FINANCIAL HIGHLIGHTS

	2002 £'000	2001 £'000	(Decrease)
Turnover	**67,307**	70,412	(4)%
Operating profit	**4,225**	6,461	(35)%
Profit before taxation	**3,859**	5,918	(35)%
Profit attributable to shareholders	**2,535**	3,952	(36)%
Basic earnings per share	**11.1p**	16.5p	(33)%
Diluted earnings per share	**10.9p**	16.4p	(32)%
Dividends per share	**3.40p**	3.30p	3%
Shareholders' funds (as restated)	**14,640**	13,970	5%
Operating cash flow	**6,909**	8,058	(15)%
Net debt	**4,761**	6,029	(21)%

CHAIRMAN'S STATEMENT

Financial Results
The Group generated a pre-tax profit for the year to 30th April 2002 of £3.9 million (2001 – £5.9 million) on reduced sales of £67.3 million (2001 – £70.4 million). Earnings per share for the year were 11.1p (2001 – 16.5p). Group net borrowings at the year-end were £4.8 million (2001 – £6.0 million), which represents gearing of 33% to net assets.

The Board has decided to recommend a final dividend of 2.06p (2001 – 2.00p) making a total for the year of 3.40p (2001 – 3.30p), a rise of 3%. The final dividend will be paid on 10th October 2002 to shareholders on the register at the close of business on 13th September 2002.

This year's results reflect the tough conditions we have experienced in our two principal markets, the US and the UK. These markets accounted for 78% of group sales. Conditions in the US, our major market, softened in March of last year and this trend continued throughout the financial year.

Fabric Division-Portfolio of Brands: "Colefax and Fowler", "Cowtan & Tout", "Jane Churchill", "Manuel Canovas", and "Larsen".
Sales in the US, which represent 58% of the Fabric Division's sales, decreased by 8% on a constant currency basis. This market was affected by the general downturn in business confidence and by the events of 11th September 2001 in particular. We have now modified our L.A. showroom so that it only represents the Group's brands and this will help focus on growing our sales in the future. Our Larsen brand is also launching a range of wallcoverings for the first time. After several years of significant capital expenditure on our US showrooms, we have no major capital expenditure plans for the current year.

UK sales, which represent 19% of the Fabric Division's turnover, decreased by 5% during the year, with the contract sector of the market particularly hard hit as major projects were put on hold. However, the introduction of the Larsen brand into the UK, with its launch in September at our Chelsea Harbour showroom, stimulated sales and we are confident of developing the brand farther.

Sales in Continental Europe, which represent 21% of the Fabric Division's turnover, increased by 6% in sterling terms. We are starting to see the benefit from our investment in Continental Europe. The newly introduced Larsen brand has been well received and we will continue to invest in this very important market. Currently, our two principal markets, France and Italy, remain good but trading in Germany is still difficult.

Sales in the Rest of the World, which represent 2% of the Fabric Division's sales, were down 14%. The principal reason for the decline is the strength of sterling in Australia, our most significant market.

Furniture Division—Kingcome Sofas
Sales of furniture increased by 7% during the year, all of which was a direct result of the opening of our new showroom in Chelsea Harbour in September 2001. However, the market for sofas is generally weak and the return on our investment will take longer than anticipated.

Accessories—Manuel Canovas
Sales of Manuel Canovas accessories now represent a meaningful proportion of overall group turnover. Turnover increased by 15% during the year and this comprised principally swimwear, related beach accessories and home fragrances. Our major markets for these accessories are the US, the UK and France. The Group is now expanding the range of products offered and is considering licensing the name in areas that complement the range. This will help establish Manuel Canovas as the lifestyle brand for the Group.

Interior Decorating Division
Interior decorating sales were down 16% in the year. American business fell significantly following 11th September 2001 and the retirement of a senior Decorating Director has naturally had an impact on sales. However, we have recently seen a small increase in activity in our Antiques Department with an upturn in interest among some of our American clients.

CHAIRMAN'S STATEMENT

Prospects
Currently, trading in our two principal markets of the US and the UK shows no clear signs of improvement and we believe it is prudent to expect continuing adverse conditions. In addition, the recent weakness of the US dollar will make it difficult to move forward in the current financial year.

This year's results have been achieved in challenging market conditions, particularly in the US. They reflect the hard work and dedication of all our staff and I would like to thank them for their continued commitment to the growth and success of the Group.

David B. Green
Chairman

OPERATING AND FINANCIAL REVIEW

Financial Review

Group turnover decreased by 4% to £67.3 million (2001 – £70.4 million) and by 5% on a constant currency basis. The decline in sales reflects difficult trading conditions in the US and the UK which together account for 78% of Group sales. Total US sales were down 7% and total UK sales were down 7%. Total sales in Europe increased by 7% reflecting generally positive trading conditions. Europe is an increasingly important market for the Group and we are benefitting from the strong geographical presence established by our acquisition of the French fabric brand Manuel Canovas in April 1998.

Gross profit margins during the year decreased slightly from 56.9% to 56.6% mainly due to the continuing trend towards woven fabric sales from higher margin printed fabric sales.

Group operating profits decreased by 35% to £4.2 million (2001 – £6.5 million) representing a return on sales of 6.3% (2001 – 9.2%). The lower percentage is due to the sales decline rather than cost increases and without future sales growth it will be difficult for the Group to achieve its target operating margin of 10%.

The weak trading conditions in the US and the UK meant that a significant focus in the second half of the year was to reduce inventory levels and cut costs wherever possible. During the year stocks were reduced by £1.3 million or 8.7%. Operating expenses were held to less than 1% above prior year levels.

The year ended 30th April 2002 was notable for the strength of the US dollar. The results of overseas operations are translated at the average rate for the year and assets and liabilities are translated at the closing rate for the year. The average and closing rates were as follows:

	2002	2001	% Change
US Dollar Average	1.43	1.47	(3)%
US Closing	1.46	1.43	2%
Euro Average	1.63	1.62	1%
Euro Closing	1.62	1.61	1%

Since the year end, the US dollar has weakened significantly against both Sterling and the Euro. This affects both the cost of stock purchases by our US subsidiary Cowtan & Tout and the translation of US profits into Sterling.

Share Buyback

During the year the Group purchased and cancelled 1.2 million shares representing 5% of the issued share capital at a cost of £928,000 or 75p per share. Since September 1999 the Group has purchased and cancelled 5.2 million shares at a cost of £4 million. At the Annual General Meeting in September Colefax Group plc will seek shareholder approval to buy back up to 15% of its issued ordinary shares. The Directors will only proceed with buybacks if they believe them to be in the best interests of shareholders. The 15% limit is within the debt capacity of the Group and should have no adverse impact on existing operations or current investment plans.

Basic Earnings Per Share

Earnings per share decreased by 33% to 11.1p (2001 – 16.5p), helped by a 4.8% reduction in the weighted-average number of shares in issue during the year.

Diluted earnings per share which take into account the potential dilutive effect of share options, including ESOP options are 1.8% below basic earnings per share at 10.9p.

Dividends

The Board has proposed a final dividend of 2.06p per share (2001 – 2.00p) making a total for the year of 3.40p (2001 – 3.30p), an increase of 3%. This is consistent with the Group's progressive dividend policy. The total dividend cost is £741,000 and represents dividend cover of 3.4 times. At the year end mid-market closing price of 78.5p, the dividend yield is 4.3%.

