Colefax Group plc

Annual Report and Accounts 2010

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.

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2001

THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT

COLEFAX & FOWLER LTD

FINANCIAL HIGHLIGHTS

	2010 £'000	2009 £'000	Increase/ (Decrease)
Revenue from continuing operations	67,380	73,051	(8)%
Profit from continuing operations	4,387	2,918	50%
Profit before taxation from continuing operations	4,388	2,911	51%
Profit attributable to shareholders	2,376	1,830	30%
Basic earnings per share from continuing operations	21.6p	14.1p	53%
Diluted earnings per share from continuing operations	21.2p	13.5p	57%
Dividends per share	3.10p	2.88p	8%
Equity	23,055	21,133	9%
Operating cash flow	5,429	5,176	5%
Cash and cash equivalents	5,472	3,078	78%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit from continuing operations for the year to 30th April 2010 increased by 51% to £4.39 million (2009 – £2.91 million) on sales down 8% at £67.38 million (2009 – £73.05 million). Earnings per share from continuing operations increased by 53% to 21.6p (2009 – 14.1p) and the Group ended the year with net cash of £5.47 million (2009 – £3.08 million).

During the year, the Group purchased for cancellation 105,000 shares at an average price of £1.30 per share, representing 0.7% of the Group's issued share capital at the start of the year.

The Board has decided to increase the final dividend by 17% to 1.55p per share (2009 – 1.33p), making a total for the year of 3.10p (2009 – 2.88p), an increase of 8%. The final dividend will be paid on 12th October 2010 to shareholders on the register at the close of business on 17th September 2010.

This year's results have benefitted from the cost saving measures implemented towards the end of last year, the strengthening of the US Dollar and a strong performance from the Decorating Division. These three factors are the principal reasons for the improvement in the Group's performance this year.

The main challenge facing the Group has been the difficult market conditions in the Group's major market, the US where sales declined by a further 20%.

Prior to our year end, we made a decision to dispose of the Manuel Canovas Beachwear Division which was a non-core activity. Since our year end, we have exchanged contracts to sell this activity to the existing management team under a licence agreement. The loss on this discontinued activity, including a provision for disposal costs, amounted to £757,000 after tax.

Product Division

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

Sales in the Fabric Division, which represent 80% of Group sales from continuing operations, decreased by 11% to £54.20 million (2009 – £61.08 million).

Sales in the US, which represent 47% of the Fabric Division's sales, decreased by 20% on a constant currency basis. This significant sales reduction in our largest market is the most challenging issue currently facing the Group. The performance has been weak right across the US although the East Coast has suffered slightly more than the rest. We are currently refurbishing our flagship showroom in New York which will create sales synergies and reduce costs. This project will be completed in October 2010. Towards the end of the year we have seen a small improvement in sales and believe that this market may finally be starting to recover.

UK sales which represent 22% of the Fabric Division's sales, decreased by 4% during the year. Sales for the first six months decreased by 17% and there was a strong recovery in the second half of the year. Current trading conditions are still good but there is growing evidence of problems ahead for the UK housing market and therefore, I am cautious about our prospects for the remainder of the current financial year.

Sales in Continental Europe, which represent 28% of the Fabric Division's sales, were down by 9% on a constant currency basis with most of the decline in the first half of the year. Many European countries are now seeing tougher trading conditions and whilst their decline has not been as dramatic as the US, I am concerned that they will remain weak. Our principal markets are France, Italy and Germany which account for just over 65% of sales in this area and with no other country representing more than 5% of European sales.

Sales in the rest of the world, which represent just 3% of the Fabric Division's sales, were down by 5% in the year. We are looking to strengthen our position in some of these markets, which do not appear to be suffering as badly as our major markets.

CHAIRMAN'S STATEMENT

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 4% of Group sales from continuing operations, increased by 3% to £2.55 million (2009 – £2.47 million) and achieved a good result for the year. The relative strength of the London property market has helped furniture sales this year. The current order book is good and as a result, we are optimistic about prospects for the coming year.

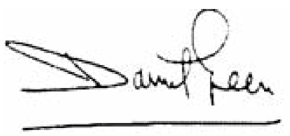
Interior Decorating Division

Interior decorating sales, which account for 16% of Group sales from continuing operations, increased by 12% to £10.63 million (2009 – £9.50 million) which represents an exceptional performance. During the year, we completed a number of major contracts both in the UK and overseas and saw a good recovery in sales of antiques. Whilst the current order book is healthy we expect results for the current financial year will be below the performance of last year.

Prospects

While trading in the second half of the year was better than expected it is still very difficult to accurately forecast how the Group will perform in this financial year given the current economic climate. The most significant piece of good news is the current strength of the US Dollar which will increase our margins in the US and offset some of the sales decline of the last two years. However, we are currently experiencing significant cost pressure from suppliers following sharp increases in the cost of raw materials and this will offset some of the benefit from the Dollar. This year will be about striking the right balance between controlling our costs and investing in the future to make sure that we are in a strong position to take full advantage of any recovery.

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



David B. Green
Chairman
22nd July 2010

REVIEW OF OPERATIONS AND FINANCE

Key Performance Indicators (continuing operations)	**2010**	2009
Constant Currency Sales Growth	**(9.9)%**	(14.0)%
Gross Profit Margin	**54.8%**	52.5%
Operating Profit Margin	**6.5%**	4.0%
Basic Earnings Per Share	**21.6p**	14.1p
Operating Cash Flow	**£5.4m**	£5.2m
Stock Turn (Days)	**142**	136
Cost of Equity Capital	**14.7%**	14.1%

Sales Growth

Group sales from continuing operations decreased by 7.8% to £67.38 million (2009 – £73.05 million) and by 9.9% on a constant currency basis. This compares to a 14.0% constant currency decrease in 2009 and a 12.0% increase in 2008. The year was characterised by quite dramatic sales declines during the first half of the year followed by stabilisation and modest recovery during the second half of the year. This means that sales are still well below the levels seen at the height of the market in 2008 and are unlikely to return to these levels in the foreseeable future.

In our core fabric division the US market was by far the most difficult territory with sales declining by 20.3% on a constant currency basis. The US accounts for approximately 47% of fabric division sales and so this had a significant impact on the overall result for the year. Fortunately the profit impact of the sales decline in the US was partly offset by the strength of the US dollar which averaged 1.61 during the year. The actual sales decline in the US during the first six months was 31.2% compared to a 6.3% decline in the second half and we are forecasting growth of 10% for 2011 although this will still be 29% below the peak sales achieved in 2008.

Fabric division sales in Europe declined by 8.7% on a constant currency basis with an 18.1% decline in the first half followed by a 1.4% increase in the second half. Despite the second half recovery the widespread sovereign debt problems in the Eurozone suggest that trading conditions are likely to be difficult in the year ahead.

Fabric division sales in the UK declined by 4.0% during the year making this the Group's best performing market. After a decline of 17.1% in the first half there was a recovery in the second half with sales increasing by 10.9% but against weak prior year comparatives. The UK performance was somewhat surprising and we believe that it is attributable to expenditure deferred by the 2008 banking crisis, record low mortgage rates and an increase in refurbishment activity from people unable or unwilling to move house. Although the recovery has continued into the current year we are cautious about the UK market due to the impact of tax increases and government spending cuts on the general economy.

Gross Profit Margin

The Group's gross profit margin on continuing operations increased by 2.3% from 52.5% to 54.8%. The main reason for the improvement in margin was the strength of the US dollar which averaged \$1.61 compared to \$1.66 for the prior year. In the prior year the Group did not benefit fully from the strength of the US dollar due to losses on hedging contracts of £1.29 million. Excluding prior year hedging losses the gross profit margin improved by 0.5%.

The strength of the US dollar is critical to the Group's performance due to the high proportion of the fabric sales in the US. Most of the goods sold in the US are sourced in Euros or Sterling and so the exchange rate affects US gross profit margins. Every one cent change in the US dollar against Sterling impacts Group profits by approximately £60,000. The recent strengthening of the US dollar against both Sterling and the Euro is therefore a positive development for the Group.

Fabric margins are starting to come under pressure from suppliers seeking price increases in response to sharp increases in raw materials prices. We are trying to mitigate these increases as far as possible but inevitably this inflation will have some adverse impact on selling prices and volumes.

