenly over its expected useful life, as follows:

Freehold buildings	50 years
Leasehold land and buildings and leasehold improvements	50 years (or, if shorter, over the period of the lease or life of the asset)
Furniture, fixtures and equipment	5 – 10 years
Motor vehicles	4 years
Screens and originations	4 years

Assets in the course of construction are not depreciated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Provision is made for obsolete, slow moving and defective stocks.

Work in Progress

Work in progress is valued at cost less progress payments received and receivable. Cost includes all direct expenditure on material, external services, labour and related overheads that have been incurred in bringing the work in progress to its present location and condition. Provision is made for any losses expected to arise on completion of the work entered into at the date of the balance sheet.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current Tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

<u>Deferred Taxation</u>

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

1. **Accounting Policies** *continued*

Current and Deferred Tax for the Period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

Lease Commitments
Leases where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term.

Retirement Benefits
Defined Contribution Schemes
The Group operates defined contribution pension schemes which are externally administered. Payments made to the funds are charged when payable to the income statement as part of employment costs. There are no outstanding or prepaid contributions at the year end.

Defined Benefit Schemes
One Group company operates a defined benefit pension scheme for employees. The scheme's funds are administered by trustees and are independent of Group finances. Annual contributions are based on external actuarial advice.

The difference between the fair value of the assets held in the Group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit credit method are recognised in the Group's balance sheet as a pension asset or liability as appropriate. Any related deferred tax is recognised within the Group's deferred tax asset or liability following the principles described in the deferred tax accounting policy note.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Group are charged to the income statement or the statement of total recognised income and expenses in accordance with IAS 19 'Employee Benefits'.

Foreign Currency
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Great British Pounds ('GBP'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Group
The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date and the results of overseas subsidiaries are translated at the average rate of exchange for the year. The exchange differences arising on the retranslation of opening net assets and on loans which form part of the net investment are taken directly to reserves.

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies including loans to subsidiaries are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Financial Instruments
Cash and Cash Equivalents
Cash equivalents are defined as including short term deposits with original maturity within 3 months. For the purposes of the cash flow statements cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with the same bank where there is a legal right and intention to offset.

Trade and Other Receivables
Trade and other receivables do not carry interest and are stated at their nominal (invoiced) value as reduced by appropriate allowances for estimated irrecoverable amounts. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the income statement.

Trade and Other Payables
Trade and other payables do not carry interest and are recognised and carried at original invoice cost and are a short-term liability of the Group.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

1. **Accounting Policies** *continued*

Derivative Financial Instruments
The Group uses derivative financial instruments such as foreign currency contracts to hedge its risk associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Forward Contracts
The Group uses forward foreign currency contracts to reduce transactional currency exposures on future expected sales denominated in US Dollars. It is the Group's policy not to undertake any trading activity in financial instruments. Gains or losses resulting from changes in fair value on forward contracts used to mitigate foreign currency risk are recognised at the end of each financial year and upon realisation of the contract. Financial instruments are disclosed in note 20.

Employee Share Option Plan (ESOP)
The cost of the Group's shares held by the ESOP is debited to the ESOP share reserve and is deducted from shareholders' funds in the Group and Company balance sheet. Any cash received by the ESOP on disposal of the shares it holds is also recognised directly in shareholders' funds.

Any shares held by the ESOP are treated as cancelled for the purposes of calculating earnings per share.

Share-Based Payments
When share and share options are granted to employees a charge is made to the income statement and a corresponding entry made in reserves to record the fair value of the award. This change is spread over the period of performance relating to the grant.

When shares and share options are granted to employees of subsidiary companies, the fair value of the award made is treated as a capital contribution spread over the period of performance relating to the grant. The corresponding entry is made in reserves.

Dividends
Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is in the year in which they are paid. Final dividends are not accrued until the proposed dividend has been approved by the shareholders at the Annual General Meeting.

Segmental Reporting
A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

2. Critical Accounting Estimates and Judgements

In preparation of consolidated financial statements under IFRS the Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

<u>Deferred tax</u>
Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

<u>Inventories</u>
The Group reviews the net realisable value of, and demand for, its inventories to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the success of future collections, competitor actions, supplier prices and economic trends.

<u>Pension Assumptions</u>
The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 26. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the consolidated income statement and the balance sheet.

<u>Income Taxes</u>
The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

<u>Financial Instruments</u>
As described in note 20, the Board use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instrument. Details of the assumptions used are provided in note 20.

<u>Share based payments</u>
The Group operates an equity-settled share based remuneration scheme for directors and employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of the share operations is estimated on the date of the grant based on certain assumptions. Those assumptions are described in note 24.

3. First time adoption of International Financial Reporting Standards (IFRS)

Reconciliations and explanatory notes on how the transition to IFRS has affected profit and net assets previously reported under UK Generally Accepted Accounting Principles are given below:

The Group has applied the IFRS 1 "First-time Adoption of International Financial Reporting Standards" exemptions relating to business combinations and employee benefits.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

3. **First time adoption of International Financial Reporting Standards (IFRS)** *continued*

Group Income Statement reconciliation for the year ended 30th April 2007

	UK GAAP £'000	Short-term employee benefits IAS 19 (a) £'000	Long-term employee benefits IAS 19 (b) £'000	Lease payments IAS 17 (c) £'000	Reclass profit in disposal of property, plant and equipment IAS 1 (f) £'000	IFRS £'000
Revenue	71,013	–	–	–	–	71,013
Cost of sales	31,602	–	–	–	–	31,602
Gross profit	39,411	–	–	–	–	39,411
Operating expenses	33,465	10	(2)	112	(16)	33,569
Profit from operations	5,946	(10)	2	(112)	16	5,842
Profit on disposal of property, plant and equipment	16	–	–	–	(16)	–
Profit on ordinary activities before interest and taxation	5,962	(10)	2	(112)	–	5,842
Finance income	127	–	–	–	–	127
Finance expense	(266)	–	–	–	–	(266)
Profit on ordinary activities before taxation	5,926	(10)	2	(112)	–	5,806
Tax on profit on ordinary activities	1,955	(4)	1	(45)	–	1,907
Profit for the year	3,971	(6)	1	(67)	–	3,899