OPERATING AND FINANCIAL REVIEW

Taxation
The overall tax rate for the year was 34.3% compared to 33.2% in 2001. Ignoring adjustments in respect of previous periods, the underlying rate of taxation was 34.2% compared to 38.5% in 2001. The difference is mainly due to changes in the mix of profits between the UK and the US. Our corporate tax rate in the US, including state taxes, is 41% compared to a corporate tax rate of 30% in the UK.

During the year, the Group implemented Financial Reporting Standard 19 'Deferred Tax'. As a result, the Group has recognised deferred tax on the full liability method effective 1st May 2001.

Cashflow
Group borrowings decreased by £1.3 million during the period to £4.8 million. This represents gearing of 33% to net tangible assets (2001 – 43%) and is comfortably within the Group's available bank facilities of £9.1 million. Excluding the £928,000 spent on share buybacks, the Group generated £2.2 million of cash during the year (2001 – £1.2 million) and £2.9 million before dividends (2001 – £2.0 million).

Two factors have had an important positive impact on cashflow this year. Firstly lower sales have resulted in lower levels of working capital tied up in the business. In particular stocks have reduced by £1.3 million. Secondly after several years of high capital expenditure, mainly linked to the integration of acquisitions, the Group requires significantly lower levels of capital expenditure. This year capital expenditure was £2.2 million compared to depreciation of £2.7 million. This trend is likely to continue and will have a positive impact on future cashflow.

Net interest paid amounted to £414,000 (2001 – £525,000) reflecting lower average borrowings during the year and also significantly lower interest rates. All of the Group's borrowings are subject to floating rates of interest.

Tax paid during the year amounted to £1.6 million compared to £2.1 million in the previous year and is consistent with the reduction in profits.

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*
A. Grafton, *Design and Marketing Director*
W. Nicholls, *Decorating Managing Director*
K. Hall, U.S. *Chief Executive Officer*
A. K. P. Smith, *Non-Executive*
Sir M. Sorrell, *Non-Executive*

Secretary and Registered Office

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39 Brook Street, London W1Y 2JE

Registered in England No. 1870320

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Becket House
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Solicitors

Clifford Chance
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U.S. Counsel

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U.S.A.

Bankers

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HSBC
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New York
NY 10019
U.S.A.

Registrars and Transfer Office

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Edinburgh EH11 4BR

DIRECTORS' REPORT

The Directors submit their report and Group accounts for the year ended 30th April 2002.

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

Review of the Business and Future Developments
Details of the Group's activities during the year and of future plans are contained in the statement to our shareholders on pages 2 and 3.

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

Resolution Number 7, proposed as an ordinary resolution, would authorise the Directors to allot shares in the Company up to a maximum of the authorised but unissued share capital of the Company (this represents 19% of the issued share capital as at 22nd July 2002) for a period expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever first occurs.

Resolution Number 8, 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 first occurs.

Resolution Number 9, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £3,498,734 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 2002. 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. The number of options for ordinary shares which were outstanding at 22nd July 2002, the latest practical date prior to publication of this report, was 698,533 (3.0% of the current issued ordinary share capital). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 3.5% of the issued ordinary share capital.

During the year to 30th April 2002 the Company purchased 10p shares in the market with an aggregate nominal value of £123,500. This represented 5% of the authorised share capital at the time. The shares were subsequently cancelled.

Results and Dividends
The Group's profit on ordinary activities after taxation was £2,535,000 (2001 – £3,952,000). An interim dividend of 1.34p (2001 – 1.30p) per share was paid to shareholders on 10th April 2002. The Directors recommend the payment of a final dividend of 2.06p (2001 – 2.00p) per share to be paid on 10th October 2002 to shareholders on the register at the close of business on 13th September 2002. The total dividend is 3.40p (2001 – 3.30p) per share and the total dividend cost is £741,000 (2001 – £734,000), leaving a profit of £1,794,000 (2001 – £3,218,000) to be transferred to retained earnings.

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.

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

DIRECTORS' REPORT

Payments to Suppliers
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 30th April 2002, the Company had an average of 42 days purchases outstanding to trade creditors (2001 – 45 days).

Charitable Donations
During the year the Group made various charitable donations totalling £36,701 (2001 – £30,787).

Directors
The Directors listed on page 6 have held office throughout the year to 30th April 2002.

In accordance with the Combined Code for Corporate Governance appended to the Listing Rules of the Financial Services Authority, D. B. Green and A. K. P. Smith will retire by rotation at the Annual General Meeting. Resolutions 5 and 6 propose their re-election as Directors. D. B. Green has a service contract with the Company which is terminable by one year's notice by either the Company or the Director. A. K. P. Smith has a letter of appointment as a non-executive Director which is terminable by either the Company or the Director at any time.

D. B. Green joined the Group in 1986 as Chief Executive and was also appointed as Chairman in April 1996. Previously he was a founder member of Carlton Communications plc where he remains as a non-executive Director.

Non-Executive Directors
Alan Smith was appointed as non-executive Director in February 1994. He is non-executive chairman of Mothercare plc and also non-executive Director of the Big Food Group plc. Alan is also non-executive Chairman of Space NK Ltd, non-executive Chairman of the Health Clinic plc, and non-executive Director of Whitehead Mann plc.

Sir Martin Sorrell was appointed as non-executive Director in September 1997. He is chief executive of WPP Group plc.

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 22nd July 2002:

	Number of shares	%
D. B. Green	4,322,862	18.5
Discretionary Unit Fund Managers Limited	3,000,000	12.9
AMVESCAP PLC	2,587,000	12.9
Schroder Investment Management Limited	2,497,624	10.7
Merrill Lynch Investment Managers Limited	2,411,276	10.3
JP Morgan Fleming Asset Management (UK) Ltd	1,864,796	8.0

Auditors
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

R. M. Barker

By order of the Board

R. M. Barker BSc ACA
Secretary
22nd July 2002

REMUNERATION REPORT

1. Remuneration Committee

The Remuneration Committee comprises Mr. A. K. P. Smith (Chairman) and Mr. D. B. Green. Its main purpose is to set the overall policy on executive Directors' employment conditions and to determine the specific remuneration, benefits and terms of employment for each executive Director.

2. Remuneration Policy

The policy on executive Directors' remuneration is to ensure that individual rewards and incentives are directly aligned with the performance of the Group and the interests of the shareholders. In recommending individual salaries as well as overall remuneration packages, the Committee has regard to levels adopted by comparable companies in terms of size and business sector. In framing the remuneration policy, we have given full consideration to schedule A of the provisions for the design of performance related remuneration annexed to the Combined Code.

Share options are granted from time to time at the discretion of the Board.

3. Pensions

Directors' pensions comprise defined contribution money purchase pension schemes which are managed on the Group's behalf by independent life assurance companies. Contributions are based on a fixed percentage of basic salary determined by the Remuneration Committee and are charged to the profit and loss account as they become payable. In addition, Mr. D. B. Green receives a fixed annual pension contribution of £22,000 in recognition of his services as Chief Executive.

4. Service Contracts

All executive Directors have service contracts with a notice period of one year. Mr. A. K. P. Smith's appointment as a non-executive Director was renewed for three years with effect from 1st February 2000. Sir M. Sorrell's appointment as a non-executive Director was renewed for three years with effect from 22nd September 2000.