REVIEW OF OPERATIONS AND FINANCE

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

	2010	2009	% change
US dollar average	**1.61**	1.66	(3.0%)
US dollar closing	**1.53**	1.48	3.4%
Euro average	**1.13**	1.19	(5.0%)
Euro closing	**1.15**	1.12	2.7%

Operating Profit Margin

Group profit from continuing operations increased by 50.3% to £4.39 million (2009 – £2.92 million) representing an operating profit margin of 6.5% (2009 – 4.0%). The prior year comparative was adversely impacted by losses on forward contracts of £1.29 million and excluding these losses the improvement in operating profits was just 4.2%. This improvement was achieved despite a 9.9% constant currency sales decrease and primarily reflects cost saving measures that were implemented in response to the downturn last year. This included a significant reduction in new product investment which had some impact on sales during the year. Going forward we plan to increase new product investment to more normal levels.

The Group's core fabric division is highly operationally geared with relatively high gross profit margins and relatively high fixed costs in the form of salaries and showroom costs. This means that the Group's profits are sensitive to comparatively small fluctuations in sales. Monthly sales trends have progressively improved in the second half of the year and are now ahead of prior year in all our major markets. If the Group is to achieve its longer term target of a 10% operating margin it will require a significant recovery in US sales and a continued strong dollar. So far there is no evidence that US sales will return anywhere near to the levels seen at the height of the market in 2008.

Prior to the year end the Group Board initiated a consultation procedure in France with a view to the closure or disposal of the Manuel Canovas beachwear division. After the year end contracts were exchanged to dispose of this activity by way of a business transfer and licence agreement with the existing management team. The beachwear activity was non core and had few synergies with the Group's other operations. Trading during the year was affected by the recession and as a result this activity made operating losses after tax of £357,000. Together with disposal costs after tax of £400,000, a total loss of £757,000 is reported separately in the Group income statement. Going forward the Group will benefit from this disposal and the total focus on its core fabric activities in France.

The Group continues to benefit from its geographical diversity and a strong balance sheet. Although the luxury sector was severely impacted by the global financial crisis in 2008 and 2009 it has started to recover and may perform better than lower levels of the market as governments around the world seek to reduce their budget deficits.

Taxation

The Group tax charge on continuing operations was 28.6% (2008 – 31.2%). This comparatively low rate reflects the significant drop in US fabric sales and a better than expected performance in the UK which altered the mix of profits between the US and the UK where corporate tax rates are 40% and 28% respectively. Rising sales coupled with a strong US dollar mean that profits at our US subsidiary company Cowtan and Tout are likely to increase this year resulting in a more normal Group tax charge of approximately 33%. The Group statement of financial position includes a significant deferred tax asset of £1.64 million (2009 – £1.59 million) mostly relating to timing differences in the US.

Basic Earnings Per Share

Basic earnings per share from continuing operations increased by 53.2% to 21.6p (2009 – 14.1p). The prior year was adversely affected by losses on forward contracts of £1.29 million and adjusting for these earnings per share from continuing operations increased by 4.71%. During the year the Group bought for cancellation 105,000 shares representing 0.7% of the issued share capital at a cost of £137,000 or £1.30 per share. In the prior year the Group bought for cancellation 550,000 shares at a cost of £895,000 or £1.63 per share.

REVIEW OF OPERATIONS AND FINANCE

Cost of Equity Capital

The Group Board remains committed to a strategy of share buybacks provided they enhance shareholder value through their effect on earnings per share, net assets per share and return on capital employed. The Group's continuing cost of equity capital measured in terms of earnings per share as a percentage of the share price is 14.7%, up from 14.1% in 2009 and well in excess of the Group's post tax cost of debt of 1.6%. The Group was ungeared at the year end with net cash of £5.47 million. The Group holding company has significant distributable reserves of £4.74 million to cover further share buybacks but any purchases will depend on cash generation and market conditions.

At our AGM on 14th September 2010, the Group will seek approval to buy back up to 15% of the issued share capital of the company or 2.20 million shares. The shareholding of David Green, Chairman and Chief Executive is currently 31% 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 combined shareholding of 30% or more are required to make an offer for the entire issued share capital of the company. A General Meeting to seek approval of the waiver will be held on 14th September 2010 after our Annual General Meeting.

Dividends

The Board has proposed a 16.5% increase in the final dividend to 1.55p (2009 – 1.33p) making a total for the year of 3.10p (2009 – 2.88p) which is an increase of 7.6%. Following a dividend cut last year the Group intends to return to a progressive dividend policy. The total cost of the dividend is £447,000 which represents dividend cover of 5.3 times (2009 – 4.5 times). This remains a high level of cover but the Board continues to believe that the interests of shareholders are best served by utilising the Group's cash and distributable reserves for share buybacks or to fund acquisitions which fit with the Group's existing brand portfolio.

Cash flow

The Group had an operating cash flow of £5.43 million compared to £5.18 million last year. The net decrease in working capital was £306,000 comprising a decrease in inventories of £1.19 million, an increase in receivables of £848,000 and a decrease in payables of £39,000. The decrease in stock of £1.19 million follows a decrease of £1.03 million in 2009 although the Group stock turn still deteriorated from 136 to 142 days due to the decline in sales during the year. Inventory will increase next year due to a combination of rising sales and more normal levels of new product investment.

Tax payments were £636,000 compared to £1.58 million last year. The timing of tax payments lags changes in operating profit by approximately six months so the reduced tax payments mainly reflect the reduction in profits between 2008 and 2009.

Capital expenditure during the year was £1.72 million compared to depreciation of £1.88 million. The main non recurring item of capital expenditure this year was the refurbishment and expansion of our trade showroom in France. This year we will complete the expansion and refurbishment of our flagship trade showroom in New York. This project started last year but most of the capital expenditure will be incurred in the current year.

Cash generation before dividends and share buybacks was £3.18 million (2009 – £1.87 million) and compares to profit after tax of £2.38 million (2009 – £1.83 million). Dividend payments were £412,000 (2009 – £592,000) and share buybacks were £137,000 (2009 – £895,000). As a result the Group has ended the year with net cash of £5.47 million. Together with a bank overdraft facility of £4.50 million the Group has £9.97 million of cash resources at its disposal.

Going Concern

The Directors are confident having made appropriate enquiries that the Group and the Company has 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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39 Brook Street, London W1K 4JE

Registered in England No. 1870320

Nominated Advisers and Stockbrokers

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111 Old Broad Street
London EC2N 1PH

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Solicitors

SJ Berwin
10 Queen Street Place
London EC4R 1BE

Bankers

HSBC Bank plc
31 Holborn
London EC1N 2HR

HSBC Bank USA
452 Fifth Avenue
New York
NY 10018
U.S.A.

JP Morgan Chase Bank
1166 Avenue of the Americas
New York
NY 10036
U.S.A.

Registrars and Transfer Office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZY

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2010.

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, key performance indicators and 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.

New Articles of Association
At the forthcoming Annual General Meeting, approval will be sought for a number of amendments to the Company's Articles of Association. Primarily these amendments reflect the implementation of the Shareholders' Rights Directive in the UK in August 2009 and the remaining provisions of the Companies Act 2006 in October 2009.

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 and to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum of one third of the issued share capital of the Company 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.

In addition, Resolution Number 6 would also authorise the Directors to allot equity securities in connection with a rights issue up to a maximum of one third of the issued share capital of the Company 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 £220,200 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 22nd July 2010. 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.

Results and Dividends
The Group's profit after tax was £2,376,000 (2009 – £1,830,000). An interim dividend of 1.55p (2009 – 1.55p) per share was paid to shareholders on 1st April 2010. The Directors recommend the payment of a final dividend of 1.55p (2009 – 1.33p) per share to be paid on 12th October 2010 to shareholders on the register at the close of business on 17th September 2010. The total dividend is 3.10p (2009 – 2.88p) per share and the total of the interim and proposed final dividend is £447,000 (2009 – £407,000).

Principal Risks and Uncertainties
The Directors have identified a number of financial risks facing the Group and these are explained in note 20 to the financial statements, *"Financial Instruments"*.

The Group has a broad geographical spread of revenue and is not wholly dependent upon any one market. The most significant business risk is the US market which accounts for 39% of the Group's revenue. This risk is mitigated by a broad customer base, with no reliance on any one customer, and a large product range across five individual fabric brands.

The Group has detailed disaster recovery plans in place to ensure business continuity and also has business interruption insurance policies to mitigate any financial losses arising from unforeseen events.

DIRECTORS' REPORT

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.

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 2010, the Group had an average of 38 days purchases outstanding to trade creditors (2009 – 34 days). The parent company has no trade creditors.