	Note	
Profit reported under UK GAAP		3,971
Holiday pay accrual	(a)	(6)
Retirement benefits accrual	(b)	1
Straight-line lease adjustment	(c)	(67)
Total adjustments to profit		(72)
Profit reported under IFRS		3,899
Basic earnings per share	25.3p	24.8p
Diluted earnings per share	24.3p	23.9p

NOTES TO THE ACCOUNTS
For the year ended 30th April 2008

3. **First time adoption of International Financial Reporting Standards (IFRS)** *continued*

Group Balance Sheet reconciliation as at 30th April 2007

	UK GAAP	Short-term employee benefits IAS 19 (a)	Long-term employee benefits IAS 19 (b)	Lease payments IAS 17 (c)	Deferred tax asset IAS 12 (d)	Foreign exchange reserve IAS 21 (e)	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets:							
Property, plant and equipment	5,135	–	–	–	–	–	5,135
Deferred taxation	–	–	–	–	2,164	–	2,164
	5,135	–	–	–	2,164	–	7,299
Current assets:							
Inventories and contracts in progress	12,045	–	–	–	–	–	12,045
Trade and other receivables	11,384	33	50	172	(2,081)	–	9,558
Cash and cash equivalents	4,113	–	–	–	–	–	4,113
	27,542	33	50	172	(2,081)	–	25,716
Trade and other payables: amounts falling due within one year	16,831	109	144	424	–	–	17,508
Net current assets	10,711	(76)	(94)	(252)	(2,081)	–	8,208
Total assets less current liabilities	15,846	(76)	(94)	(252)	83	–	15,507
Non-current liabilities:							
Deferred taxation	35	–	–	–	–	–	35
Pension liability	120	–	–	–	83	–	203
	155	–	–	–	83	–	238
Net assets	15,691	(76)	(94)	(252)	–	–	15,269
Capital and reserves:							
Called up share capital	1,565	–	–	–	–	–	1,565
Share premium account	11,141	–	–	–	–	–	11,141
Capital redemption reserve	1,308	–	–	–	–	–	1,308
ESOP share reserve	(157)	–	–	–	–	–	(157)
Share based payment reserve	508	–	–	–	–	–	508
Foreign exchange reserve	–	4	2	20	–	(565)	(539)
Retained earnings	1,326	(80)	(96)	(272)	–	565	1,443
Total equity	15,691	(76)	(94)	(252)	–	–	15,269

	Note	
Total equity reported under UK GAAP		15,691
Holiday pay accrual	(a)	(76)
Retirement benefits accrual	(b)	(94)
Straight-line lease adjustment	(c)	(252)
Total adjustment to equity		(422)
Equity reported under IFRS		15,269

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

3. **First time adoption of International Financial Reporting Standards (IFRS)** *continued*

Group Balance Sheet reconciliation as at 1st May 2006 – transition date

	UK GAAP £'000	Short-term employee benefits IAS 19 (a) £'000	Long-term employee benefits IAS 19 (b) £'000	Lease payments IAS 17 (c) £'000	Deferred tax asset IAS 12 (d) £'000	Foreign exchange reserve IAS 21 (e) £'000	IFRS £'000
Non-current assets:							
Property, plant and equipment	5,403	–	–	–	–	–	5,403
Current assets:							
Inventories and contracts in progress	10,942	–	–	–	–	–	10,942
Trade and other receivables	11,498	31	52	141	93	–	11,815
Cash and cash equivalents	2,347	–	–	–	–	–	2,347
	24,787	31	52	141	93	–	25,104
Trade and other payables: amounts falling due within one year	14,493	105	149	346	–	–	15,093
Net current assets	10,294	(74)	(97)	(205)	93	–	10,011
Total assets less current liabilities	15,697	(74)	(97)	(205)	93	–	15,414
Non-current liabilities:							
Deferred taxation	57	–	–	–	–	–	57
Pension liability	134	–	–	–	93	–	227
	191	–	–	–	93	–	284
Net assets	15,506	(74)	(97)	(205)	–	–	15,130
Capital and reserves:							
Called up share capital	1,709	–	–	–	–	–	1,709
Share premium account	11,087	–	–	–	–	–	11,087
Capital redemption reserve	1,157	–	–	–	–	–	1,157
ESOP share reserve	(287)	–	–	–	–	–	(287)
Share based payment reserve	228	–	–	–	–	–	228
Foreign exchange reserve	–	–	–	–	–	392	392
Retained earnings	1,612	(74)	(97)	(205)	–	(392)	844
Total equity	15,506	(74)	(97)	(205)	–	–	15,130

	Note	
Total equity reported under UK GAAP		15,506
Holiday pay accrual	(a)	(74)
Retirement benefits accrual	(b)	(97)
Straight-line lease adjustment	(c)	(205)
Total adjustment to equity		(376)
Total equity reported under IFRS		15,130

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

3. **First time adoption of International Financial Reporting Standards (IFRS)** *continued*

Adjustments

Explanations of the adjustments made to the UK GAAP income statement and balance sheets are as follows:

(a) Employee Benefits – Short-term benefits (IAS 19)
IAS 19 'Employee Benefits' requires holiday pay to be accrued recognising the employee benefits to be paid in exchange for that service during the accounting period. This results in the recognition of a provision of £105,000 and a deferred tax asset of £31,000 on transition to IFRS and a reduction in pre-tax profit of £10,000 for the year ended 30th April 2007.

Net assets at 1st May 2006 are reduced by £74,000, at 31st of October 2006 are reduced by £73,000 and at 30th April 2007 are reduced by £76,000.

(b) Employee Benefits – Post-employment benefits (IAS 19)
IAS 19 'Employee Benefits' requires retirement benefits to be accrued recognising the employee benefits to be paid on retirement in relation to employee pensions. This results in the recognition of a provision of £149,000 and a deferred tax asset of £52,000 on transition to IFRS and an increase in pre-tax profit of £2,000 in the year ended 30th April 2007.

Net assets at 1st May 2006 are reduced by £97,000, at 31st October 2006 are reduced by £94,000 and at 30th April 2007 are reduced by £94,000.

