FINANCIAL HIGHLIGHTS

	2004 £'000	2003 £'000	Increase/ (Decrease)
Turnover	**63,381**	64,422	(2)%
Operating profit	**3,187**	3,037	5%
Profit before taxation	**2,910**	2,801	4%
Profit attributable to shareholders	**1,933**	1,794	8%
Basic earnings per share	**10.4p**	8.9p	17%
Diluted earnings per share	**10.2p**	8.8p	16%
Dividends per share	**3.40p**	3.40p	—
Shareholders' funds	**13,211**	13,331	(1)%
Operating cash flow	**6,499**	6,191	5%
Net debt	**2,773**	5,042	(45)%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2004 increased by 4% to £2.9 million (2003 – £2.8 million) on sales down 2% at £63.4 million (2003 – £64.4 million). Earnings per share increased by 17% to 10.4p (2003 – 8.9p). Group net borrowings at the year-end were reduced by 44% to £2.8 million (2003 – £5.0 million), which represents gearing of 21% to net assets.

The Board has decided to recommend that the final dividend is maintained at 2.06p (2003 – 2.06p) making a total for the year of 3.40p (2003 – 3.40p). The final dividend will be paid on 12th October 2004 to shareholders on the register at the close of business on 10th September 2004.

Our results this year are slightly better than we expected at the time of our interim results. The principal reason was an improvement in trading in the US, our major market, during the last quarter. Furthermore, we are seeing the benefits of the cost savings that we have implemented over the last two years. Although we are seeing growth in the US, the UK market has remained flat and Contintental Europe is still weak.

Product Division

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

Sales in the US, which represent 53% of the Fabric Division's sales, increased by 4% on a constant currency basis. This market has steadily improved from February and we anticipate that these improved conditions will remain, at least until the Presidential elections. We are planning to open a showroom in Washington DC towards the end of the year and are confident it will increase sales in this important market.

UK sales, which represent 21% of the Fabric Division's turnover, were flat and currently there are no signs of any improvement. We have maintained our investment in new collections and are well placed to benefit from any improvement in market conditions.

Sales in Contintental Europe, which represent 23% of the Fabric Division's turnover, decreased by 5% during the year on a constant currency basis. France, our largest market, was particularly weak in the first three months of the year and whilst there has been some recovery, there is still no sign of any return to growth. Italy, our second largest market, grew by 7% in like for like terms and remains our strongest market in Europe. In contrast trading in Germany is difficult and there is no sign of improvement. Continental Europe generally remains a challenge but should provide the Group with good growth opportunities under favourable economic conditions.

Sales in the rest of the world, which represent 3% of the Fabric Division's sales, decreased by 11% during the year. Australia is the most significant market in this region and is still difficult. We are continuing to invest in marketing initiatives in the Middle East which we view as a growth area.

- **Furniture—Kingcome Sofas**

Sales of furniture which account for 3% of Group sales, increased by 21% during the year and the division returned to profitability. The majority of growth came during the early part of the year with market conditions becoming more difficult towards the year end. In September, we will launch a new range of modern upholstered furniture and dining chairs and we are confident that the collection will be well received. Although market conditions are currently tough, we are optimistic about this division's activity in the future.

- **Accessories—Manuel Canovas**

Manuel Canovas accessories, which mainly comprise sales of beachwear and scented candles, and account for 5% of Group sales, were adversely affected by the increase in the value of the euro against the dollar and reported a small operating loss for the year. We have reduced overheads in this division and expect a return to profit in the current year.

CHAIRMAN'S STATEMENT

Decorating Division
Interior decorating and antique sales which together account for 12% of Group sales were down by 2% during the year. The division has suffered from the weak US dollar which has deterred US customers. Antiques sales have also been affected by fewer American visitors to the London showroom. The current level of decorating deposits is healthy but generally market conditions are difficult.

Alternative Investment Market
The Board believes that the Alternative Investment Market, with its greater flexibility and lower costs, is more appropriate for a company the size of Colefax Group Plc. Accordingly, we have today released an announcement of our intention to move to the Alternative Investment Market after the required twenty days notice period.

Prospects
Trading conditions in our principal market, the US, have continued to improve and we are confident of achieving further growth. The UK and Continental Europe remain challenging. The most significant problem facing the company is the continued weakness of the US dollar which affects gross margins in our US subsidiary. Whilst we have a reasonable level of forward cover in place for the current year, any future hedging is likely to be at much weaker levels than we have historically achieved. We will continue to invest in our brands and services and the company is well placed to benefit from any improvement in market conditions.

David B. Green
Chairman

OPERATING AND FINANCIAL REVIEW

Financial Review

Group sales decreased by 2% to £63.4 million (2003 – £64.4 million) but increased by 1% on a constant currency basis. Although only a small increase in like for like terms, it follows a 1% fall in 2003 and a 5% fall in 2002 and is the first sign of growth for three years. The modest increase in like for like sales is below the rate of price inflation and in volume terms sales decreased by 2%.