Charitable Donations
During the year the Group made various charitable donations totalling £17,825 (2009 – £20,885).

Freehold Property
The current value of freehold property is, in the opinion of the Directors, in excess of the value included in the Group statement of financial position. This has not been quantified as independent valuations have not been undertaken.

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2010.

In accordance with Article 14.1 of the Company's Articles of Association, D. B. Green will retire by rotation at the Annual General Meeting. Resolution 5 proposes his re-election as Director. D. B. Green 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.

Directors' Remuneration

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	**2010** **Total** **£'000**	2009 Total £'000
Executive Directors:						
D. B. Green	669	24	37	–	**730**	535
R. M. Barker	213	9	8	18	**248**	218
W. Nicholls	205	22	19	–	**246**	187
K. Hall	240	18	–	14	**272**	260
Non-executive Directors:						
A. K. P. Smith	32	–	–	–	**32**	32
	1,359	73	64	32	**1,528**	1,232

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 22nd July 2010:

	Number of shares	%
D. B. Green	4,592,862	31.3
Discretionary Unit Fund Managers	3,000,000	20.4
Schroder plc	2,144,927	14.6
Hunter Hall Investment Management	1,811,500	12.3

DIRECTORS' REPORT

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	
	2010	2009
D. B. Green	**4,592,862**	4,592,862
R. M. Barker	**295,000**	105,000
W. Nicholls	**260,354**	260,354
K. Hall	**150,000**	50,000
A. K. P. Smith	**45,000**	45,000

D. B. Green's shareholding included 402,400 (2009 – 402,400) ordinary shares in which his interest was non-beneficial. No Director has interests in the shares of any subsidiary company. On 18th September 2009 R. M. Barker acquired 225,000 shares through the exercise of ESOP share options and, following the exercise of these options, sold 35,000 shares at a price of 109p per share. Also on 18th September 2009 K. Hall acquired 100,000 shares through the exercise of ESOP share options.

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.

	Total Exercise price	At 1st May 2009	Exercised during the year	**At 30th April 2010**	Date of Grant	Exercisable from	Expiry date
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 2010 was 146.5p. The range of market prices during the financial year was between 91.0p and 153.5p.

Post Balance Sheet Event

On 13th July 2010 contracts were exchanged to sell the Group's beachwear division to the existing management team by way of a sale and licence agreement. Details of the disposal are disclosed in note 10 of the financial statements.

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 UK Corporate Governance Code. 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 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
22nd July 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Directors' responsibilities
The directors are responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company'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 financial statements of Colefax Group plc for the year ended 30th April 2010 which comprise the group and company statement of financial position, the group income statement, the group statement of comprehensive income, the group and company statement of cash flows, the group and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30th April 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Diane Campbell (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
22nd July 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP INCOME STATEMENT

For the year ended 30th April 2010

	Notes	**2010 £'000**	2009 £'000
Continuing operations:			
Revenue	3	**67,380**	73,051
Cost of sales		**30,445**	34,687
Gross profit		**36,935**	38,364
Operating expenses	5	**32,548**	35,446
Profit from operations	6	**4,387**	2,918
Finance income		**11**	45
Finance expense		**(10)**	(52)
	8	**1**	(7)
Profit before taxation		**4,388**	2,911
Tax expense			
– UK		**(1,236)**	(535)
– Overseas		**(19)**	(373)
	9	**(1,255)**	(908)
Profit from continuing operations		**3,133**	2,003
Trading loss on discontinued operations, net of tax		**(357)**	(173)
Provision on disposal, net of tax		**(400)**	–
Loss on discontinued operations, net of tax	10	**(757)**	(173)
Profit for the year attributable to equity holders of the parent		**2,376**	1,830
Basic earnings per share	12	**16.4p**	12.9p
Diluted earnings per share	12	**16.1p**	12.4p
Continuing operations:			
Basic earnings per share	12	**21.6p**	14.1p
Diluted earnings per share	12	**21.2p**	13.5p

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th April 2010

	Notes	**2010 £'000**	2009 £'000
Profit for the year		**2,376**	1,830
Other comprehensive income:			
Currency translation differences on foreign currency net investments		**(412)**	2,961
Cash flow hedges:			
Gains/(losses) recognised directly in equity		**596**	(1,808)
Transferred to profit and loss for the year		**(71)**	1,294
Tax on components of other comprehensive income	19	**(49)**	(886)
Total other comprehensive income		**64**	1,561
Total comprehensive income for the year attributable to the equity holders of the parent		**2,440**	3,391

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF FINANCIAL POSITION

At 30th April 2010

	Notes	2010 £'000	2009 £'000
Non-current assets:			
Property, plant and equipment	13	**5,309**	5,718
Deferred tax asset	19	**1,639**	1,590
		6,948	7,308
Current assets:			
Inventories and work in progress	15	**11,886**	13,255
Trade and other receivables	16	**12,380**	11,661
Cash and cash equivalents	17	**5,897**	3,079
		30,163	27,995
Current liabilities:			
Trade and other payables		**12,598**	13,298
Current corporation tax		**532**	387
Provisions		**606**	–
	18	**13,736**	13,685
Net current assets		**16,427**	14,310
Total assets less current liabilities		**23,375**	21,618
Non-current liabilities:			
Pension liability	25	**320**	485
Net assets		**23,055**	21,133
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,470**	1,481
Share premium account	22	**11,148**	11,148
Capital redemption reserve	22	**1,404**	1,393
ESOP share reserve	22	**(18)**	(30)
Share based payment reserve	22	**196**	475
Foreign exchange reserve	22	**1,741**	2,055
Cash flow hedge reserve	22	**8**	(370)
Retained earnings	22	**7,106**	4,981
Total equity		**23,055**	21,133

The financial statements were approved by the board of directors and authorised for issue on 22nd July 2010.

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

The notes on pages 20 to 40 form part of these Consolidated financial statements.

Company No. 1870320

COMPANY STATEMENT OF FINANCIAL POSITION
At 30th April 2010

	Notes	**2010 £'000**	2009 £'000
Non-current assets:			
Investments	14	**27,593**	27,562
Current assets:			
Trade and other receivables	16	**781**	3,529
Cash and cash equivalents	17	**1,155**	–
		1,936	3,529
Current liabilities:			
Trade and other payables	18	**3**	1,002
Net current assets		**1,933**	2,527
Net assets		**29,526**	30,089
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,470**	1,481
Share premium account	22	**11,148**	11,148
Merger reserve	22	**10,762**	10,762
Capital redemption reserve	22	**1,404**	1,393
Share based payment reserve	22	**196**	475
Retained earnings	22	**4,546**	4,830
Total equity		**29,526**	30,089

The financial statements were approved by the board of directors and authorised for issue on 22nd July 2010.

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

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF CASH FLOWS

For the year ended 30th April 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Profit before taxation – continuing operations		**4,388**	2,911
Loss before taxation – discontinued operations	10	**(1,147)**	(262)
Finance income		**(11)**	(45)
Finance expense		**10**	52
Depreciation	13	**1,883**	1,795
Cash flows from operations before changes in working capital		**5,123**	4,451
Decrease in inventories and work in progress		**1,193**	1,032
Increase in trade and other receivables		**(848)**	(310)
(Decrease)/increase in trade and other payables		**(39)**	3
Cash generated from operations		**5,429**	5,176
Taxation paid			
UK corporation tax paid		**(530)**	(1,343)
Overseas tax paid		**(106)**	(237)
		(636)	(1,580)
Net cash inflow from operating activities		**4,793**	3,596
Investing activities			
Payments to acquire property, plant and equipment	13	**(1,716)**	(1,729)
Receipts from sales of property, plant and equipment		**106**	33
Interest received		**11**	38
Net cash outflow from investing		**(1,599)**	(1,658)
Financing activities			
Purchase of own shares		**(137)**	(895)
Interest paid		**(10)**	(72)
Equity dividends paid		**(412)**	(592)
Net cash outflow from financing		**(559)**	(1,559)
Net increase in cash and cash equivalents		**2,635**	379
Cash and cash equivalents at beginning of year		**3,078**	2,419
Exchange (losses)/gains on cash and cash equivalents		**(241)**	280
Cash and cash equivalents at end of year	17	**5,472**	3,078