(c) Leases (IAS 17)
IAS 17 'Leases' requires operating lease payments to be recognised as an expense on a straight-line basis over the full length of the lease. This adjustment is due to lease incentives previously recognised over the period to the first break clause now being recognised over the life of the lease. This results in the recognition of a provision of £346,000 and a deferred tax asset of £141,000 on transition to IFRS and a reduction of £59,000 in pre-tax profit in the six months ending 31st October 2006 and reduction of £112,000 for the year ended 30th April 2007.

Net assets at 1st May 2006 are reduced by £205,000, at 31st October 2006 are reduced by £230,000 and at 30th April 2007 are reduced by £252,000.

(d) Deferred Tax Asset (IAS 12)
Unlike FRS 17 'Retirement Benefits', IAS 19 'Employee Benefits' requires the pension deficit to be shown gross under long term liabilities rather than net of deferred tax. We will continue to recognise a deferred tax asset of £93,000 at 1st May 2006 and 31st October 2006 and £83,000 at 30th April 2007 but it will now be reported within non-current assets.

(e) Foreign Exchange Reserve (IAS 21)
IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires the exchange differences arising on consolidation on the translation of overseas subsidiaries to be recognised as a separate equity reserve. This results in an increase in the foreign exchange reserve of £392,000 at 1st May 2006, a reduction in the foreign exchange reserve of £370,000 at 31st October 2006 and a reduction in the foreign exchange reserve of £539,000 at 30th April 2007.

(f) Presentation of Financial Statements (IAS 1)
Unlike FRS 3 'Reporting Financial Performance', IAS 1 "Presentation of Financial Statements' does not state that profit on disposal of property, plant and equipment may not be reported as part of the profit from operations. This results in an increase in profit from operations of £19,000 at 31st October 2006 and £16,000 at 30th April 2007.

4. **Revenue**

	2008 £'000	2007 £'000
Revenue arises from:		
Sale of goods	**76,906**	69,974
Provision of services	**1,275**	1,039
	78,181	71,013

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

5. **Segmental Analysis**

The Group operates in the following main business segments: retailing of furnishing fabrics and related products (product division) and interior and architectural design for private and commercial clients (decorating division).

The Group's primary reporting format for reporting segment information is business segments.

	Product division		Decorating division		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Revenue:						
Total segment revenue	**67,741**	63,956	**10,641**	7,257	**78,382**	71,213
Inter-segment revenue	**(201)**	(200)	**–**	–	**(201)**	(200)
Revenue	**67,540**	63,756	**10,641**	7,257	**78,181**	71,013
Segment result:						
Profit from operations	**4,402**	5,471	**1,679**	371	**6,081**	5,842
Finance income/(charge)					**(139)**	(36)
Profit before income tax					**5,942**	5,806
Tax expense					**1,877**	1,907
Profit for the year					**4,065**	3,899
Other segment items included in the income statement are as follows:						
Depreciation (note 13)	**1,579**	1,529	**111**	100	**1,690**	1,629

All results are from continuing operations.

Inter-segment transfers are priced along the same lines as sales to external customers.

Segmental assets and liabilities as at 30th April 2008 and capital expenditure for the year then ended are as follows:

	Product division		Decorating division		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Assets	**31,261**	30,001	**3,470**	3,014	**34,731**	33,015
Liabilities	**13,017**	15,297	**2,485**	2,449	**15,502**	17,746
Capital expenditures	**1,377**	1,545	**71**	103	**1,448**	1,648

The Group's secondary reporting format for reporting segment information is geographic segments.

	External revenue by location of customers		Total assets by location of assets		Capital expenditure by location of assets	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
United Kingdom	**24,594**	20,294	**21,198**	18,551	**522**	751
United States	**32,371**	31,594	**9,911**	10,491	**815**	804
Europe	**17,255**	16,364	**3,622**	3,973	**111**	93
Rest of World	**3,961**	2,761	**–**	–	**–**	–
Total	**78,181**	71,013	**34,731**	33,015	**1,448**	1,648

6. **Operating Expenses**

	2008	2007
	£'000	£'000
Distribution and marketing costs	**22,887**	22,322
Administrative costs	**12,746**	11,247
Total operating expenses	**35,633**	33,569

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

		2008 £'000	2007 £'000
7. Profit from Operations	This has been arrived at after charging/(crediting):		
	Audit services – group	**24**	23
	Audit services – subsidiaries	**116**	100
	Non-audit services	**86**	102
	Depreciation of owned property, plant and equipment	**1,690**	1,629
	Operating lease rentals – land and buildings	**2,998**	2,852
	Operating lease rentals – plant and machinery	**57**	70
	Exchange differences	**553**	(392)
	Pension costs (see note 26)	**269**	297
	Share-based payment (see note 24)	**293**	410
	Exceptional costs – French Accessories division reorganisation	**413**	–

		2008 £'000	2007 £'000
8. Staff Costs	Staff costs, including Executive Directors, were as follows:		
	Wages and salaries	**14,034**	13,257
	Social security costs	**1,944**	1,716
	Pension costs	**269**	297
		16,247	15,270

The average monthly number of employees during the year, including Executives Directors, was made up as follows:

	No.	No.
Distribution and marketing	**352**	336
Administration	**75**	74
	427	410

The holding Company did not have any employees during the year.

	2008 £'000	2007 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,174**	962
Pension contributions	**37**	42
Payment in lieu of option exercise	–	146
	1,211	1,150
Emoluments of the highest paid director:		
Emoluments	**553**	523
	553	523

As the directors have the authority and responsibility for planning, directing and controlling the activities of the Group they are seen to be key management.

Four Directors participated in the Group's defined contribution pension scheme in 2008 (2007 – four). No Directors participated in the Group's defined benefit pension scheme in 2008 (2007 – nil).