5. Directors' Emoluments

	Salary	Fees	Benefits	Pensions	Annual Incentive	**2002 Total (including pensions)**	2001 Total (including pensions)	**2002 Total (excluding pensions)**	2001 Total (excluding pensions)
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Executive Directors									
D. B. Green	260	—	18	43	39	**360**	301	**317**	266
A. Grafton	204	—	12	16	13	**245**	247	**229**	231
R. M. Barker	140	—	12	11	13	**176**	183	**165**	172
W. Nicholls	120	—	12	10	7	**149**	146	**139**	137
K. Hall	160	—	—	14	16	**190**	195	**176**	187
Non-Executive Directors									
A. K. P. Smith	—	30	—	—	—	**30**	30	**30**	30
Sir M. Sorrell	—	30	—	—	—	**30**	30	**30**	30
Totals	884	60	54	94	88	**1,180**	1,132	**1,086**	1,053

REMUNERATION REPORT

6. Directors' Interests

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

	Ordinary shares of 10p each **2002**	2001
D. B. Green	**4,322,862**	4,322,862
A. Grafton	**159,242**	259,242
R. M. Barker	**75,000**	75,000
W. Nicholls	**305,354**	305,354
A. K. P. Smith	**20,000**	20,000
Sir M. Sorrell	**50,000**	50,000
K. Hall	**—**	—

Mr D. B. Green's shareholding included 102,400 (2001 – 102,400) ordinary shares in which his interest was non-beneficial. No Director was interested in the shares of any subsidiary company. There was no change in the interest held by the Directors in office between 30th April 2002 and 22nd June 2002.

7. Executive Share Options

	Exercise Price	At 1st May 2001 No.	Lapsed during the year No.	**At 30th April 2002 No.**	Date of Grant	Exercisable from	Expiry Date
R. M. Barker	35p	30,000†	—	**30,000**	04.03.93	04.03.96	03.03.03
	78p	45,000	—	**45,000**	22.08.94	22.08.97	21.08.04
K. Hall	111p	20,000	—	**20,000**	24.07.97	24.07.00	23.07.07
	83p	100,000	—	**100,000**	06.04.99	06.04.02	05.04.09

†Of the 30,000 35p options, 10,000 are parallel options relating to 58p options granted on 18.2.92. Parallel share options can be exercised instead of existing share options. When parallel share options are exercised the existing options to which they relate lapse.

No Director's executive share options have been granted or exercised during the financial year.

In addition to the above executive share options the following options are outstanding in respect of the Colefax Group Plc Employee Share Ownership Plan Trust. The options have an exercise price of 1p and the full cost of the options has been provided in previous years.

	Shares	Date of Grant	Exercisable from	Expiry Date
David Green	120,000	14.11.01	14.11.02	13.11.11
Key Hall	50,000	14.11.01	14.11.02	13.11.11
Ann Grafton	20,000	14.11.01	14.11.02	13.11.11
Rob Barker	20,000	14.11.01	14.11.02	13.11.11

The market price of the Company's shares at 30th April 2002 was 78.5p. The range of market prices during the financial year was between 66p and 99.5p.

On behalf of the Board

A. K. P. Smith
Chairman of the Remuneration Committee
22nd July 2002

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the provisions set out in the Combined Code for Corporate Governance appended to the Listing Rules of the Financial Services Authority.

Part A—Directors

A1 The Board—The Board comprises five executive and two non-executive Directors. The full Board meets every two months and has a formal schedule of matters specifically reserved to it for decision. There is a written procedure for the Directors to take independent professional advice in furtherance of their duties.

A2 Chairman and Chief Executive Officer—The roles of Chairman and Chief Executive Officer are performed by David Green. The full Board has set out formal terms of reference covering the executive responsibility for running the business. Alan Smith is the senior independent Director.

A3 The Board Balance—The Board has two non-executive Directors both of whom are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

A4 Supply of Information—To enable the Board to discharge its duties all Directors receive appropriate and timely information. Briefing papers are distributed by the Company secretary to all Directors in advance of Board meetings.

A5 Appointments to the Board—Terms of reference are prepared by the Board on appointment of all new Directors.

A6 Re-election—The Company's Articles of Association require that all Directors are subject to re-election at least every three years.

Part B—Directors' Remuneration

B1 Levels of remuneration are set to attract and retain the Directors needed to run the Company successfully and are linked to performance criteria. All executive Directors have notice periods of one year.

B2 The Remuneration Committee comprises Alan Smith and David Green. Alan Smith, a non-executive Director, is Chairman of the Committee.

B3 The Remuneration Report is set out on page 9 and 10. The Board complies with the disclosure requirements laid down by the Financial Services Authority Listing Rules.

Part C—Relations with Shareholders

C1 Dialogue with Institutional Shareholders—Communications with shareholders are given a high priority. There is regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of full year and interim results.

C2 Use of the AGM—The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. All Directors are expected to be present at the AGM.

Part D—Accountability and Audit

D1 Financial Reporting—The Directors are responsible for ensuring that the Preliminary Statement, Annual Report and Group Accounts and Interim Statement present a balanced and understandable assessment of the Company's position and prospects.

D2 Internal Control—The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. All key business risks are identified and closely monitored. The effectiveness of the Group's system of internal controls is reviewed twice per year. The review covers all controls including financial, operational and compliance controls and risk management.

D3 Audit Committee—The Board has established an Audit Committee with written terms of reference. These include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditors.

CORPORATE GOVERNANCE

Combined Code Compliance
The Directors consider that throughout the accounting period the Company complied with all the provisions of Section 1 of the Combined Code annexed to the Financial Services Authority Listing Rules with the exceptions listed below:

A2.1 The Board does not have a separate Chairman and Chief Executive officer as it considers that, in view of the size and composition of the Board the separate roles are unnecessary.

A3.1 The Board has five executive and two non-executive Directors. Although the Board does not have three non-executive directors, the balance is considered to be appropriate for the size of the Company.

A5.1 The Company does not have a separate Nomination Committee and in view of the size of the Company nomination issues are dealt with by the Board as a whole.

B2.1/B2.2 The remuneration committee comprises, Alan Smith a non-executive Director and David Green and hence does not consist exclusively of non-executive Directors. Alan Smith is Chairman of the Remuneration Committee and the balance is considered to be appropriate for the size of the Company.

D2.2 There is no formal internal audit function and in view of the size and complexity of the Company a separate internal audit department is not considered necessary at the present time. In addition to the procedures performed by the external auditors periodical internal audits are conducted by the Group Accounts department.

D3.1 The Audit Committee comprises Alan Smith, a non-executive Director and Rob Barker, the Financial Director, and hence does not have three members or comprise a majority of non-executive Directors. Alan Smith is Chairman of the Audit Committee and the balance is considered to be appropriate for the size of the Company.

Going Concern
After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group’s financial statements.

Internal Control and Risk Management
The Combined Code has extended the requirement that the Board review the effectiveness of the Group’s system of internal control to cover all controls including financial, operational, compliance and risk management. The Company has established procedures to ensure full compliance with this requirement.