The notes on pages 20 to 40 form part of these Consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30th April 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Profit before taxation		**117**	484
Finance income		**(195)**	(575)
Finance expense		**2**	–
Cash flows from operations before changes in working capital		**(76)**	(91)
Decrease in trade and other receivables		**3,147**	988
Decrease in trade and other payables		**(1)**	(7)
Cash generated from operations		**3,070**	890
Taxation paid			
UK corporation tax paid		**(560)**	(1,327)
Net cash inflow/(outflow) from operating activities		**2,510**	(437)
Investing activities			
Interest received		**195**	568
Net cash inflow from investing		**195**	568
Financing activities			
Purchase of own shares		**(137)**	(895)
Interest paid		**(3)**	–
Equity dividends paid		**(412)**	(592)
Net cash outflow from financing		**(552)**	(1,487)
Net increase/(decrease) in cash and cash equivalents		**2,153**	(1,356)
Cash and cash equivalents at beginning of year		**(998)**	358
Cash and cash equivalents at end of year	17	**1,155**	(998)

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2010

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	ESOP share reserve £'000	Share based payment reserve £'000	Foreign exchange reserve £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1st May 2009	1,481	11,148	1,393	(30)	475	2,055	(370)	4,981	21,133
Total comprehensive income for the year	–	–	–	–	–	(314)	378	2,376	2,440
Share buybacks	(11)	–	11	–	–	–	–	(137)	(137)
ESOP shares granted	–	–	–	16	15	–	–	–	31
Share options exercised	–	–	–	–	(294)	–	–	294	–
Dividends paid	–	–	–	–	–	–	–	(412)	(412)
Other movements	–	–	–	(4)	–	–	–	4	–
At 30th April 2010	**1,470**	**11,148**	**1,404**	**(18)**	**196**	**1,741**	**8**	**7,106**	**23,055**
Balance at 1st May 2008	1,536	11,148	1,338	(20)	664	124	–	4,439	19,229
Total comprehensive income for the year	–	–	–	–	–	1,931	(370)	1,830	3,391
Share buybacks	(55)	–	55	–	–	–	–	(895)	(895)
Share option lapsed	–	–	–	(10)	(21)	–	–	31	–
Share options exercised	–	–	–	–	(168)	–	–	168	–
Dividends paid	–	–	–	–	–	–	–	(592)	(592)
At 30th April 2009	1,481	11,148	1,393	(30)	475	2,055	(370)	4,981	21,133

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2010

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	ESOP share reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1st May 2009	1,481	11,148	10,762	1,393	–	475	4,830	30,089
Total comprehensive income for the year	–	–	–	–	–	–	(32)	(32)
Share buybacks	(11)	–	–	11	–	–	(137)	(137)
ESOP shares granted	–	–	–	–	–	15	–	15
Share options exercised	–	–	–	–	–	(294)	294	–
Dividends paid	–	–	–	–	–	–	(412)	(412)
Other movements	–	–	–	–	–	–	3	3
At 30th April 2010	**1,470**	**11,148**	**10,762**	**1,404**	**–**	**196**	**4,546**	**29,526**
At 1st May 2008	1,536	11,148	10,762	1,338	(20)	664	5,954	31,382
Total comprehensive income for the year	–	–	–	–	–	–	164	164
Share buybacks	(55)	–	–	55	–	–	(895)	(895)
Share option lapsed	–	–	–	–	(10)	(21)	31	–
Share options exercised	–	–	–	–	–	(168)	168	–
Dividends paid	–	–	–	–	–	–	(592)	(592)
Other movements	–	–	–	–	30	–	–	30
At 30th April 2009	1,481	11,148	10,762	1,393	–	475	4,830	30,089

The notes on pages 20 to 40 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

1. **Accounting policies**

General Information

Colefax Group Plc is a limited company incorporated and domiciled in the United Kingdom. The principal activity of the Company is to act as a holding company for the Group's trading subsidiaries. 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.

Basis of Preparation

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 2006 applicable to companies preparing their financial statements in accordance with IFRS.

The Group Income Statement has been prepared on the basis of continuing operations. The trading loss of the beachwear division, and the costs associated with its sale, have been disclosed separately.

Changes in Accounting Policies

(a) New standards, amendments to published standards and interpretations to existing standards effective in 2010 adopted by the Group:

– *IFRS 8, Operating Segments* (effective from 1st January 2009). This requires the segmental disclosures to be consistent with internal management reporting. It affects disclosure only.

– *IAS 1, Financial Instruments: Disclosures – amendment* (effective from 1st July 2009). This affects the presentation of the financial statements only, and does not affect recognition or measurement.

– *IFRS 7, Financial Instruments: Disclosures – amendment* (effective from 1st July 2009).

– *IAS 23, Borrowing costs (Revised)*. Borrowing costs on qualifying assets are now capitalised. This will not affect the Group or Company.

– *Improvements to IFRS issued in 2008*. This affects disclosure only.

(b) New standards, amendments to published standards and interpretations to existing standards not yet effective:

– *IAS 39, Financial Instruments: Recognition and Measurement – amendment* (effective from 1st July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation, should be applied in the designation of a one-sided risk in a hedged item, and inflation in a financial hedged item. Management is currently assessing the impact of the amendment on the financial statements.

– *IAS 24, Related Party Disclosures – revised* (effective from 1st January 2011). As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

– *IFRS 9, Financial Instruments*. IFRS 9 as issued on 12th November 2009 (effective from 1st January 2013) addresses the classification and measurement of financial assets only. The requirements for the classification and measurement of financial liabilities will be finalised and added to IFRS 9 once issues related to the recognition of changes in an entity's own credit risk have been addressed. Management is currently assessing the impact of the amendment on the accounts.

– *IFRS 3, Business Combinations – revised* (effective from 1st July 2009). This would not affect the results of the Group or Company this year.

– *IAS 27, Consolidated and Separate Financial Statements – amendment* (effective from 1st July 2009). This would not affect the results of the Group or Company this year.

– *Improvements to IFRS issued in 2009.*

– *Improvements to IFRS issued in 2010.*

(c) New standards, amendments to published standards and interpretations to existing standards not yet effective, but not relevant to the Group:

– *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments – amendment* (effective from 1st April 2010).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

1. **Accounting policies** *continued*

– *IFRIC 17, Distributions of Non-cash Assets to Owners* (effective from 1st July 2009).

– *IFRIC 18, Transfer of Assets from Customers* (effective from 1st July 2009).

– *IFRS 2, Group Cash-settled Share-based Payment Transactions – amendment* (effective from 1st January 2010).

– *IAS 32, Classification of Rights Issues – amendment* (effective from 1st February 2010).

– *IFRIC 14/IAS 19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – amendments* (effective from 1st January 2011).

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.408 of the Companies Act 2006. The loss dealt with in the financial statements of Company was £32,000 (2009 – profit of £164,000). Total comprehensive income relating to the year for the Company consists of the loss for the year only.

Acquisitions are accounted for using the acquisition method. Under the acquisition method 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 statement of financial position 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.

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 statement of financial position are stated at cost less any provision for impairment.

Revenue Recognition
Revenue, which excludes value added taxes, represents the amounts receivable from customers for goods and services supplied including disbursements. Sales of goods are recognised when goods are delivered and title has passed. Revenue for services is recognised in the period in which they are rendered.

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 improvements	over the shorter of the life of the lease or the 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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

1. **Accounting policies** *continued*

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition, with the majority of inventories 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 and slow moving stocks.

Work in Progress

Work in progress is valued at cost less progress payments received and receivable. Cost includes all direct expenditure on material and external services 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 statement of financial position.

Taxation

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

Current Tax

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 date of the statement of financial position.

Deferred Taxation

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.

Current and Deferred Tax for the year

Current and deferred tax are recognised as an expense or income in the income statement, 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 statement of financial position 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 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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

1. **Accounting policies** *continued*

Group
The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the date of the statement of financial position 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. Loans are designated as part of the net investment, when settlement is neither planned nor likely to occur in the foreseeable future.

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 date of the statement of financial position. 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 are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

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 purchases made by its US subsidiary. It is the Group's policy not to hold or issue derivative instruments for speculative purposes.

Hedge accounting can be applied to financial assets and financial liabilities only where all of the relevant hedging criteria under IAS 39 are met. The Group accounts for forward contracts as a cash flow hedge. The effective part of forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from highly probable forecast transactions, are measured at fair value with changes in fair value recognised directly in equity (the "cash flow hedge reserve").

The cumulative gain or loss initially recognised in equity is recycled through the consolidated income statement at the same time as the hedged transaction affects the income statement, and reported within the cost of sales line of the income statement. If, at any point, the hedged transaction is no longer expected to occur, the cumulative gain or loss is recycled through the consolidated income statement immediately.