In our core fabric division, our major geographical markets remain highly competitive and for the last three years the overall level of demand does not appear to have shown any significant growth. It is probable that the Group's sales growth is more a function of taking market share from competitors than growth in the market itself. The amount of product being launched by the industry is outstripping demand by customers, and making it increasingly difficult to achieve historic levels of return on investment. High quality product and outstanding customer service remain the essential pre-requisites for success.

The Group's gross profit margin decreased 1% to 56%. In monetary terms this decrease amounts to £570,000 and is primarily due to the significant deterioration in the US dollar against the euro and sterling.

Approximately 54% of fabric division sales are made in the US. Sales are invoiced in US dollars but the majority of purchases are sourced in sterling or euros. The Group seeks to hedge its exposure to currency fluctuations on purchases by entering into forward contracts to sell dollars for sterling. During the year, forward contracts produced a gain of £686,000 compared to £655,000 last year.

For the year ahead, the Group has forward contracts in place to cover approximately 65% of its US exposure. At the year-end rate of 1.77, these contracts are showing a gain of £688,000. There is currently no sign of any improvement in the strength of the dollar and without improvement the Group will not be able to hedge its exposure at anything approaching the favourable levels of recent years. If the dollar does strengthen there is significant upside for the Group.

The Group has very little exposure to the euro, as there is a natural hedge between euro purchases and sales.

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

	2004	2003	% Change
US Dollar Average	1.72	1.57	(10%)
US Dollar Closing	1.77	1.60	(11%)
Euro Average	1.45	1.54	6%
Euro Closing	1.48	1.43	(3%)

Group Operating Profits increased by 5% to £3.2 million (2003: £3.0 million) representing a return on sales of 5% (2003 – 5%). The small improvement in profit despite the deterioration in margin is due to reduced distribution and marketing expenses in the fabric division.

Share Buybacks

During the year the Group purchased and cancelled one million shares respresenting 5% of the issued share capital at a cost of £782,000 or 78p per share. Since the year-end, the Group has purchased and cancelled a further one million shares at a cost of 93p bringing the total number of shares in issue down to 18.1 million. Since September 1999 the Group has purchased 10.57 million shares at a cost of £8.2 million and representing 37% of the issued share capital capital of the Company.

At our Annual General Meeting in September the Group will seek approval to buy back up to 15% of its issued ordinary shares. The argument for share buybacks is still to reduce the Group's weighted average cost of capital, increase earnings per share and maximize return on capital employed. During the year the Group's share price increased by 55% from 61.5p to 95.5p. Although this has reduced the cost of equity capital to 11% and hence the attractiveness of share buybacks, it is still well above the Group's post tax cost of debt of 4%. Further buybacks therefore remain a possibility but only if the Directors believe them to be in the best interests of shareholders and in the absence of more attractive investment opportunities.

OPERATING AND FINANCIAL REVIEW

Basic Earnings Per Share

Earnings per share increased by 17% to 10.4p (2003 – 8.9p). The increase compares to an 8% increase in earnings and is explained by an 8% decrease 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 1.9% below basic earnings per share at 10.2p (2003 – 8.8p).

Dividends

The Board has proposed an unchanged dividend of 2.06p per share (2003 – 2.06p), making a total for the year of 3.40p (2003 – 3.40p). The decision not to increase the dividend reflects the uncertainties that the Group faces from the continued weakness of the US dollar. If the Group returns to growth, the Directors intend to reinstate a progressive dividend policy. The total cost of the dividend is £596,000 which represents dividend cover of 3.2 times. At the year-end mid market closing price of 95.5p the dividend yield is 3.6%.

Taxation

The Group tax rate for the year was 34% compared to an underlying rate of 33% last year. This is consistent with lower US profits attributable to the weak dollar. The Group balance sheet includes a significant deferred tax asset of £857,000 (2003 – £497,000). The increase is primarily due to an unrealized foreign exchange loss on a long-term sterling loan between the Group and our US subsidiary Cowtan and Tout. The unrealized loss, net of deferred tax, has been included in the Group statement of total recognized gains and losses.

Cashflow

Group borrowings reduced by £2.3 million to £2.8 million at 30th April 2004. In terms of seasonality this tends to represent the low point in the Group's working capital cycle. Gearing has reduced to 21% of net tangible assets (2003 – 38%) which is the lowest level since the acquisition of the Larsen fabric brand in July 1997. Group borrowings are comfortably within the Group's available bank facilities of £8.3 million.

Excluding £782,000 spent on share buybacks during the year, the Group generated cash of £3.1 million (2003 – £2.1 million) and £3.7 million before dividends (2003 – £2.7 million). This level of cash generation is exceptional and significantly exceeds the Group's retained profit for the year of £1.3 million. Two main factors which have contributed to this year's cashflow. Firstly, capital expenditure of £1.8 million was materially below the Group depreciation charge of £2.3 million. In the current year, a number of specific projects, including a new showroom in Washington, mean that capital expenditure will be approximately in line with depreciation. Secondly, lower sales have led to a meaningful reduction in working capital (stock and debtors and creditors) which reduced by £1.0 million. Although tight control of working capital is a key objective further reductions are not expected in the current year.

Net interest paid during the year was £264,000 (2003 – £222,000). The majority of the Group's borrowings are in sterling at variable rates of interest and the increase reflects progressively higher interest rates during the year.