Out of the share based payment charge (see note 7 on page 29), £279,000 relates to share based payments to directors (2007 – £359,000)

		2008 £'000	2007 £'000
9. Finance income and expense	Finance expense:		
	Bank loans and overdrafts repayable within five years	**(266)**	(174)
	Finance income:		
	Interest received on bank	**127**	138
		(139)	(36)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

	2008 £'000	2007 £'000
10. Tax on Profit on ordinary activities		
(a) Analysis of charge for the year		
UK corporation tax		
UK corporation tax on profits of the year	**2,141**	1,696
Double tax relief	**(301)**	–
Adjustments in respect of previous years	**(35)**	41
	1,805	1,737
Overseas tax		
Overseas tax on profits of the year	**1**	392
Adjustments in respect of previous years	**(76)**	–
	(75)	392
Total current tax	**1,730**	2,129
Deferred tax		
Origination and reversal of timing differences	**147**	(222)
Total income tax expense	**1,877**	1,907

(b) Factors affecting the tax charge for the year
The tax assessed for the year is higher than the standard rate of corporation tax in the UK.

The differences are explained below.

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	**5,942**	5,806
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2007 – 30%)	**1,664**	1,742
Effect of:		
Disallowed expenses and non-taxable income	**280**	119
Adjustments in respect of prior period (current tax)	**(111)**	41
Adjustments in respect of prior period (deferred tax)	**85**	(11)
Rate differences on opening deferred tax balances	**33**	16
Rate differences on current tax charge	**156**	–
Tax losses not recognised	**66**	–
Overseas tax relieved	**(301)**	–
French tax credit received	**(51)**	–
Unprovided deferred tax	**44**	–
French minimum tax	**12**	–
Total tax expense	**1,877**	1,907

On 5th April 2008, the UK corporation tax changed from 30% to 28%.

(c) Factors that may affect future tax charges
A deferred tax asset amounting to £25,000 (2007 – £17,000) primarily for capital losses has not been recognised. This is because in the opinion of the Directors there will be no suitable taxable gains in the foreseeable future, and it cannot be regarded as more likely than not that there will be suitable taxable profits from which any future reversal of the underlying timing differences can be deducted.

The Group's overseas tax rates are higher than those in the UK primarily because profits earned in the United States are taxed at a rate in excess of 28%. There is no indication that these rates are likely to change in the near future.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

		2008 £'000	2007 £'000
11. **Dividends**	Final (paid) of 2.55p (2006 – 2.37p) on 11th October 2007	**378**	382
	Interim (paid) of 1.55p (2007 – 1.45p) on 10th April 2008	**226**	218
		604	600
	Final dividend proposed for the year of 2.65p (2007 – 2.55p)	**373**	378

The proposed final dividend has not been accrued for because the dividend was declared after the year-end.

12. **Earnings per share**

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £4,065,000 (2007 – £3,899,000) and on 14,784,331 (2007 – 15,719,278) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £4,065,000 (2007 – £3,899,000) and on 15,553,508 (2007 – 16,339,872) being the weighted average number of shares in issue during the year, calculated as follows

	2008	2007
Basic weighted average number of shares	**14,784,331**	15,719,278
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**769,177**	620,594
	15,553,508	16,339,872

On 22nd May 2008 the Group purchased for cancellation 500,000 shares at a price of 1.70p per share.

		Freehold Property £'000	Short Leasehold £'000	Furniture, Fixtures and Equipment £'000	Motor Vehicles £'000	Screens and Originations £'000	Total £'000
13. **Property, plant and equipment**	Group						
	Cost:						
	At 1st May 2007	231	6,316	4,110	456	5,064	16,177
	Exchange adjustment	–	42	199	6	55	302
	Additions	–	133	428	41	846	1,448
	Disposals	–	(4)	(92)	(34)	(1)	(131)
	At 30th April 2008	**231**	**6,487**	**4,645**	**469**	**5,964**	**17,796**
	Depreciation:						
	At 1st May 2007	42	4,209	3,088	180	3,523	11,042
	Exchange adjustment	–	34	141	3	42	220
	Charge for the year	3	442	330	110	805	1,690
	Disposals	–	(4)	(92)	(19)	(1)	(116)
	At 30th April 2008	**45**	**4,681**	**3,467**	**274**	**4,369**	**12,836**
	Net Book Value:						
	At 30th April 2008	**186**	**1,806**	**1,178**	**195**	**1,595**	**4,960**
	At 1st May 2007	189	2,107	1,022	276	1,541	5,135

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

13. Property, plant and equipment *continued*

	Freehold Property £'000	Short Leasehold £'000	Furniture, Fixtures and Equipment £'000	Motor Vehicles £'000	Screens and Originations £'000	Total £'000
Group						
Cost:						
At 1st May 2006	231	6,515	4,220	398	4,843	16,207
Exchange adjustment	–	(432)	(251)	–	(448)	(1,131)
Additions	–	263	357	189	839	1,648
Disposals	–	(30)	(216)	(131)	(170)	(547)
At 30th April 2007	**231**	**6,316**	**4,110**	**456**	**5,064**	**16,177**
Depreciation:						
At 1st May 2006	39	4,154	3,209	196	3,206	10,804
Exchange adjustment	–	(329)	(226)	–	(318)	(873)
Charge for the year	3	402	320	99	805	1,629
Disposals	–	(18)	(215)	(115)	(170)	(518)
At 30th April 2007	**42**	**4,209**	**3,088**	**180**	**3,523**	**11,042**
Net Book Value:						
At 30th April 2007	**189**	**2,107**	**1,022**	**276**	**1,541**	**5,135**
At 1st May 2006	192	2,361	1,011	202	1,637	5,403

14. Investments

	Shares £'000	Loans £'000	Total £'000
Company:			
At 1st May 2007	19,620	7,650	**27,270**
Share options granted to subsidiary employees	292	–	**292**
At 30th April 2008	19,912	7,650	**27,562**

The principal subsidiaries of the Group, all of which have been included in these consolidated financial statements, are as follows

Name of Company	**Incorporation and Principal Country of Operation**	**Effective % of Issued Share Capital held by the Group**	**Principal Products**
Colefax and Fowler Limited*†	England and Wales	100%	Fabrics and Wallpapers
Sibyl Colefax and John Fowler Limited*	England and Wales	100%	Interior and Architectural Design
Kingcome Sofas Limited*	England and Wales	100%	Upholstered Furniture
Colefax and Fowler Holdings Limited*	England and Wales	100%	Holding Company for Colefax and Fowler Inc
Cowtan & Tout Incorporated	USA	100%	Fabrics and Wallpapers
Manuel Canovas SAS* and Accessories	France	100%	Fabrics, Wallpapers
Colefax and Fowler GmbH	Germany	100%	Fabrics and Wallpapers
Colefax and Fowler Srl	Italy	100%	Fabrics and Wallpapers

*Owned directly by parent company

†On 6th December 2007 Jane Churchill Limited changed its name to Colefax & Fowler Limited

There was no movement in the number of shares held in subsidiary undertakings during the year.