In the prior year the loss initially recognised in equity was £1,808,000 (2008 – £nil). This was offset against the loss recycled to the statement of comprehensive income of £1,294,000 (2008 – £nil) showing a net movement of £514,000. In the current year these movements have been disclosed separately in the statement of comprehensive income. This has no impact on the total comprehensive income for the year or on the net assets of the Company or Group.

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 statement of financial position. 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 charge is spread over the period of performance relating to the grant.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

1. **Accounting policies** *continued*

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
For internal management purposes the Group reports by 'product division' and 'decorating division'.

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.

Deferred tax
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 recognised 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 the date of each statement of financial position 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.

Inventories
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.

Trade Receivables
The Group reviews its trade receivables to provide assurance that their carrying value is reduced by an appropriate allowance for irrecoverable amounts. Factors which are considered as part of that review include the age of the receivable and the creditworthiness of the customer.

Pension Assumptions
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 25. 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 statement of financial position.

Income Taxes
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.

Financial Instruments
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.

Share based payments
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 options is estimated on the date of the grant based on certain assumptions. Those assumptions are described in note 23.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

		2010 £'000	2009 £'000
3. **Revenue**	Revenue arises from:		
	Sale of goods	66,180	71,677
	Provision of services	1,200	1,374
		67,380	73,051

4. **Segmental analysis**

The Board of Colefax Group plc manages the operations of the Group as two divisions:

Product division – This division is involved in the design and distribution of furnishing fabrics, wallpapers, upholstered furniture and related products;

Decorating division – This division is involved in interior and architectural design and decoration, primarily for private individuals.

The reportable segments are distinct business units each run by a separate management team. The financial performance of each division is reported separately to the Board and forms the basis of strategic decision making.

	Product division		Decorating division		Total	
Business segments	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Continuing operations						
Revenue:						
Total revenue	**56,925**	63,694	**10,633**	9,497	**67,558**	73,191
Inter-segment revenue	**(178)**	(140)	**–**	–	**(178)**	(140)
Revenue from external customers	**56,747**	63,554	**10,633**	9,497	**67,380**	73,051
Segment result:						
Profit from operations	**3,286**	2,399	**1,101**	519	**4,387**	2,918
Finance income	**11**	45	**–**	–	**11**	45
Finance expense	**(10)**	(52)	**–**	–	**(10)**	(52)
Profit before taxation	**3,287**	2,392	**1,101**	519	**4,388**	2,911
Tax expense	**944**	753	**311**	155	**1,255**	908
Profit from continuing operations	**2,343**	1,639	**790**	364	**3,133**	2,003
Loss on discontinued operations, net of tax					**(757)**	(173)
Profit for the year attributable to equity holders of the parent					**2,376**	1,830
Total assets	**32,718**	30,365	**4,393**	4,938	**37,111**	35,303
Total liabilities	**11,699**	10,580	**2,357**	3,590	**14,056**	14,170
Net assets	**21,019**	19,785	**2,036**	1,348	**23,055**	21,133
Capital expenditure	**1,632**	1,639	**84**	90	**1,716**	1,729
Depreciation	**1,670**	1,670	**213**	125	**1,883**	1,795

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

No one single external customer contributes to a significant proportion of the Group's revenues.

	External revenue by location of customers		Non-current assets by location of assets	
Geographical segments	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
United Kingdom	**21,398**	20,982	**2,001**	2,553
United States	**26,609**	31,755	**3,768**	4,227
Europe	**16,008**	17,169	**1,179**	528
Rest of World	**3,365**	3,145	**–**	–
	67,380	73,051	**6,948**	7,308

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

		2010 £'000	2009 £'000
5. **Operating expenses**	Distribution and marketing costs	**21,406**	23,219
	Administrative costs	**11,142**	12,227
	Total operating expenses	**32,548**	35,446

		2010 £'000	2009 £'000
6. **Profit from operations**	This has been arrived at after charging/(crediting):		
	Audit services – group	**25**	24
	Audit services – subsidiaries	**116**	114
	Non-audit services – taxation	**74**	29
	Non-audit services – corporate finance	**15**	25
	Depreciation of owned property, plant and equipment	**1,883**	1,795
	Operating lease rentals – land and buildings	**3,933**	3,672
	Operating lease rentals – plant and machinery	**60**	53
	Profit on the disposal of property, plant and equipment	**(6)**	(31)
	Exchange (gains)/losses	**(190)**	2,166
	Pension costs (see note 25)	**291**	213
	Share-based payment (see note 23)	**31**	–
	Redundancy and reorganisation costs	**369**	876

		2010 £'000	2009 £'000
7. **Staff costs**	Staff costs, including Executive Directors, were as follows:		
	Wages and salaries	**13,431**	14,416
	Social security costs	**1,866**	2,055
	Pension costs	**291**	213
		15,588	16,684

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

	No.	No.
Distribution and marketing	**295**	323
Administration	**64**	69
	359	392

The holding Company had no employees during the year (2009 – nil).

	2010 £'000	2009 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,496**	1,197
Pension contributions	**32**	35
Gain on exercise of share options	**354**	139
	1,882	1,371
Emoluments of the highest paid director:		
Emoluments	**730**	535
Gain on exercise of share options	**–**	139
	730	674

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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

7. Staff costs *continued*

Two directors participated in Group defined contribution pension schemes in 2010 (2009 – two). No directors participated in Group defined benefit pension schemes in 2010 (2009 – nil).

Two (2009 – one) directors exercised options in the year. No options were granted to directors in the year (2009 – nil) and therefore, of the share based payment charge for the year (see note 23), £nil relates to share based payments to directors (2009 – £nil).

8. Finance income and expense

	2010 £'000	2009 £'000
Finance expense:		
Bank loans and overdrafts repayable within five years	**(10)**	(52)
Finance income:		
Bank and other interest receivable	**11**	45
	1	(7)

9. Taxation on continuing operations

(a) Analysis of charge for the year

	2010 £'000	2009 £'000
UK corporation tax		
UK corporation tax on profits of the year	**1,153**	566
Adjustments in respect of previous years	**(8)**	(68)
	1,145	498
Overseas tax		
Overseas tax on profits of the year	**192**	455
Adjustments in respect of previous years	**(153)**	47
	39	502
Total current tax	**1,184**	1,000
Deferred tax		
Origination and reversal of timing differences	**71**	(92)
Total income tax expense	**1,255**	908

(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.

	2010 £'000	2009 £'000
Profit before taxation	**4,388**	2,911
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	**1,229**	815
Effect of:		
Disallowed expenses and non-taxable income	**212**	79
Adjustments in respect of prior period (current tax)	**(161)**	(21)
Adjustments in respect of prior period (deferred tax)	**(15)**	15
Rate differences	**168**	100
French tax credit received	**(196)**	(94)
French minimum tax	**18**	14
Total tax expense	**1,255**	908

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 2010

10. Discontinued operations

On 22nd April 2010 the Board of Colefax Group plc initiated a consultation procedure in France with a view to disposing of its Manuel Canovas beachwear business. Despite a major reorganisation in 2008, this non-core activity had continued to generate losses and had been particularly badly affected by the recession in its largest market, the US. On 13th July 2010 contracts were exchanged to sell the beachwear business to the existing management team by way of a licence agreement which will generate future royalties for the Group.

The trading result of the discontinued operation, as well as the associated provision on disposal, is as follows:

	2010 £'000	2009 £'000
Revenue	**2,001**	2,511
Costs of sales	**776**	868
Gross profit	**1,225**	1,643
Operating expenses	**1,766**	1,905
Loss before taxation	**(541)**	(262)
Taxation	**184**	89
Loss on discontinued operations	**(357)**	(173)
Provision on disposal, net of tax	**(400)**	–
Loss on discontinued operations, net of tax	**(757)**	(173)
Basic loss per share (note 12)	**(5.2p)**	(1.2p)
Diluted loss per share (note 12)	**(5.1p)**	(1.2p)

The provision on disposal comprises the following:	**2010 £'000**	2009 £'000
Loss on sale of business	**485**	–
Onerous lease costs	**121**	–
Tax on disposal provision	**(206)**	–
	400	–

£158,000 of stock is being sold as part of the disposal. This has been included within Inventories and work in progress in the Group Statement of Financial Position at 30th April 2010.