The Board is responsible for establishing and maintaining the Group’s system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year ended 30th April 2002 up until the date of approval of the annual report, is regularly reviewed by the Board and accords with the Turnbull Report. The board confirms it has carried out a review of the effectiveness of the Groups system of internal controls. The review encompassed operational financial and compliance controls as well as risk management. The review process has been driven “bottom up” throughout the Group and included the following elements:

- Individual business units have each prepared risk assessments and action plans.
- Risks have been assessed in terms of potential financial impact and probability.
- Group executive directors have provided input into the risk assessment process where relevant.
- Individual risk assessments have been consolidated at Group level into a formal Group Risk Assessment Report.
- The Group Risk Assessment Report has been reviewed by the Audit Committee and the Group Board.

CORPORATE GOVERNANCE

The key procedures which the Directors use to provide effective internal control are as follows:

(i) *Control Environment*
The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Group Board has formally adopted a schedule of matters which are required to be brought to it for decision.

(ii) *Identification of Major Business Risks*
The Group Board has a responsibility for identifying major business risks and establishing appropriate internal controls to monitor and mitigate these risks. The identification and monitoring of risks is a continuous process carried out by the Group Board, the Audit Committee and senior management.

(iii) *Information Systems*
The Group has a comprehensive financial reporting system including annual budgets, cash flow forecasts, profit forecasts and monthly management accounts which include key performance indicators and variance analysis.

(iv) *Main Control Procedures*
The Group has established control procedures for each of the major business risks identified. These included authorisation controls over capital and new product expenditure, standard financial controls throughout the Group and physical controls to safeguard the Group's assets.

(v) *Monitoring System used by the Board*
Each year the subsidiary and Group Boards review and approve the annual budget. There are established procedures for budgetary planning, regular forecasts and monthly reporting systems for monitoring the performance of the Group's operations. Explanations are sought for significant budget variances.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC

We have audited the group's accounts for the year ended 30th April 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses and the related notes 1 to 24. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirement, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's Statement, information on Directors, Operating and Financial Review, Corporate Governance Statement, Report on Directors' Remuneration, Directors' Report, Five Year Summary and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatement of material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th April 2002 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP
Registered Auditor
London
22nd July 2002

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 30th April 2002

	Notes	**2002** **£'000**	2001 £'000
Turnover	2	**67,307**	70,412
Cost of sales		**29,235**	30,324
Gross profit		**38,072**	40,088
Operating expenses	3	**33,847**	33,627
Operating profit	4	**4,225**	6,461
Interest	6	**(366)**	(543)
Profit on ordinary activities before taxation		**3,859**	5,918
Tax on profit on ordinary activities			
—UK		**(608)**	(618)
—Overseas		**(716)**	(1,348)
	7	**(1,324)**	(1,966)
Profit on ordinary activities after taxation		**2,535**	3,952
Dividends on equity shares	8	**(741)**	(734)
Retained profit for the year	20	**1,794**	3,218
Basic earnings per share	9	**11.1p**	16.5p
Diluted earnings per share	9	**10.9p**	16.4p

All activity has arisen from continuing operations.

GROUP BALANCE SHEET
At 30th April 2002

	Notes	2002 £'000	As restated 2001 £'000
Fixed assets:			
Tangible assets	10	**7,759**	8,361
Investments	11	**687**	687
		8,446	9,048
Current assets:			
Stocks and contracts in progress	12	**13,489**	14,898
Debtors	13	**8,397**	8,924
Cash at bank and in hand	14	**1,911**	1,792
		23,797	25,614
Creditors: amounts falling due within one year	15	**16,522**	18,086
Net current assets		**7,275**	7,528
Total assets less current liabilities		**15,721**	16,576
Creditors: amounts falling due after more than one year	16	**1,029**	2,097
Provision for liabilities and charges:			
Deferred taxation	17	**52**	509
		14,640	13,970
Capital and reserves:			
Called up share capital	19	**2,332**	2,456
Share premium account	20	**11,055**	11,055
Capital redemption reserve	20	**521**	397
Profit and loss account	20	**732**	62
Equity shareholders' funds	21	**14,640**	13,970

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

22nd July 2002

The notes on pages 20 to 32 form part of these accounts.

COMPANY BALANCE SHEET
At 30th April 2002

	Notes	2002 £'000	2001 £'000
Fixed assets:			
Investments	11	**26,208**	26,608
Current assets:			
Debtors	13	**9,159**	6,119
Creditors: amounts falling due within one year	15	**9,964**	7,359
Net current liabilities		**(805)**	(1,240)
Total assets less current liabilities		**25,403**	25,368
Capital and reserves:			
Called up share capital	19	**2,332**	2,456
Share premium account	20	**11,055**	11,055
Merger reserve	20	**10,762**	10,762
Capital redemption reserve	20	**521**	397
Profit and loss account	20	**733**	698
Equity shareholders' funds		**25,403**	25,368

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

22nd July 2002

The notes on pages 20 to 32 form part of these accounts.

GROUP CASH FLOW STATEMENT
For the year ended 30th April 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities	4(b)	**6,909**	8,058
Returns on investments and servicing of finance:			
Interest received		**54**	65
Interest paid		**(468)**	(590)
		(414)	(525)
Taxation:			
UK Corporation tax paid		**(562)**	(1,422)
Overseas tax paid		**(1,039)**	(679)
		(1,601)	(2,101)
Capital expenditure and financial investment:			
Payments to acquire tangible fixed assets		**(2,194)**	(3,334)
Receipts from sales of tangible fixed assets		**235**	140
Purchase of ESOP Shares		**—**	(268)
		(1,959)	(3,462)
Equity dividends paid		**(756)**	(752)
Cash inflow before financing		**2,179**	1,218
Financing:			
Purchase of own shares		**(928)**	(1,362)
Repayment of long-term loan		**(1,045)**	(1,018)
Net cash outflow from financing		**(1,973)**	(2,380)
Increase/(decrease) in cash in the period	14	**206**	(1,162)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30th April 2002

		2002 £'000	As restated 2001 £'000
Profit for the financial year		**2,535**	3,952
Currency translation differences on foreign currency net investments		**(57)**	149
Currency translation differences on foreign currency loans		**(196)**	716
Deferred tax on long-term loan foreign currency movements		**57**	(76)
Total recognised gains and losses relating to the year		**2,339**	4,741
Prior period adjustment	1	**(345)**	
Total recognised gains and losses since last Annual Report		**1,994**	

NOTES TO THE ACCOUNTS
At 30th April 2002

1. **Accounting Policies**

(a) Accounting Convention
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Basis of Consolidation
The Group accounts consolidate the accounts of Colefax Group PLC and its subsidiaries for the year ended 30th April 2002. No profit and loss account is presented for the Company as provided in S.230 of the Companies Act 1985. The profit dealt with in the accounts of the holding company was £1,704,000 (2001 profit – £1,915,000).

(c) Changes in accounting policy and presentation
During the year the Group implemented the following new Accounting Standards.

FRS 17 'Retirement Benefits' – the Group is following the transitional arrangements under which additional disclosure on retirement benefits has been provided in Note 25 to the accounts for the year ended 30th April 2002. Full implementation of the standard is required by the year ending 30th April 2004.

FRS 18 'Accounting Policies' has been complied with in the preparation of these accounts but has not led to any changes in accounting policy.

FRS 19 'Deferred Tax' has been adopted and has resulted in a change in accounting policy. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below.