At 30th April 2008, the ESOP Trust owned 797,422 (2007 – 847,422) ordinary shares of 10p in the Company at cost, with a market value of £1,307,772 (2007 – £2,071,947). Dividends on these shares have been waived.

The ESOP can provide benefits to all employees of the Group.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2008

14. Investments *continued*

760,000 shares in the ESOP were under option at the balance sheet date:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
25,000	1	£1 total	21.10.02	21.10.03	20.10.12
25,000	1	£1 total	29.03.04	29.03.05	28.03.14
325,000	5	£1 total	28.04.06	28.04.06	27.04.16
175,000	5	£1 total	27.04.07	27.04.07	26.04.17
210,000	3	£1 total	30.04.08	30.04.08	30.04.18

15. Inventories and work in progress

	Group	
	2008	2007
	£'000	£'000
Finished goods for resale	**12,706**	11,716
Work in progress	**1,407**	1,676
Less: progress payments received and receivable	**(756)**	(1,347)
	13,357	12,045

The difference between purchase price and replacement cost of stocks is not material.

16. Trade and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Amounts owed by subsidiary undertakings	**–**	–	**2,831**	4,052
Trade receivables	**8,807**	8,073	**–**	–
Other receivables	**596**	460	**–**	–
Prepayments and accrued income	**1,158**	1,025	**641**	–
	10,561	9,558	**3,472**	4,052

All receivables fall due for payment within one year.

17. Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**3,862**	4,113	**358**	–
Bank overdrafts	**(1,443)**	(3,750)	**–**	(2,298)
	2,419	363	**358**	(2,298)

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents are considered to be their book value.

NOTES TO THE ACCOUNTS
At 30th April 2008

18. Trade and other payables – current

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Bank overdraft	**1,443**	3,750	**–**	2,298
Trade payables	**4,983**	4,647	**–**	–
Accruals	**3,848**	4,252	**10**	42
Payments received on account	**1,169**	1,227	**–**	–
Corporation tax	**995**	1,529	**–**	259
Other taxes and social security costs	**1,106**	1,132	**–**	–
Other payables	**1,603**	971	**–**	–
	15,147	17,508	**10**	2,599

The Group's overdraft facilities are secured by an unlimited multilateral company guarantee and a first fixed and floating charge over all assets of the Company.

19. Deferred Taxation

	Group 2008 £'000	Group 2007 £'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on property, plant and equipment	**86**	96
Excess of depreciation over capital allowances on property, plant and equipment	**(319)**	(386)
Short-term timing differences	**(1,635)**	(1,839)
	(1,868)	(2,129)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that more assets will be recovered.

This is made up as follows:		
Deferred taxation included in non-current assets	**(1,991)**	(2,164)
Deferred taxation included in non-current liabilities	**123**	35
	(1,868)	(2,129)

	Deferred taxation £'000	£'000
Movements in provisions:		
At 1st May	**(2,129)**	(1,407)
Movement in year	**118**	(834)
Movement relating to change in tax rate	**142**	–
Translation adjustment	**1**	112
At 30th April	**(1,868)**	(2,129)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set of current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset amounting to £25,000 (2007 – £17,000) primarily for capital losses has not been recognised. This is because in the opinion of the Directors there will be no suitable taxable gains in the foreseeable future, and it cannot be regarded as more likely than not that there will be suitable taxable profits from which any future reversal of the underlying timing differences can be deducted.

NOTES TO THE ACCOUNTS

At 30th April 2008

20. Financial Instruments

The financial instruments of the Group as classified in the financial statements as at 30th April 2008 can be analysed under the following IAS 39 categories:

As at 30th April 2008	Loans and receivables	Total
Financial assets		
Trade and other receivables	9,403	9,403
Net cash and cash equivalents	3,862	3,862
Total	**13,265**	**13,265**

	Other financial liabilities	Total
Financial liabilities		
Trade and other short term creditors	8,029	8,029
Total	**8,029**	**8,029**

As at 30th April 2007	Loans and receivables	Total
Financial assets		
Trade and other receivables	8,533	8,533
Net cash and cash equivalents	4,113	4,113
Total	**12,646**	**12,646**

	Other financial liabilities	Total
Financial liabilities		
Trade and other short term creditors	9,368	9,368
Total	**9,368**	**9,368**

The Group's principal financial instruments comprise of cash, short-term deposits, bank overdrafts, bank loans, foreign currency derivatives and various items such as trade and other receivables and trade and other payables that arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 1st May 1998 with the exception of forward contracts used for the first time this year to mitigate foreign currency risks.

Interest Rate Risk
The Group has a seasonal cash flow that moves between net cash and net debt in the course of each year. The Group is exposed to cash flow interest rate risk on floating rate deposits and bank overdrafts.

Liquidity Risk
The Group's objective is to maintain an appropriate balance between continuity of funding and flexibility through the use of multi-currency overdrafts and bank loans. The Group has various borrowing facilities available to it amounting to £7.3 million (2007 – £7.3 million). The undrawn committed facilities available at 30th April 2008 in respect of which all conditions had been met at that date total £7.3 million (2007 – £7.3 million). Group borrowing facilities are reviewed annually with HSBC.

At 30th April 2008 the Group's trade payables were £5.0 million (2007 – £4.6 million) and trade receivables were £8.8 million (2007 – £8.0 million) giving a ratio of 1.6. This, together with the Group's unused borrowing facility constitutes a very low liquidity risk.