Included in the Group statement of cash flows are cash outflows of £431,000 (2009 – £202,000) in operating activities, £nil (2009 – £30,000) in investing activities and £nil (2009 – £nil) in financing activities which relate to discontinued operations.

11. Dividends

	2010 £'000	2009 £'000
Final (paid) of 1.33p (2008 – 2.65p) on 9th October 2009	**188**	373
Interim (paid) of 1.55p (2009 – 1.55p) on 1st April 2010	**224**	219
	412	592
Final dividend proposed for the year of 1.55p (2009 – 1.33p)	**223**	188

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

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

12. Earnings per share

Basic earnings/(loss) per share has been calculated using the following data:

	2010 **£'000**	2009 £'000
Profit after tax from continuing operations	**3,133**	2,003
Loss after tax on discontinued operations	**(757)**	(173)
Total	**2,376**	1,830
	No.	No.
Weighted average number of ordinary shares in issue	**14,520,877**	14,215,866

Shares owned by the Colefax Group plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings/(loss) per share has been calculated using the following data:

	2010 **£'000**	2009 £'000
Profit after tax from continuing operations	**3,133**	2,003
Loss after tax on discontinued operations	**(757)**	(173)
Total	**2,376**	1,830
	No.	No.
Weighted average number of ordinary shares in issue	**14,520,877**	14,215,866
Dilutive effect of shares under option	**235,000**	595,000
	14,755,877	14,810,866

NOTES TO THE ACCOUNTS
For the year ended 30th April 2010

13. Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Furniture, fixtures and equipment £'000	Motor vehicles £'000	Screens and originations £'000	Total £'000
Group						
Cost:						
At 1st May 2009	231	7,981	5,880	463	8,416	22,971
Exchange adjustment	–	(186)	(146)	(1)	(367)	(700)
Additions	–	18	867	78	753	1,716
Disposals	–	(294)	(736)	(23)	(3,135)	(4,188)
At 30th April 2010	**231**	**7,519**	**5,865**	**517**	**5,667**	**19,799**
Depreciation:						
At 1st May 2009	48	5,825	4,599	255	6,526	17,253
Exchange adjustment	–	(137)	(116)	(1)	(304)	(558)
Charge for the year	3	483	408	97	892	1,883
Disposals	–	(294)	(637)	(22)	(3,135)	(4,088)
At 30th April 2010	**51**	**5,877**	**4,254**	**329**	**3,979**	**14,490**
Net Book Value:						
At 30th April 2010	**180**	**1,642**	**1,611**	**188**	**1,688**	**5,309**
At 1st May 2009	183	2,156	1,281	208	1,890	5,718
At 1st May 2008	231	6,487	4,645	469	5,964	17,796
Exchange adjustment	–	1,412	960	6	1,862	4,240
Additions	–	437	380	118	794	1,729
Disposals	–	(355)	(105)	(130)	(204)	(794)
At 30th April 2009	231	7,981	5,880	463	8,416	22,971
Depreciation:						
At 1st May 2008	45	4,681	3,467	274	4,369	12,836
Exchange adjustment	–	1,134	850	3	1,427	3,414
Charge for the year	3	365	387	106	934	1,795
Disposals	–	(355)	(105)	(128)	(204)	(792)
At 30th April 2009	48	5,825	4,599	255	6,526	17,253
Net Book Value:						
At 30th April 2009	183	2,156	1,281	208	1,890	5,718
At 1st May 2008	186	1,806	1,178	195	1,595	4,960

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

14. Investments

	Shares £'000	Loans £'000	Total £'000
Company:			
At 1st May 2009	19,912	7,650	27,562
Share options granted to subsidiary employees	31	–	31
At 30th April 2010	**19,943**	**7,650**	**27,593**

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*	France	100%	Fabrics, Wallpapers and Accessories
Colefax and Fowler GmbH	Germany	100%	Fabrics and Wallpapers
Colefax and Fowler Srl	Italy	100%	Fabrics and Wallpapers

*Owned directly by parent company

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

At 30th April 2010, the ESOP Trust owned 262,422 (2009 – 647,422) ordinary shares of 10p in the Company at cost, with a market value of £384,448 (2009 – £647,422). Dividends on these shares have been waived.

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

235,000 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	29.03.04	29.03.05	28.03.14
25,000	1	£1 total	28.04.06	28.04.06	27.04.16
60,000	2	£1 total	27.04.07	27.04.07	26.04.17
100,000	1	£1 total	30.04.08	30.04.08	29.04.18
25,000	1	£1 total	30.04.10	30.04.10	29.04.20

15. Inventories and work in progress

	Group **2010 £'000**	Group 2009 £'000
Finished goods for resale	**11,724**	13,121
Work in progress	**1,126**	992
Less: progress payments received and receivable	**(964)**	(858)
	11,886	13,255

The cost of inventories recognised as an expense and included in cost of sales amounted to £19,490,000 (2009: £22,024,000).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

16. Trade and other receivables

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Amounts owed by subsidiary undertakings	**–**	–	**270**	3,236
Trade receivables	**9,673**	8,811	**–**	–
Other receivables	**1,499**	1,543	**156**	80
Forward contracts	**11**	–	**–**	–
Prepayments and accrued income	**1,197**	1,307	**355**	213
	12,380	11,661	**781**	3,529

Other receivables includes £637,000 (2009: £947,000) which were included within Trade receivables in the previously published accounts. The total amount of Trade and Other receivables, and the Statement of Financial Position, are not affected by this change.

As at 30th April 2010 the Group had trade receivables of £4,490,000 (2009 – £3,621,000) which were past due but not impaired. The ageing of these receivables is as follows:

	2010 £'000	2009 £'000
Up to 3 months past due	**3,971**	3,134
3 to 6 months past due	**500**	486
6 to 12 months past due	**19**	1
	4,490	3,621

As at 30th April 2010 the Group had trade receivables of £539,000 (2009 – £448,000) which were past due and impaired. The ageing of these receivables is as follows:

	2010 £'000	2009 £'000
Up to 3 months past due	**129**	61
3 to 6 months past due	**111**	137
6 to 12 months past due	**48**	64
Over 12 months past due	**251**	186
	539	448

Movements in the Group provision for impairment of trade receivables is as follows:

	2010 £'000	2009 £'000
At beginning of year	**448**	436
Provided during the year	**219**	80
Receivables written off as uncollectable	**(65)**	(32)
Unused amounts reversed	**(54)**	(77)
Exchange differences	**(9)**	41
At end of year	**539**	448

The Group's trade receivables are denominated in the following currencies:

	2010 £'000	2009 £'000
Sterling	**4,422**	3,420
Euro	**3,445**	3,561
US Dollar	**1,524**	1,606
Other	**282**	224
	9,673	8,811

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

17. Cash and cash equivalents

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

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**5,897**	3,079	**1,155**	–
Bank overdrafts	**(425)**	(1)	**–**	(998)
	5,472	3,078	**1,155**	(998)

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.

18. Current liabilities

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Bank overdraft	**425**	1	**–**	998
Trade payables	**4,616**	4,394	**–**	–
Accruals	**3,352**	2,900	**3**	4
Provisions	**606**	–	**–**	–
Forward contracts	**–**	514	**–**	–
Payments received on account	**1,184**	1,447	**–**	–
Corporation tax	**532**	387	**–**	–
Other taxes and social security costs	**723**	1,626	**–**	–
Other payables	**2,298**	2,416	**–**	–
	13,736	13,685	**3**	1,002

A provision of £606,000 (2009 – £nil) in relation to the disposal of the Manuel Canovas beachwear division has been recognised at the date of the statement of financial position.

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	
	2010	2009
	£'000	£'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on property, plant and equipment	**46**	81
Excess of depreciation over capital allowances on property, plant and equipment	**(396)**	(393)
Short-term timing differences	**(1,289)**	(1,278)
	(1,639)	(1,590)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the directors believe it is probable that the assets are recoverable.

This is made up as follows:		
Deferred taxation included in non-current assets	**(1,639)**	(1,590)
Deferred taxation included in non-current liabilities	**–**	–
	(1,639)	(1,590)

	Deferred taxation	
	£'000	£'000
Movements in provisions:		
At 1st May	**(1,590)**	(1,868)
Charged/(credited) to the income statement – continuing operations	**71**	(92)
Credited to the income statement – discontinued operations	**(206)**	–
Charged directly to equity	**49**	886
Translation adjustment	**37**	(516)
At 30th April	**(1,639)**	(1,590)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

19. Deferred taxation *continued*

The deferred income tax charged/(credited) to equity during the year is as follows:

	2010 £'000	2009 £'000
Fair value reserves in shareholders' equity:		
Cash flow hedge reserve	**147**	(144)
Deferred tax on long-term loan foreign currency movements	**(98)**	1,030
	49	886

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 date of the statement of financial position. 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 off 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 £72,000 (2009 – £37,000), primarily for losses in Manuel Canovas SAS, 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.