This change in accounting policy has resulted in a prior year adjustment for the Group, reducing shareholders' funds at 1st May 2000 by £269,000 and recognized gains and losses (through deferred tax on long-term loan currency movements in the Statement of Total Recognised Gains and Losses) for the year ended 30th April 2001 by £76,000. The provision for deferred tax has been increased by £345,000 at 1st May 2001. Recognized gains and losses increased (through deferred tax on long-term loan currency movements in the Statement of Total Recognised Gains and Losses) for the current year by £57,000 as a result of the change in accounting policy.

(d) Goodwill
Goodwill arising on acquisitions to 30th April 1998 was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

(e) Depreciation
Depreciation and amortisation are provided on all tangible fixed assets other than freehold land at rates calculated to write off the cost less estimated residual value based on prices prevailing at date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings	— 30–50 years
Leasehold land and buildings and leasehold improvements	— 50 years or, if shorter, over the period of the lease
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.

(f) Stocks
Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolescent, slow moving and defective stocks.

(g) Contracts in Progress
Short term contracts in progress are valued at cost less progress payments received and receivable. Cost includes all direct expenditure on material, external services, labour and related overheads that have been incurred in bringing the contracts in progress to their present location and condition. Provision is made for any losses expected to arise on completion of the contracts entered into at the date of the balance sheet, whether or not work on these has commenced.

NOTES TO THE ACCOUNTS
At 30th April 2002

1. **Accounting Policies** continued

(h) Deferred Tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely that not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax assets are recognized where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Leasing Commitments
Rentals in respect of operating leases are charged on a straight line basis over the lease term.

(j) Pension Scheme Arrangements
The Group operates a defined contribution money purchase pension scheme which is externally administered. Payments made to the funds are charged when payable to the profit and loss account as part of employment costs. The funds are valued on a daily basis by the managers of the pension scheme. There are no outstanding or prepaid contributions at the year end.

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 and the expected cost of providing pensions is recognised on a systematic and rational basis over the expected average service lives of members of the scheme.

(k) Foreign Currencies
Group
The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date and the results of overseas subsidiaries are translated at the average rate of exchange for the year. The exchange differences arising on the retranslation of opening net assets and on loans which are as permanent as equity are taken directly to reserves.

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

(l) Financial Instruments
The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates associated with the Group's underlying business activities. It is the Group's policy not to undertake any trading activity in financial instruments. Gains or losses resulting from changes in exchange rates on forward contracts are not recognised until the financial period in which they are realised.

(m) Comparative Amounts
Comparative amounts are restated where necessary to conform to current presentation.

NOTES TO THE ACCOUNTS
At 30th April 2002

2. Turnover and Segmental Analysis

Turnover represents the value of goods sold and services provided during the accounting period which fall within the Group's ordinary activities, stated net of value added tax.

Turnover, net assets and operating profit are:

	Turnover		Net Assets		Operating Profit	
				As restated		
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Business Activity:						
Product division	**59,707**	61,412	**18,300**	19,140	**3,900**	5,656
Decorating division	**7,600**	9,000	**1,910**	1,554	**325**	805
	67,307	70,412	**20,210**	20,694	**4,225**	6,461
Geographical Area:						
Country of Origin:						
United Kingdom	**32,781**	34,269	**11,663**	10,438		
United States of America	**32,341**	34,237	**7,138**	8,889		
Europe	**2,185**	1,906	**1,409**	1,367		
	67,307	70,412	**20,210**	20,694		
Country of Destination:						
United Kingdom	**17,585**	18,913				
United States of America	**34,596**	37,260				
Europe	**12,855**	12,018				
Rest of World	**2,271**	2,221				
	67,307	70,412				

Net assets are stated before cash, bank overdrafts and loans of £4,761,000 (2001 – £6,029,000) and net tax payable of £809,000 (2001 – £695,000).

In the opinion of the Directors, it would be seriously prejudicial to the Group to disclose an analysis of profit by geographical area.

3. Operating Expenses

	2002 £'000	2001 £'000
Distribution and Marketing costs	**23,206**	22,450
Administrative costs	**10,641**	11,177
Total operating expenses	**33,847**	33,627

4. Operating Profit

	2002 £'000	2001 £'000
(a) This is stated after charging or (crediting):		
Auditors' remuneration—audit	**105**	104
—non audit (UK only)	**65**	44
Depreciation of owned fixed assets	**2,646**	2,461
Operating lease rentals—land and buildings	**2,515**	2,141
—other	**76**	67
Royalties received	**(307)**	(232)

(b) Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	**4,225**	6,461
Depreciation charges	**2,646**	2,461
(Profit) on sale of tangible fixed assets	**(144)**	(8)
Decrease/(Increase) in stocks	**1,333**	(2,200)
Decrease/(Increase) in debtors	**282**	(41)
(Decrease)/Increase in creditors	**(1,433)**	1,385
Net cash inflow from operating activities	**6,909**	8,058

NOTES TO THE ACCOUNTS
At 30th April 2002

			2002 £'000	2001 £'000
5.	**Staff Costs**	Staff costs, including Executive Directors, were as follows:		
		Wages and salaries	**13,409**	13,156
		Social security costs	**1,707**	1,535
		Other pension costs	**297**	289
			15,413	14,980

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

	No.	No.
Distribution and marketing	**392**	384
Administration	**91**	102
	483	486

Details of Directors' remuneration for each Director, pension contributions and share options are shown in the Remuneration Report on pages 8 and 9.

			2002 £'000	2001 £'000
6.	**Interest**	Interest payable:		
		Bank loans and overdrafts repayable within five years	**420**	608
		Interest receivable:		
		Bank and other interest receivable	**(54)**	(65)
			366	543

			2002 £'000	As restated 2001 £'000
7.	**Tax on Profit on ordinary activities**	(a) Analysis of credit/charge for the year		
		UK corporation tax		
		UK corporation tax on profits of the period	**602**	827
		Adjustments in respect of previous periods	**3**	(212)
			605	615
		Overseas tax		
		Overseas tax on profits of the period	**1,121**	1,468
		Adjustments in respect of previous periods	**—**	(101)
			1,121	1,367
		Total current tax	**1,726**	1,982
		Deferred tax		
		Originating and reversal of timing differences	**(402)**	(16)
			1,324	1,966

(b) Factors affecting the tax charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK.

The differences are explained below.

NOTES TO THE ACCOUNTS
At 30th April 2002

7. Tax on Profit on ordinary activities *continued*

	2002 £'000	As restated 2001 £'000
Profit on ordinary activities before taxation	**3,859**	5,918
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.00% (2000 – 30.00%)	**1,158**	1,775
Effect of:		
Disallowed expenses and non-taxable income	**127**	139
Depreciation in excess of capital allowances	**178**	80
Short-term timing differences	**(65)**	(18)
Adjustments in respect of previous periods	**3**	(313)
Excess foreign tax on overseas income	**318**	456
Other	**7**	(137)
Current tax charge for the period	**1,726**	1,982

8. Dividends

	2002 £'000	2001 £'000
Interim (paid) of 1.34p (2001 – 1.30p) on 10th April 2002	**282**	264
Final (proposed) of 2.06p (2001 – 2.00p) payable on 10th October 2002	**459**	470
	741	734

9. Earnings per share

Basic earnings per share have been calculated on the basis of earnings of £2,535,000 (2001 – £3,952,000) and on 22,844,735 (2001 – 23,988,364) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of earnings of £2,535,000 (2001 – £3,952,000) and on 23,166,795 (2001 – 24,065,831) being the weighted average number of shares in issue during the year, calculated as follows:

	2002	2001
Basic weighted average number of shares	**22,844,735**	23,988,364
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**322,060**	77,467
	23,166,795	24,065,831

10. Tangible Fixed Assets

Group	Freehold Property £'000	Short Leasehold £'000	Furniture, Fixtures and Equipment £'000	Motor Vehicles £'000	Screens and Originations £'000	Total £'000
Cost:						
At 1st May 2001	231	6,306	5,810	498	5,860	18,705
Exchange adjustment	—	(81)	(42)	—	(87)	(210)
Additions	—	428	602	138	1,026	2,194
Disposals	—	(136)	(362)	(253)	(1,431)	(2,182)
At 30th April 2002	231	6,517	6,008	383	5,368	18,507
Depreciation:						
At 1st May 2001	24	2,873	3,619	348	3,480	10,344
Exchange adjustment	—	(45)	(38)	—	(68)	(151)
Charge for the year	3	661	683	99	1,200	2,646
Disposals	—	(136)	(292)	(231)	(1,432)	(2,091)
At 30th April 2002	27	3,353	3,972	216	3,180	10,748
Net Book Value:						
At 30th April 2002	204	3,164	2,036	167	2,188	7,759
At 1st May 2001	207	3,433	2,191	150	2,380	8,361

NOTES TO THE ACCOUNTS
At 30th April 2002

11. **Investments**

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Investments in subsidiary undertakings				
Shares in Group undertakings	**—**	—	**17,871**	18,271
Loans	**—**	—	**7,650**	7,650
Own Shares at cost	**687**	687	**687**	687
	687	687	**26,208**	26,608

The Group has the following principal subsidiary undertakings:

Name of Company	**Country of Registration or Incorporation and Principal Country of Operation**	**Effective % of Issued Share Capital held by the Group**	**Principal products or activities**
Jane Churchill 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 SA*	France	100%	Fabrics and 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.

The carrying value of the investment in Kingcome Sofas Limited has been reviewed at 30th April 2002 by reference to its value in use to the Group. The value in use was calculated using future expected cash flow projections, discounted at 11% on a pre tax basis, and is not intended to reflect a realisable value on disposal. The review has resulted in an impairment of £400,000 to investments in subsidiary undertakings held by the Group.

	£'000
Cost at 1st May 2001	26,608
Provision for impairment in Kingcome Sofas Limited	(400)
At 30th April 2002	26,208

The Own Shares are 1,057,422 ordinary shares of 10p at cost in the Company held by an Employees' Share Ownership Plan (ESOP) Trust. The Company set up the ESOP on 29th September 1995 with a loan facility of £500,000. At 30th April 2002, the market value of the shares was £830,000 (2001 – £1,063,000). Dividends on these shares have been waived.

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

250,000 shares in the ESOP were under option at the balance sheet date.

NOTES TO THE ACCOUNTS
At 30th April 2002

12. Stocks and Contracts in Progress

	Group 2002 £'000	Group 2001 £'000
Finished goods for resale	**13,296**	14,664
Contracts in progress	**796**	704
Less: progress payments received and receivable	**(603)**	(470)
	13,489	14,898

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

13. Debtors

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts owed by subsidiary undertakings	**—**	—	**9,159**	6,119
Trade debtors	**6,974**	7,025	**—**	—
Other debtors	**320**	396	**—**	—
Prepayments and accrued income	**1,103**	1,293	**—**	—
Corporation tax	**—**	210	**—**	—
	8,397	8,924	**9,159**	6,119

14. Cash and Financing

Reconciliation of Net Cash Flow to Movement in Net Debt	Group 2002 £'000	Group 2001 £'000
Increase/(decrease) in cash	**206**	(1,162)
Repayment of bank loan	**1,045**	1,018
Movement in net debt resulting from cash flows	**1,251**	(144)
Translation differences	**17**	(253)
Movement in net debt in the period	**1,268**	(397)
Net debt at 1st May	**(6,029)**	(5,632)
Net debt at 30th April	**(4,761)**	(6,029)

	At 1st May 2001 £'000	Cash flow £'000	Other £'000	Exchange differences £'000	**At 30th April 2002 £'000**
Analysis of Net Debt					
Cash at bank and in hand	1,792	144	—	(25)	**1,911**
Overdrafts	(4,676)	62	—	—	**(4,614)**
	(2,884)	206	—	(25)	**(2,703)**
Debt due within one year	(1,048)	1,045	(1,045)	19	**(1,029)**
Debt due after one year	(2,097)	—	1,045	23	**(1,029)**
Net debt	(6,029)	1,251	–	17	**(4,761)**

NOTES TO THE ACCOUNTS
At 30th April 2002

		Group 2002 £'000	Group 2001 (As restated) £'000	Company 2002 £'000	Company 2001 £'000
15. **Creditors: amounts falling due within one year**	Current instalments due on loans	**1,029**	1,048	**—**	—
	Bank overdraft	**4,614**	4,676	**9,419**	6,826
	Trade creditors	**4,108**	5,603	**—**	—
	Accruals	**2,952**	2,995	**38**	58
	Payments received on account	**880**	983	**—**	—
	Corporation tax	**809**	821	**48**	—
	Other taxes and social security costs	**900**	658	**—**	—
	Other creditors	**771**	832	**—**	—
	Proposed dividend	**459**	470	**459**	475
		16,522	18,086	**9,964**	7,359

		Group 2002 £'000	Group 2001 £'000
16. **Creditors: amounts falling due after more than one year**	Bank loan repayable within 1–2 years	**1,029**	2,097

Interest payable on the bank loan is at 1.25% over the US LIBOR rate.

		Group 2002 £'000	Group 2001 (As restated) £'000
17. **Deferred Taxation:**	Deferred taxation has been provided as follows:		
	Accelerated capital allowances on tangible fixed assets	**78**	253
	Short-term timing differences	**(26)**	256
		52	509

Factors affecting the future tax charge:

A deferred tax asset amounting to £61,000 for capital losses has not been recognised because in the opinion of the Directors there will be no suitable taxable gains in the foreseeable future.

A deferred tax asset of £115,000 for accelerated capital allowances and short-term timing differences has not been recognised on the basis that 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.

A deferred tax asset of £465,000 (2001 – £592,000) in respect of US tax losses has not been recognised on the basis that 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.

Details of the restatement on the implementation of FRS 19 are included in Note 1.

NOTES TO THE ACCOUNTS
At 30th April 2002

18. **Financial Instruments**

In the numerical disclosures that follow short term debtors and creditors have been excluded as permitted by FRS 13 except in the currency exposure disclosure.

Currency Exposures
The table below shows the Group's currency exposures that give rise to net currency gains or losses recognised in the profit and loss account. Such exposures comprise the monetary assets of the Group that are not denominated in the functional currency of the unit involved.