NOTES TO THE ACCOUNTS

At 30th April 2008

20. **Financial Instruments** *continued*

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Credit risk also arises from cash and cash equivalents and deposits with banks. For banks, only independently rated parties with minimum rating "A" are accepted.

The Group's credit risk is spread over a large number of customers and historically the Group's bad debt experience has been extremely low.

Foreign Currency Risk

Due to the international nature of its operations, the Group faces currency exposures in respect of exchange rate fluctuations against sterling. The most significant of these is the US which represents 44% of Group sales.

The majority of the US subsidiary's revenue is sourced by imports from the UK and Europe. These sales are invoiced in US dollars. The Group minimises the currency translation exchange risk by the use of forward contracts. The fair value of these contracts at 30th April 2008 is detailed below.

The Group's exposure to movements in the US dollar is estimated at approximately £60,000 per one cent movement in the dollar. The Group has a natural hedge between Euro costs and Euro revenues but this is dependent on maintaining Euro sales at their current levels.

About 27% of the sales of the Group are to customers in countries other than the UK and US. Most of these sales are invoiced in the currencies of the countries involved. The Group does not hedge currency exposures on these sales using forward contracts as any exchange rate risk is considered to be insignificant due to the offsetting effect of imports.

The Group has continued its policy of not hedging balance sheet translation exposures except to the extent that overseas liabilities, including borrowings, provide a natural hedge. It is also the Group's policy not to hedge income statement translation exposures.

The balance sheets of overseas operations are translated into sterling at the closing rates of exchange for the year and any exchange difference is dealt with as a movement in the foreign exchange reserve. The income statements of overseas business are translated at an average rate of exchange.

Derivatives

The Group uses currency derivatives to forward-buy foreign currency in order to hedge future transactions and cash flows. The Group is party to forward contracts denominated in US dollars to eliminate transactional currency exposures on future expected sales in the US.

At 30th April 2008 the Group had 6 outstanding forward contracts to sell US$1 million each with a maturity date ranging from 18th November 2008 to 17th April 2009.

The fair values of the Group's forward foreign contracts based on market to market values using spot rates at the balance sheet date are as follows:

	2008	2007
	£'000	£'000
Fair value of forward foreign currency contracts	**(13)**	–

Capital Disclosures

The directors consider the Group's capital to consist of its share capital and reserves.

The Group's objective when maintaining capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

To the extent that the Group consider it has surplus capital it has been Group policy to return this to shareholders through share buy backs.

Other Financial Instruments

The book amount for trade and other receivables, cash and cash equivalents, bank overdrafts, and trade and other payables with an expected life of 12 months or less, is considered to reflect its fair value.

NOTES TO THE ACCOUNTS

At 30th April 2008

21. Share Capital

	Authorised 2008	Authorised 2007	Allotted, called up and fully paid 2008	Allotted, called up and fully paid 2007
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,536,000**	£1,565,393
Number of shares	**33,000,000**	33,000,000	15,360,000	15,653,932

Allotted, called up and fully paid	**2008 Number**	**2008 £**	2007 Number	2007 £
Ordinary shares of 10p each				
At beginning of year	**15,653,932**	**1,565,393**	17,090,000	1,709,000
Employee share options exercised	**10,000**	**1,000**	74,000	7,400
Purchase of own shares for cancellation	**(303,932)**	**(30,393)**	(1,510,068)	(151,007)
At end of year	**15,360,000**	**1,536,000**	15,653,932	1,565,393

Pursuant to the Company's Executive Share Option Scheme, the following options, including options held by Directors, have been granted and were outstanding at 30th April 2008.

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
15,000	2	83p	06.04.99	06.04.02	05.04.09

Details of share options and shareholdings of Directors are shown in the Directors' Report on pages 8 to 10.

Share options over the ESOP shares are shown in note 14 on pages 32 and 33.

10,000 ordinary shares of 10p each were issued during the year to satisfy the exercise of employee share options at an exercise price of 83p.

During the year the Company purchased 303,932 ordinary shares in the market for cancellation, for a consideration of £465,000, representing approximately 1.9% of the issued share capital.

22. Reserves

	Share Premium Account £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	ESOP Share Reserve £'000	Share Based Payment Reserve £'000	Foreign Exchange Reserve £'000	Retained Earnings £'000
Group:							
At 1st May 2007	11,141	–	1,308	(157)	508	(539)	1,443
Share buybacks	–	–	30	–	–	–	(465)
ESOP shares granted	–	–	–	137	156	–	–
Share option exercised	7	–	–	–	–	–	–
Foreign Currency translation	–	–	–	–	–	663	–
Profit retained	–	–	–	–	–	–	4,065
Dividends paid	–	–	–	–	–	–	(604)
At 30th April 2008	**11,148**	**–**	**1,338**	**(20)**	**664**	**124**	**4,439**
Company:							
At 1st May 2007	11,141	10,762	1,308	(157)	508	–	3,596
Share buybacks	–	–	30	–	–	–	(465)
ESOP shares granted	–	–	–	137	156	–	–
Share option exercised	7	–	–	–	–	–	–
Profit retained	–	–	–	–	–	–	3,427
Dividends paid	–	–	–	–	–	–	(604)
At 30th April 2008	**11,148**	**10,762**	**1,338**	**(20)**	**664**	**–**	**5,954**

NOTES TO THE ACCOUNTS
At 30th April 2008

22. Reserves *continued*

	Share Premium Account £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	ESOP Share Reserve £'000	Share Based Payment Reserve £'000	Foreign Exchange Reserve £'000	Retained Earnings £'000
Group:							
As at 1st May 2006	11,087	–	1,157	(287)	228	392	884
Share buybacks	–	–	151	–	–	–	(3,093)
ESOP shares granted	–	–	–	130	280	–	–
Share option exercised	54	–	–	–	–	–	–
Foreign Currency translation	–	–	–	–	–	(931)	353
Profit retained	–	–	–	–	–	–	3,899
Dividends paid	–	–	–	–	–	–	(600)
At 30th April 2007	11,141	–	1,308	(157)	508	(539)	1,443
Company:							
As at 1st May 2006	11,087	10,762	1,157	(287)	228	–	2,389
Share buybacks	–	–	151	–	–	–	(3,093)
ESOP shares granted	–	–	–	130	280	–	–
Share option exercised	54	–	–	–	–	–	–
Profit retained	–	–	–	–	–	–	4,900
Dividends paid	–	–	–	–	–	–	(600)
At 30th April 2007	11,141	10,762	1,308	(157)	508	–	3,596

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2007 – £23,062,000).