20. Financial instruments

The financial instruments of the Group as classified in the financial statements as at 30th April 2010 can be analysed under the following IAS 39 categories:

Group	Assets at fair value through profit or loss **2010 £'000**	2009 £'000	Loans and receivables **2010 £'000**	2009 £'000	Total **2010 £'000**	2009 £'000
Financial assets						
Trade and other receivables	**–**	–	**11,172**	10,354	**11,172**	10,354
Cash and cash equivalents	**–**	–	**5,879**	3,079	**5,879**	3,079
Forward contracts	**11**	–	**–**	–	**11**	–
Total	**11**	–	**17,051**	13,433	**17,062**	13,433

	Liabilities at fair value through profit or loss **2010 £'000**	2009 £'000	Other financial liabilities **2010 £'000**	2009 £'000	Total **2010 £'000**	2009 £'000
Financial liabilities						
Forward contracts	**–**	514	**–**	–	**–**	514
Trade and short term creditors	**–**	–	**8,574**	7,294	**8,574**	7,294
Bank overdraft	**–**	–	**425**	1	**425**	1
Total	**–**	514	**8,999**	7,295	**8,999**	7,809

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.

Forward contracts are carried at fair value, measured using level 2 of the fair value hierarchy. The fair value hierarchy has the following levels: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All other financial assets and liabilities are carried at book value.

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.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2010

20. **Financial instruments** *continued*

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 £4.5 million (2009 – £7.5 million). The undrawn committed facilities available at 30th April 2010 in respect of which all conditions had been met at that date total £4.5 million (2009 – £7.5 million). Group borrowing facilities are reviewed annually with HSBC.

The Group's trade and short term creditors all fall due within 60 days. At 30th April 2010 the Group's trade payables were £4.6 million (2009 – £4.4 million) and trade receivables were £9.7 million (2009 – £8.8 million) giving a ratio of 2.1 (2009 – 2.0). This, together with the Group's unused borrowing facility constitutes a very low liquidity risk.

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.

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.

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.

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 where revenue in US dollars represents 38% of Group revenue from continuing operations.

The majority of the US subsidiary's revenue is sourced by imports from the UK and Europe. This revenue is 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 2010 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 revenue at current levels.

About 29% of Group revenue from continuing operations is to customers in countries other than the UK and US. Most of this revenue is invoiced in the currencies of the countries involved. The Group does not hedge currency exposures on this revenue 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 statement of financial position 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 statements of financial position 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 and sell 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 revenue in the US.

At 30th April 2010 the Group had 9 outstanding forward contracts to sell US$500,000 each with a maturity date ranging from 20th May 2010 to 20th January 2011.

The Group is also in a forward contract arrangement to sell US$250,000 a month, for twelve months, commencing on 20th May 2010, at rates between 1.585 and 1.515. The contract is geared such that, if the exchange rate on the date of each monthly contract is below 1.515, then the amount to be sold is doubled to US$500,000 at 1.515.

In addition the Group is in a forward contract arrangement to sell a further US$250,000 a month, for nine months, commencing on 18th February 2011, at rates between 1.56 and 1.512. The contract is geared such that, if the exchange rate on the date of each monthly contract is below 1.512, then the amount to be sold is doubled to US$500,000 at 1.512.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2010

20. Financial instruments *continued*

The fair values of the Group's forward foreign contracts based on marked to market values at the date of the statement of financial position are as follows:

	2010 **£'000**	2009 £'000
Fair value of forward foreign currency contracts – asset/(liability)	**11**	(514)

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 considers 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.

Company	Loans and receivables **2010** **£'000**	Loans and receivables 2009 £'000	Total **2010** **£'000**	Total 2009 £'000
Financial assets				
Trade and other receivables	**426**	3,316	**426**	3,316
Cash and cash equivalents	**1,155**	–	**1,155**	–
Total	**1,581**	3,316	**1,581**	3,316

	Other financial liabilities **2010** **£'000**	Other financial liabilities 2009 £'000	Total **2010** **£'000**	Total 2009 £'000
Financial liabilities				
Bank overdrafts	**–**	998	**–**	998
Total	**–**	998	**–**	998

The Company acts as a holding company for the Group's subsidiaries and does not trade. Its financial instruments comprise cash, bank overdraft, amounts receivable and payable from subsidiary undertakings and other receivables and payables.

The Company faces interest rate risk on its bank overdraft and liquidity risk on managing cash flows from its subsidiary undertakings. The Company participates in a Group wide multi-currency overdraft facility of £4.5 million (2009 – £6.5 million) which is available to the UK companies in the Group.

21. Share capital

	Authorised **2010**	Authorised 2009	Allotted, called up and fully paid **2010**	Allotted, called up and fully paid 2009
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,470,500**	£1,481,000
Number of shares	**33,000,000**	33,000,000	**14,705,000**	14,810,000

	Allotted, called up and fully paid **2010** **Number**	**2010** **£**	2009 Number	2009 £
Ordinary shares of 10p each				
At beginning of year	**14,810,000**	**1,481,000**	15,360,000	1,536,000
Purchase of own shares for cancellation	**(105,000)**	**(10,500)**	(550,000)	(55,000)
At end of year	**14,705,000**	**1,470,500**	14,810,000	1,481,000

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

21. **Share capital** *continued*

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 page 31.

During the year the Company purchased 105,000 ordinary shares in the market for cancellation, for a consideration of £137,008, representing approximately 0.7% of the issued share capital.

22. **Reserves**

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 share	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 was used for write-off of goodwill on consolidation.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement less distributions made.
Foreign exchange	Unrealised cumulative net gains and losses arising on the retranslation of the opening net assets and loans of overseas subsidiary undertakings.
Cash flow hedge	Unrealised gains and losses, net of deferred tax, arising on the revaluation of forward exchange contracts and options at the date of the statement of financial position.

23. **Share based payment**

The Group operates an equity-settled share based remuneration scheme for directors and employees. Share options vest immediately but the shares cannot be sold for a minimum of three years. The shares in this scheme are disclosed in the table below.

	2010 Weighted average exercise price	**2010 Number**	2009 Weighted average exercise price	2009 Number
Outstanding at 1st May	**£1 total**	**595,000**	£1 total	760,000
Granted during the year	**£1 total**	**25,000**	£1 total	–
Exercised during the year	**£1 total**	**(385,000)**	£1 total	(150,000)
Lapsed during the year	**£1 total**	**–**	£1 total	(15,000)
Outstanding at 30th April	**£1 total**	**235,000**	£1 total	595,000

All of the options outstanding at the beginning and end of the year had vested and were exercisable. Each tranche of options is exercisable for a total consideration of £1.

The weighted average share price (at date of exercise) of options exercised during the year was 113.4p (2009 – 92.5p).

The weighted average fair value of each option granted during the year was 146.5p (2009 – no options granted). No options lapsed during the year. The weighted average share price of each option which lapsed during 2009 was 94.5p.

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 the fact that the shares under option cannot be sold within three years of the date of grant.

	2010 £'000	2009 £'000
The share-based remuneration expense (note 6) comprises:		
Employee share option scheme	**31**	–

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

NOTES TO THE ACCOUNTS
For the year ended 30th April 2010

24. **Commitments under operating leases**

At 30th April 2010 the Group had total commitments under non-cancellable operating leases as follows:

	2010		2009	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**3,773**	**54**	4,038	43
Between two and five years	**11,243**	**50**	14,024	55
Over five years	**2,669**	**–**	4,651	–
	17,685	**104**	22,713	98

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

25. **Pension commitments**

Group companies 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 £290,699 (2009 – £212,769).

The Group's US subsidiary Cowtan & Tout operates a funded defined benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen on 1st 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 2010 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% (2009, 2008 – 5%). The market value of investments at 30th April 2010 was £741,626 (2009 – £609,924, 2008 – £634,874), all of which have an expected long term rate of return of 5% (2009, 2008 – 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 2010 was £1,061,393 (2009 – £1,094,806, 2008 – £867,341), resulting in an unfunded actuarial accrued liability of £319,767 (2009 – £484,882, 2008 – £232,467). An accrual of £320,000 (2009 – £485,000, 2008 – £232,000) covering the unfunded actuarial accrued liability is included in the Group statement of financial position together with a related deferred tax asset of £128,000 (2009 – £194,000, 2008 – £93,000).