At 30th April 2001

	Net foreign currency monetary assets/(liabilities)			
	Sterling	US Dollar	Eurozone	Total
Functional Currency of group unit	£'000	£'000	£'000	£'000
Sterling	—	—	(547)	(547)
US Dollar	1,625	—	—	1,625
Total	1,625	—	(547)	1,078

At 30th April 2002

	Net foreign currency monetary assets/(liabilities)			
	Sterling	US Dollar	Eurozone	Total
Functional Currency of group unit	£'000	£'000	£'000	£'000
Sterling	—	(17)	(1,444)	(1,461)
US Dollar	3,828	—	—	3,828
Total	3,828	(17)	(1,444)	2,367

Borrowing Facilities
The Group has various borrowing facilities available to it amounting to £9.1 million (2001 – £10.2 million). The undrawn committed facilities available at 30th April 2002 in respect of which all conditions had been met at that date total £4.3 million (2001 – £4.2 million) and expire within one year.

Gains and losses on hedges
The Group enters into forward foreign currency contracts to eliminate transactional currency exposures on future expected sales denominated in US Dollars. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging are as follows:

		2002	
	Gains	**Losses**	**Total**
	£'000	**£'000**	**£'000**
Unrecognised (losses)/gains on hedges at 1st May	**—**	**(105)**	**(105)**
Gains/(losses) arising in previous years that were recognised in the current year	**42**	**—**	**42**
Gains/(losses) arising in the year that were not recognised in the current year	**186**	**—**	**186**
Unrecognised gains on hedges at 30th April	**175**	**—**	**175**
of which			
Expected to be recognised in the year ended 30th April 2003			**87**
Expected to be recognised in the year ended 30th April 2004			**88**

NOTES TO THE ACCOUNTS
At 30th April 2002

18. Financial Instruments *continued*

	2001 Gains £'000	2001 Losses £'000	2001 Total £'000
Unrecognised (losses)/gains on hedges at 1st May	—	(20)	(20)
Gains/(losses) arising in previous years that were recognised in the current year	—	(134)	(134)
Gains/(losses) arising in the year that were not recognised in the current year	—	(105)	(105)
Unrecognised gains on hedges at 30th April	—	(105)	(105)
of which			
Expected to be recognised in the year ended 30th April 2002			20
Expected to be recognised in the year ended 30th April 2003			(125)

Financing
The Group's financial instruments, other than derivatives, comprise cash, bank overdrafts, bank loans and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions in the form of forward foreign currency contracts. The purpose of such transactions is to manage the currency risks arising from the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 1st May 1998.

Interest rate risk
The interest rate profile of the Group is as follows:

At 30th April 2001	Floating Rate Financial Assets £'000	Floating Rate Financial Liabilities £'000	Total net Financial Liabilities £'000
Sterling	6	(4,656)	(4,650)
US Dollar	1,321	(3,170)	(1,849)
Euro Currencies	421	—	421
Swedish Kronor	29	—	29
Other	20	—	20
	1,797	(7,826)	(6,029)

At 30th April 2002	Floating Rate Financial Assets £'000	Floating Rate Financial Liabilities £'000	Total net Financial Liabilities £'000
Sterling	5	(3,652)	(3,647)
US Dollar	1,376	(2,080)	(704)
Euro Currencies	477	(940)	(463)
Swedish Kronor	16	—	16
Other	37	—	37
	1,911	(6,672)	(4,761)

NOTES TO THE ACCOUNTS
At 30th April 2002

18. Financial Instruments *continued*

The floating rate financial assets comprise solely of cash balances at interest rates tied to UK base rates and US Libor rates. The floating rate financial liabilities comprise of bank loans and overdrafts with interest rates linked to UK base rates and US Libor rates.

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. At 30th April 2002 44% of net borrowings were in the form of a US dollar denominated bank loan, repayable in 8 quarterly instalments from June 2002.

Foreign currency risk
Due to the international nature of its operations, the Group faces currency exposure in respect of exchange rate fluctuation against sterling. The most significant of these is the US which represents 51% of total Group sales.

The majority of the US subsidiary's turnover is sourced by imports from the UK and Europe. These sales are invoiced in US dollars. The Group minimises the currency translation exchange risk by the use of forward contracts.

About 20% of the sales of the Group are to customers in countries other than the UK and US. Most of these sales are invoiced in the currencies of the countries involved. The Group does not hedge currency exposures on these sales using forward foreign currency contracts as any exchange rate risk is considered to be insignificant due to the offsetting effect of imports.

At 30th April 2002, the Group has outstanding forward contracts with a fair value of £175,000 (2001 – £105,000 loss).

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

The balance sheet 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 reserves. The profit and loss accounts of overseas business are translated at an average rate of exchange.

Fair values of financial assets and financial liabilities
The Group's financial assets comprise of cash at bank and in hand. The financial liabilities comprise of bank loans and overdrafts. The cash, bank loans and overdrafts are all at floating rates of interest and hence there is no difference between their book value and their fair value.

19. Called Up Share Capital

	Authorised		Allotted, called up and fully paid	
	2002	2001	**2002**	2001
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£2,332,490**	£2,455,990

In the 2000 Annual General Meeting shareholders gave the Company renewed authority to purchase up to 15% of its ordinary share capital. During the period to 30th April 2002 the company purchased 10p shares in the market for an aggregate nominal value of £123,500. This represented 5.02% of the authorised share capital at the time. These shares were subsequently cancelled.

Pursuant to the Company's Executive Share Option Scheme, the following options, including options held by Directors, have been granted and were outstanding at 30th April 2002:

(a) Share Options

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
25,000	2	35p	04.03.93	04.03.96	03.03.03
102,533†	9	35p	04.03.93	04.03.96	03.03.03
107,000	8	78p	22.08.94	22.08.97	21.08.04
75,000	11	111p	24.07.97	24.07.00	23.07.07
359,000	36	83p	06.04.99	06.04.02	05.04.09
30,000	2	72p	20.10.00	20.10.03	20.10.10

†Of these options 4,000 are parallel options relating to options of 43p granted on 30.7.91 and a further 21,000 are parallel options relating to options of 58p granted on 18.2.92. Parallel share options can be exercised instead of existing share options. When parallel share options are exercised the existing options to which they relate lapse.

Details of share options and shareholdings of Directors are shown in paragraph 7 of the Remuneration Report on page 10.

NOTES TO THE ACCOUNTS
At 30th April 2002

20. Reserves

	Merger Reserve £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000
Group:				
Balance as previously reported	—	11,055	397	407
Prior year adjustment	—	—	—	(345)
At 1st May 2001 (as restated)	—	11,055	397	62
Share buy backs	—	—	124	(928)
Foreign currency translation	—	—	—	(196)
Profit retained	—	—	—	1,794
At 30th April 2002	—	11,055	521	732
Company:				
At 1st May 2001	10,762	11,055	397	698
Share buy backs	—	—	124	(928)
Profit retained	—	—	—	963
At 30th April 2002	10,762	11,055	521	733

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2001 – £23,062,000).

The prior year adjustment relates to the adoption of FRS 19 'Deferred Tax'.

21. Group Reconciliation of Movements in Shareholders' Funds

	2002 £'000	As restated 2001 £'000
Total recognised gains and losses relating to the year	**2,339**	4,741
Dividends	**(741)**	(734)
Repurchase of shares	**(928)**	(1,362)
Net increase in shareholders' funds	**670**	2,645
Shareholders' funds at 1st May (originally £14,315,000 before deducting the prior year adjustment of £345,000)	**13,970**	11,325
Shareholders' funds at 30th April	**14,640**	13,970

22. Commitments under Operating Leases

At 30th April 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	2002		2001	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	**—**	**12**	91	1
In two to five years	**743**	**47**	534	65
After five years	**1,840**	**—**	1,747	—
	2,583	**59**	2,372	66

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

NOTES TO THE ACCOUNTS
At 30th April 2002

23. Pension Commitments

Group companies operate a defined contribution money purchase pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund during the year and amounted to £45,540 (2001 – £47,710).