Retained earnings includes £139,000 (2007 – £120,000), stated after deferred taxation of £93,000 (2007 – £83,000), in respect of the pension scheme liability of the Group's defined benefit pension scheme.

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption	Amounts transferred from share capital on redemption of issued shares.
ESOP shares	Weighted average cost of own shares held by the ESOP trust.
Share based payment	Difference between cost and fair value of ESOP options granted.
Merger	Premium on shares issued to fund acquisitions prior to 1999, which is for used for write-off of goodwill on consolidation.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

23. Group Reconciliation of Movements in Equity

	2008 £'000	2007 £'000
Total recognised income relating to the year	**4,728**	3,360
Dividends	**(604)**	(600)
Repurchase of shares	**(465)**	(3,093)
Exercise of share option	**8**	61
ESOP shares granted	**293**	410
Net increase in equity	**3,960**	138
Equity at 1st May as previously stated	**15,269**	15,506
Prior year adjustments	**–**	(375)
Equity at 1st May	**15,269**	15,131
Equity funds at 30th April	**19,229**	15,269

NOTES TO THE ACCOUNTS

At 30th April 2008

24. Share Based Payment

The Group operates an equity-settled share based remuneration scheme for directors and employees. The conditions being that the individual remains an employee of the group over the vesting period and in certain circumstances, the shares cannot be sold for a minimum of three years. Share options vest immediately. The shares in this scheme are disclosed in the table below.

	2008 Weighted average exercise price	**2008 Number**	2007 Weighted average exercise price	2007 Number
Outstanding at 1st May	**£1 total**	**600,000**	£1 total	425,000
Granted during the year	**£1 total**	**210,000**	£1 total	200,000
Exercised during the year	**£1 total**	**(50,000)**	£1 total	(15,000)
Lapsed during the year	**£1 total**	**–**	£1 total	(10,000)
Outstanding at 30th April	**£1 total**	**760,000**	£1 total	600,000

All of the options outstanding at the end of the year had vested and were exercisable (2007 – all).

The weighted average share price (at date of exercise) of options exercised during the year was 224.5p (2007 – 209.0p).

The weighted average fair value of each option granted during the year was 164.0p (2007 – 241.0p). No options lapsed during the year. In 2007 the weighted average share price of each option which lapsed was 196.5p.

Share based payment charge

In calculating the share based payment charge for the current year, the market value of the shares at the date of grant was used as an approximation of the fair value of the share options issued. This charge has been discounted at a rate of 15% to take into account of the fact that the shares under option cannot be sold within three years of the date of grant.

	2008 £'000	2007 £'000
The share-based remuneration expense (note 7) comprises:		
Employee share option scheme	**293**	410

The Group also operates an approved executive share option scheme. No options have been granted since October 2000 and there are currently no plans to grant options under this scheme. The share options outstanding under this scheme are disclosed in note 21.

The Group did not enter into any share based payment transactions with parties other than employees during the current or previous year.

25. Commitments Under Operating Leases

At 30th April 2008 the Group had total commitments under non-cancellable operating leases as follows:

	2008		2007	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Operating leases which expire:				
No later than one year	**82**	**–**	364	24
Over one year but not later than five years	**932**	**51**	546	33
Later than five years	**2,226**	**–**	1,789	–
	3,240	**51**	2,699	57

The majority of leases of land and buildings are subject to rent reviews every 5 years.

NOTES TO THE ACCOUNTS

At 30th April 2008

26. **Pension Commitments** Group companies previously operated a defined contribution pension scheme which was closed in December 2006 and therefore no pension cost charge has been recorded in the current year (2007 – £16,085).

Group companies also make pension contributions for eligible employees to group personal pension schemes. These schemes are independently administered. The pension cost charge represents contributions payable by Group companies to the schemes during the year and amounted to £268,716 (2007 – £281,284).

The Group's US subsidiary Cowtan & Tout operates a funded benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen on lst July 1997. The scheme was closed to new members on 31st December 1997. Existing members' current pension contributions were transferred to a defined contribution scheme and hence all future benefits became fixed on the date the scheme was closed. The most recent actuarial valuation of the fund was on 30th April 2008 using the projected unit credit method. As the scheme is closed to new members and all benefits have been frozen, assumptions concerning inflation and the rate of increase of salaries, pensions and deferred pensions are not applicable. The rate used to discount scheme liabilities was 5% (2007, 2006 – 5%). The market value of investments at 30th April 2008 was £634,874 (2007 – £674,042, 2006 – £769,097), all of which have an expected long term rate of return of 5% (2007, 2006 – 5%). Due to the nature of the investments, the actuarial value of the assets and the market value are the same. The present value of scheme liabilities at 30th April 2008 was £867,341 (2007 – £877,056, 2006 – £996,004), resulting in an unfunded actuarial accrued liability of £232,467 (2007 – £203,014, 2006 – £226,907). An accrual of £232,000 (2007 – £203,000, 2006 – £227,000) covering the unfunded actuarial accrued liability is included in the Group balance sheet together with a related deferred tax asset of £93,000 (2007 – £83,000, 2006 – £93,000).