A total of £41,908 in actuarial gains (2009 – £145,950 losses) and a total of £21,444 (2009 – £13,753) in finance charges were recognised in Group operating expenses in the year.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

25. **Pension commitments** *continued*

The fair value of the assets in the scheme and the expected rate of return at 30th April 2010 were:

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Cash and cash equivalents	**116**	25	14	21	25
Fixed income	**350**	311	335	334	395
Equities	**275**	274	286	319	349
Total market value of assets	**741**	610	635	674	769
Present value of scheme liabilities	**(1,061)**	(1,095)	(867)	(877)	(996)
Deficit in scheme	**(320)**	(485)	(232)	(203)	(227)
Related deferred tax asset	**128**	194	93	83	93
Net pension liability	**(192)**	(291)	(139)	(120)	(134)

Reconciliation of plan assets:

	2010 £'000	2009 £'000
At beginning of year	**610**	635
Exchange (loss)/gain	**(13)**	188
Expected return	**27**	36
Contributions by Group	**122**	4
Benefits paid	**(86)**	(80)
Actuarial gain/(loss)	**81**	(173)
At end of year	**741**	610

Reconciliation of plan liabilities:

	2010 £'000	2009 £'000
At beginning of year	**1,095**	867
Exchange (gain)/loss	**(35)**	285
Interest cost	**48**	50
Benefits paid	**(86)**	(80)
Actuarial loss/(gain)	**39**	(27)
At end of year	**1,061**	1,095

History of experience gains and losses:

	2010	2009	2008	2007	2006
Actual return less expected return on scheme assets (£'000)	**81**	(173)	(6)	19	3
As a % of plan assets	**10.9%**	(28.4%)	(1.0%)	2.5%	0.5%
Experience (losses)/gains on scheme liabilities (£'000)	**(39)**	27	(11)	(7)	(20)
As a % of plan liabilities	**3.7%**	(2.5%)	1.3%	0.7%	2.0%

26. **Guarantees**

The Company has given an unlimited guarantee to HSBC Bank plc 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 2010, the value of subsidiary overdrafts covered by the guarantee amounted to £1,415,125 (2009 – £2,269).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2010

27. **Related party transactions**

The Company undertook the following transactions with its subsidiary undertakings in the year:

	2010 £'000	2009 £'000
Interest charged on long term loans to Colefax and Fowler Holdings Limited	**190**	544

At the year end the following amounts were owed to the Company by its subsidiaries:

	2010 £'000	2009 £'000
Colefax and Fowler Holdings Limited	**7,650**	7,650
Colefax and Fowler Limited	**97**	2,614
Sibyl Colefax and John Fowler Limited	**166**	527
Kingcome Sofas Limited	**7**	95
	7,920	10,886

FIVE YEAR REVIEW

	2010 IFRS £'000	2009 IFRS £'000	2008 IFRS £'000	2007 IFRS £'000	2006 UK GAAP £'000
Revenue from continuing operations	**67,380**	73,051	75,711	68,195	65,561
Profit from continuing operations	**4,387**	2,918	6,859	5,719	4,296
Profit before taxation from continuing operations	**4,388**	2,911	6,720	5,683	3,971
Profit attributable to shareholders	**2,376**	1,830	4,065	3,899	2,824
Basic earnings per share from continuing operations	**21.6p**	14.1p	31.0p	24.3p	16.9p
Diluted earnings per share from continuing operations	**21.2p**	13.5p	29.4p	23.4p	16.4p
Dividends per share	**3.10p**	2.88p	4.20p	4.00p	3.75p
Equity	**23,055**	21,133	19,229	15,269	15,506
Operating cash flow	**5,429**	5,176	6,956	8,034	7,556
Cash and cash equivalents	**5,472**	3,078	2,419	363	(300)

NOTICE OF MEETING

Notice is hereby given that the 2010 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 14th September 2010 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 2010, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 1.55p per ordinary share.
3. To re-appoint BDO 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 D. B. Green, 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, 8 and 9 will be proposed as special resolutions.

6. THAT in place of all existing authorities (save to the extent relied upon prior to the passing of this resolution), the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act"):

   (a) to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum nominal amount of £489,333 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the date falling 15 months following the date of the Annual General Meeting and the end of the next annual general meeting of the Company, save that the Company may before expiry of this authority make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after expiry of this authority and the Directors may allot shares, or grant rights to subscribe for or convert any security into shares, in pursuance of that offer or agreement as if this authority had not expired; and

   (b) in addition, to allot equity securities (within the meaning of section 560 of the Act) in connection with a rights issue in favour of holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares (but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in connection with treasury shares, fractional entitlements or any legal or practical problems arising under the laws or regulations of, or the requirements of any regulatory body or stock exchange in, any territory) up to a maximum nominal amount of £489,333 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the date falling 15 months following the date of the Annual General Meeting and the end of the next annual general meeting of the Company, save that the Company may before expiry of this authority make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement as if this authority had not expired.

7. THAT, subject to the passing of resolution 6 above and in place of all existing powers, the Directors be generally and unconditionally authorised pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 6 above as if section 561 of the Act did not apply to any such allotment. This power shall be limited to:

   (a) the allotment of equity securities in connection with an offer of such securities or an invitation to apply to subscribe for such securities (whether by way of rights issue, open offer or otherwise) in favour of holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in connection with treasury shares, fractional entitlements or legal or practical issues under the laws of any jurisdiction or territory or the regulations or requirements of any regulatory or stock exchange authority in any jurisdiction or territory; and

NOTICE OF MEETING

(b) the allotment (other than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £73,400.

This power shall expire on the earlier of the date falling 15 months following the date of the Annual General Meeting and the conclusion of the next annual general meeting of the Company, but the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired.

This power also applies in relation to a sale of treasury shares, which is an allotment of equity securities by virtue of section 560(3) of the Act as if in the first paragraph of this resolution the words "subject to the passing of resolution 6 above" and "pursuant to the authority granted by resolution 6 above" were omitted.

8. THAT the Company be generally and unconditionally authorised in accordance with Section 701 of the Companies Act (the "Act") to make one or more market purchases (within the meaning of Section 693(4) 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 2,202,000 (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.

9. THAT

   (a) the articles of association of the Company be amended by deleting all the provisions contained in the company's memorandum of association (including those relating to the objects of the company and the share capital of the company) which by virtue of Section 28 of the Companies Act 2006 are treated as provisions of the company's articles of association; and

   (b) the articles of association, in the form produced to the meeting and signed by the chairman of the meeting for the purposes of identification, be adopted as the articles of association of the company in substitution for and to the exclusion of the existing articles of association.

By order of the Board
R. M. Barker BSc ACA
Secretary
22nd July 2010

Registered Office
39 Brook Street
London W1K 4JE

NOTICE OF MEETING

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend, to speak and, both on a show of hands and on a poll, to vote in his or her stead at the meeting. A proxy need not be a member of the company. The appointment of a proxy does not preclude a member from attending and voting in person at the meeting should he or she subsequently decide to do so. A form of proxy which may be used is attached.

2. 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 or her.

3. To be valid, a form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received by Computershare Investor Services plc at The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 11.00am on 12th September 2010.

4. The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6.00pm on 12th September 2010 shall be entitled to attend or vote (whether on a show of hands or on a poll) at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register after 6.00pm on 12th September 2010 (or after 6.00pm on the day which is two days before any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. As at 21st July 2010 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 14,680,000 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the company as at 21st July 2010 were 14,680,000.

6. CREST members who wish to appoint a proxy or proxies for the meeting or any adjournment thereof by utilising the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. Any member attending the meeting has the right to ask questions.

8. If a shareholder has a general query about the Annual General Meeting or wishes to give the Company prior notification of any question he wishes to ask at the Annual General Meeting, he should call our shareholder helpline on 0870 889 3295 if calling within the United Kingdom or +44 870 889 3295 if calling from outside the United Kingdom. The Shareholder Helpline is available from 8.30 a.m. and 5.30 p.m. Monday to Friday (except public holidays). The cost of calls to the helpline vary depending on the service provider. Calls to the helpline from outside the United Kingdom will be charged at applicable international rates. Calls may be recorded and monitored for security and training purposes.

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