Group companies also make pension contributions for eligible employees to group personal pension schemes. These schemes are independently administered. The pension cost charge represents contributions payable by the Company to the schemes during the year and amounted to £160,859 (2001 – £142,814).

SSAP 24 disclosures for the year ended 30 April 2002:
The Group's US subsidiary Cowtan & Tout operates a funded defined benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen Inc on 1st July 1997. The costs for the financial reporting period have been assessed with the advice of a qualified external actuary using the projected unit method of valuation. The most recent valuation was as at 30th April 2002. The actuary valued the fund at £1,072,406 which was sufficient to cover 85% of the benefits accrued to the members. The principle actuarial assumptions adopted in the valuation were a long term rate of return on assets of 5%, no annual increase in total pensionable remuneration and a discount on liabilities of 6%.

FRS 17 disclosure for the year ended 30th April 2002:
The Group's US subsidiary Cowtan & Tout operates a funded defined benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen Inc 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 money purchase scheme and hence all future benefits became fixed on the date the scheme was closed. The most recent acturial valuation of the fund was on 30th April 2002 using the projected unit method. As the scheme is closed to new members and all benefit 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 6%. The market value of investments at 30th April 2002 was £1,072,406 all of which was held in government bonds with an expected long term rate of return of 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 2002 was £1,256,658 resulting in an unfunded actuarial accrued liability of £184,252. A provision for this amount is included in the Group balance sheet together with a related deferred tax asset of £75,543.

A reconciliation of reserves and net assets is not provided because the liability and related deferred tax asset have been provided in full in the balance sheet.

24. Guarantees

The Company has given an unlimited guarantee to HSBC to secure all the present and future indebtedness and liabilities to the Bank of the Company, Colefax and Fowler Incorporated and Cowtan & Tout Incorporated. There is a cross guarantee between the Company and each of its U.K. subsidiaries in respect of their overdraft facilities.

FIVE YEAR REVIEW

	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000
Turnover	**67,307**	70,412	63,923	64,556	49,702
Operating profit	**4,225**	6,461	5,185	5,207	1,351
Profit before taxation	**3,859**	5,918	4,751	4,635	1,122
Profit attributable to shareholders	**2,535**	3,952	2,988	3,244	209
Basic earnings per share	**11.1p**	16.5p	12.5p	11.6p	10.2p
Earnings per share after exceptional items	**11.1p**	16.5p	11.2p	11.6p	0.8p
Dividends per share	**3.40p**	3.30p	3.15p	3.00p	2.80p
Shareholders' funds (as restated)	**14,640**	13,970	11,325	11,216	9,008
Operating cash flow	**6,909**	8,058	7,251	5,332	6,580
Net debt	**4,761**	6,029	5,632	5,628	4,654

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Colefax Group plc will be held at 39 Brook Street, London W1Y 2JE on 18th September 2002 at 11.00 a.m. to transact the following business.

Ordinary Business

1. To receive and adopt the Annual Accounts of the Company for the year ended 30th April 2002, together with the reports of the Directors and of the auditors thereon.

2. To declare a final dividend.

3. To re-appoint Ernst & Young LLP as auditors to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid.

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

5. To re-elect D. B. Green, who retires by rotation, as a Director.

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

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 will be proposed as special resolutions.

7. THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the “Act”) to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate nominal amount of £446,369 (being the amount of the authorised but unissued share capital of the Company) for a period expiring (unless previously renewed varied substituted or revoked by the Company in general meeting) fifteen months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement.

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

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

    (B) shall be limited to:

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

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

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

    (b) allotments of equity securities for cash otherwise than pursuant to paragraph (a) up to an aggregate nominal amount of £116,624.

NOTICE OF MEETING

9. THAT the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of s163 (3) of the Act) of ordinary shares of 10p each in the capital of the Company("ordinary shares") provided that:

   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 3,498,734 (representing 15% of the issued ordinary share capital);

   (b) the minimum price which may be paid for an ordinary share is 10p;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased;

   (d) this authority expires at the conclusion of the next Annual General Meeting of the Company or within twelve months from the date of the passing of this resolution, whichever is earlier; and (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board
R. M. Barker BSc ACA
Secretary
Dated 22nd July 2002

Registered Office:
39 Brook Street
London W1Y 2JE

Notes:

1. Only those members entered in the register of members of the Company as at 6 p.m. on 16th September 2002 shall be entitled to attend and vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6 p.m. on 16th September 2002 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote, on a poll, on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed.

3. Members who are unable to be present at the Annual General Meeting are invited to complete and return the Form of Proxy, which in order to be effective, must reach the Company's registrars not less than 48 hours before the time appointed for the meeting. The lodgement of a Form of Proxy will not preclude a shareholder from attending and voting at the meeting in person.

4. Further details of the resolutions proposed at this Annual General Meeting can be found in the Directors' Report on pages

5. The following documents will be available for inspection at the registered office of the Company during normal business hours on each business day from the date of the notice convening the Annual General Meeting up to the close of the meeting:

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

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

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FORM OF PROXY

For use by holders of shares in COLEFAX GROUP PLC

I/we (capital letters)..

of..
being (a) registered holder(s) of ordinary shares of 10p each in the above-mentioned Company hereby appoint the Chairman of the Meeting (see note (iv) below) ....
as my/our proxy to attend and vote for me/us on my/our behalf in the manner indicated below at the Annual General Meeting of the Company to be held at 39 Brook Street, London W1Y 2JE on 18th September 2002 at 11.00 a.m. and at any adjournment thereof.

I/we direct that my/our proxy vote as indicated below in respect of the resolutions set out in the notice convening the Meeting. (Unless otherwise instructed, the proxy may vote or abstain as he/she thinks fit in respect of the resolutions specified and also on any other business (including amendments to resolutions) which may properly come before the meeting.)

	For	Against
1. To receive the annual accounts		
2. To declare the final dividend		
3. Re-appointment of auditors		
4. Remuneration of auditors		
5. To re-elect D. B. Green		
6. To re-elect A. K. P. Smith		
7. Authority to allot shares		
8. Disapplication of pre-emption rights*		
9. Purchase of own shares*		

*Special resolution

Please indicate with an 'X' in the relevant box how you wish your proxy to vote.

Date .... Signature(s) ....

Notes :

i. A member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A member may appoint two or more persons as proxies in the alternative, but if he does so only one of such proxies may attend as such and vote instead of such member on any one occasion. A proxy need not be a member of the Company. To be valid, the Form of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or other authority, must be received at the address shown overleaf not less than forty-eight hours before the time appointed for the Meeting or any adjournment thereof.

ii. If two or more persons are jointly entitled to a share then in voting upon any question the vote of the senior who tenders the vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

iii. The Form of Proxy, if completed by a corporation, should be duly executed as a deed by that corporation or be signed by an officer or attorney duly authorised to do so, proof of whose capacity should be included.

iv. A member wishing to appoint as his proxy a person or persons other than the Chairman of the Meeting should print in block capitals the full name(s) of the person(s) of his choice and delete the words "the Chairman of the Meeting". All alterations should be initialled.

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