The fair value of the assets in the scheme and the expected rate of return at 30 April 2008 were:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Cash and cash equivalents	**14**	21	25	762	892
Fixed income	**335**	334	395	–	–
Equities	**286**	319	349	–	–
Total market value of assets	**635**	674	769	762	892
Present value of scheme liabilities	**(867)**	(877)	(996)	(951)	(1,051)
Deficit in scheme	**(232)**	(203)	(227)	(189)	(159)
Related deferred tax asset	**93**	83	93	77	65
Net pension liability	**(139)**	(120)	(134)	(112)	(94)

NOTES TO THE ACCOUNTS

At 30th April 2008

		2008 £'000	2007 £'000
26. **Pension Commitments** *continued*	Movement in deficit during the year:		
	Deficit in scheme at 1st May 2007	**(203)**	(227)
	Finance charge	**(10)**	(11)
	Actuarial gains and losses	**(17)**	12
	Currency translation differences	**(2)**	23
	Deficit in scheme at 30th April 2008	**(232)**	(203)

	2008 £'000	**% scheme assets/ liabilities**	2007 £'000	% scheme assets/ liabilities	2006 £'000	% scheme assets/ liabilities	2005 £'000	% scheme assets/ liabilities	2004 £'000	% scheme assets/ liabilities
History of experience gains and losses:										
Actual return less expected return on pension scheme assets	**(6)**	**(1.0%)**	19	(2.5%)	3	(0.5%)	(32)	4.2%	(30)	(3.4%)
Experience losses arising on the pension scheme liabilities	**(11)**	**1.3%**	(7)	0.7%	(20)	2.0%	(4)	0.4%	(20)	1.9%
Actuarial loss	**(17)**	**(2.0%)**	12	(1.2%)	(17)	1.7%	(36)	3.7%	(50)	4.8%

27. **Guarantees**

The Company has given an unlimited guarantee to HSBC to secure all the present and future indebtedness and liabilities to the Bank of the Company, Colefax and Fowler Incorporated and Cowtan & Tout Incorporated. There is a cross guarantee between the Company and each of its U.K. subsidiaries in respect of their overdraft facilities. At 30th April 2008, the value of subsidiary overdrafts covered by the guarantee amounted to £1,442,957 (2007 – £1,530,779).

28. **Events after the balance sheet date**

On 22nd May 2008 the Group purchased for cancellation 500,000 shares at a price of 1.70p per share.

FIVE YEAR REVIEW

	2008 IFRS £'000	2007 IFRS £'000	2006 UK GAAP £'000	2005 UK GAAP £'000	2004 UK GAAP £'000
Revenue	**78,181**	71,013	68,361	64,455	63,381
Profit from operations	**6,081**	5,842	4,419	3,427	3,187
Profit before taxation	**5,942**	5,806	4,094	3,147	2,910
Profit attributable to shareholders	**4,065**	3,899	2,824	2,209	1,933
Basic earnings per share	**27.5p**	24.8p	17.4p	13.1p	10.4p
Diluted earnings per share	**26.1p**	23.9p	16.8p	13.0p	10.2p
Dividends per share	**4.20p**	4.00p	3.75p	3.50p	3.40p
Equity	**19,229**	15,269	15,506	12,426	12,745
Operating cash flow	**7,027**	8,034	7,556	4,786	6,499
Net funds/(debt)	**2,419**	363	(300)	(4,051)	(2,773)

NOTICE OF MEETING

Notice is hereby given that the 2008 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 16th September 2008 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To receive, and if thought fit, to adopt the audited Annual Accounts of the Company for the year ended 30th April 2008, together with the reports of the Directors and of the auditors thereon.

2. To declare a final dividend of 2.65p per ordinary share.

3. To re-appoint BDO Stoy Hayward LLP as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which accounts are laid.

4. To authorise the Directors to determine the remuneration of the auditors.

5. To re-elect A. K. P. Smith, who retires by rotation, as a Director.

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution and resolutions 7 and 8, will be proposed as special resolutions.

6. THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate nominal amount of £1,825,000 (being the amount of the authorised but unissued share capital of the Company) for a period expiring (unless previously renewed varied substituted or revoked by the Company in general meeting) fifteen months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement and so that all previous authorities given by the Company in general meeting pursuant to Section 80 of the Act are revoked (save to the extent relied upon prior to the passing of this resolution).

7. THAT, subject to the passing of Resolution 6, the Directors be and are hereby generally empowered pursuant to Section 95 of the Act to allot or make offers or agreements to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company pursuant to the authority conferred by Resolution 6 as if Section 89(1) of the Act did not apply to such allotment provided that this power:

   (a) shall expire fifteen months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement; and

   (b) shall be limited to:

      (i) allotments of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as may be) to their existing holdings subject only to the Directors having a right to make such exclusions or other arrangements in connection with such offering as they deem appropriate, necessary or expedient,

         (A) to deal with equity securities representing fractional entitlements; and

         (B) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and

      (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £74,300.

NOTICE OF MEETING

8. THAT the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of s163 (3) of the Act) of ordinary shares of 10p each in the capital of the Company("ordinary shares") provided that:
   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 2,229,000 (representing 15% of the issued ordinary share capital);
   (b) the minimum price which may be paid for an ordinary share is 10p;
   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased;
   (d) this authority expires at the conclusion of the next Annual General Meeting of the Company or within twelve months from the date of the passing of this resolution, whichever is earlier; and
   (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board
R. M. Barker BSc ACA
Secretary
24th July 2008

Registered Office
39 Brook Street
London W1K 4JE

Notes:

1. Only those members entered in the register of members of the Company as at 6.00 p.m. on 14th September 2008 shall be entitled to attend and vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00 p.m. on 14th September 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote, on a poll, on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed. If you require additional forms, please contact Computershare Investor Services on 0870 702 0003.
3. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him.
4. Members who are unable to be present at the Annual General Meeting are invited to complete and return the Form of Proxy, which in order to be effective, must reach the Company's registrars not less than 48 hours before the time appointed for the meeting. The lodgement of a Form of Proxy, other such instrument or any CREST Proxy Instruction (as described in paragraph below) will not preclude a shareholder from attending and voting at the meeting in person.
5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
   (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
   (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.
   (iii) Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives. See www.icsa.org.uk for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i), above.

NOTICE OF MEETING

6. Further details of the resolutions proposed at this Annual General Meeting can be found in the Directors' Report on pages 8 to 10. The following documents will be available for inspection at the registered office of the Company during normal business hours on each business day from the date of the notice convening the Annual General Meeting up to the close of the meeting:

   (i) the Register of Interests of Directors (and their families) in the capital of the Company; and

   (ii) copies of all contracts of service under which Directors of the Company are employed by the Company or any of its subsidiaries.

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