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.

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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Registered in England No. 1870320

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Registrars and Transfer Office

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8 Bankhead Crossway North
Edinburgh EH11 4BR

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2004.

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

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

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

Resolution Number 8, 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 24% of the issued share capital as at 22nd July 2004) 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 9, 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 10, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £271,350 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 2004. 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 2004, the latest practical date prior to publication of this report, was 511,000 (2.8% 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 3.0% of the issued ordinary share capital.

During the year to 30th April 2004 the Company purchased 10p shares in the market with an aggregate nominal value of £100,010. This represented 5% of the issued share capital at the time. The shares were subsequently cancelled.

Articles of Association
The current Articles of Association of the Company were adopted in June 1998. Following a detailed review of their provisions, the Directors consider it prudent to adopt new Articles of Association containing up to date provisions reflecting current law and regulations as well as best practice as recommended in the Combined Code on Corporate Governance. Resolution Number 11, proposed as a special resolution, would authorise the adoption of new Articles of Association containing such provisions.

The proposed new Articles of Association will be available for inspection at the registered office of the Company from the date of the Notice of the forthcoming Annual General Meeting to the date of the meeting and will also be available for inspection at the meeting itself. A summary of the principal changes that would be effected by the adoption of the proposed new Articles of Association is contained in an appendix to the Notice of Meeting on page 36.

DIRECTORS' REPORT

Results and Dividends
The Group's profit on ordinary activities after taxation was £1,933,000 (2003 – £1,794,000). An interim dividend of 1.34p (2003 – 1.34p) per share was paid to shareholders on 8th April 2004. The Directors recommend the payment of a final dividend of 2.06p (2003 – 2.06p) per share to be paid on 12th October 2004 to shareholders on the register at the close of business on 10th September 2004. The total dividend is 3.40p (2003 – 3.40p) per share and the total dividend cost is £596,000 (2003 – £594,000), leaving a profit of £1,337,000 (2003 – £1,200,000) to be transferred to retained earnings.

Post Balance Sheet Events
These are detailed in Note 24 of the financial statements.

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.

Payment 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 2004, the Company had an average of 41 days purchases outstanding to trade creditors (2003 – 38 days).

Charitable Donations
During the year the Group made various charitable donations totalling £49,831 (2003 – £46,758).

Directors
The Directors listed on page 6 have held office throughout the year to 30th April 2004.

A. Grafton, Design and Marketing Director, resigned as a Director on 14th August 2003.

In accordance with the Combined Code for Corporate Governance appended to the Listing Rules of the Financial Services Authority, R. Barker and W. Nicholls will retire by rotation at the Annual General Meeting. Resolutions 5 and 6 propose their re-election as Directors. Both Directors have service contracts, which are terminable by one year's notice by either the Company, or the Directors.

R. Barker joined the Company in 1989 and has been Finance Director since 1994. W. Nicholls joined the Company in 1976 and has been Managing Director of the decorating division since 1996.

Directors' interests (including options to acquire) in shares are disclosed in the Remuneration Report.

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

On 30th September 2003, Sir M. Sorrell retired as non-executive Director.

DIRECTORS' REPORT

Substantial Shareholdings

Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 22nd July 2004:

	Number of shares	%
D. B. Green	4,442,862	24.6
Discretionary Unit Fund Managers	3,000,000	16.6
Hunter Hall Investment Management	2,815,000	15.6
Schroder Investment Management	2,377,674	13.1
Colefax Group Plc ESOP	892,422	4.9

Auditors
A resolution to reappoint BDO Stoy Hayward 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 2004

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. As an executive Director Mr. D. B. Green takes no part in the setting of his own remuneration.

2. Remuneration Policy
The remuneration of the non-executive Directors is fixed by the executive Directors and consists of fees in respect of Board and Committee meetings.

The policy on executive Directors' remuneration for 2004 and subsequent financial years 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, the Committee has given full consideration to schedule A of the provisions for the design of performance related remuneration annexed to the Combined Code.

The remuneration package of each Director comprises the following elements:

Basic Salary
Basic salary for each executive Director is determined by the Remuneration Committee and takes into account the performance of the individual and information from independent sources on the rates of salary for similar posts.

Annual Bonus
The executive Directors each participate in an annual performance related bonus scheme based on the achievement of target levels for pre-tax profit. The bonus is on a scale from 5% to a maximum of 25% of basic salary. Directors are encouraged to take some or all of their performance related bonus in the form of a zero priced option over shares held by the Colefax Group Plc Employee Share Ownership Plan Trust.

Long Term Incentive Plan
Under the 1998 Colefax Group plc Executive Share Option Plan, options may be granted at current market value and are exercisable, in normal circumstances, between three and ten years after grant. The exercise of options is subject to performance criteria. These stipulate that in the three years up to the date of exercise earnings per share must grow by the rate of increase in the Retail Price Index plus 9%. There were no grants of options in the year ended 30th April 2004.

Taxable benefits
UK executive Directors are entitled to private medical insurance paid by the Company, and either a fully expensed company car or salary alternative.

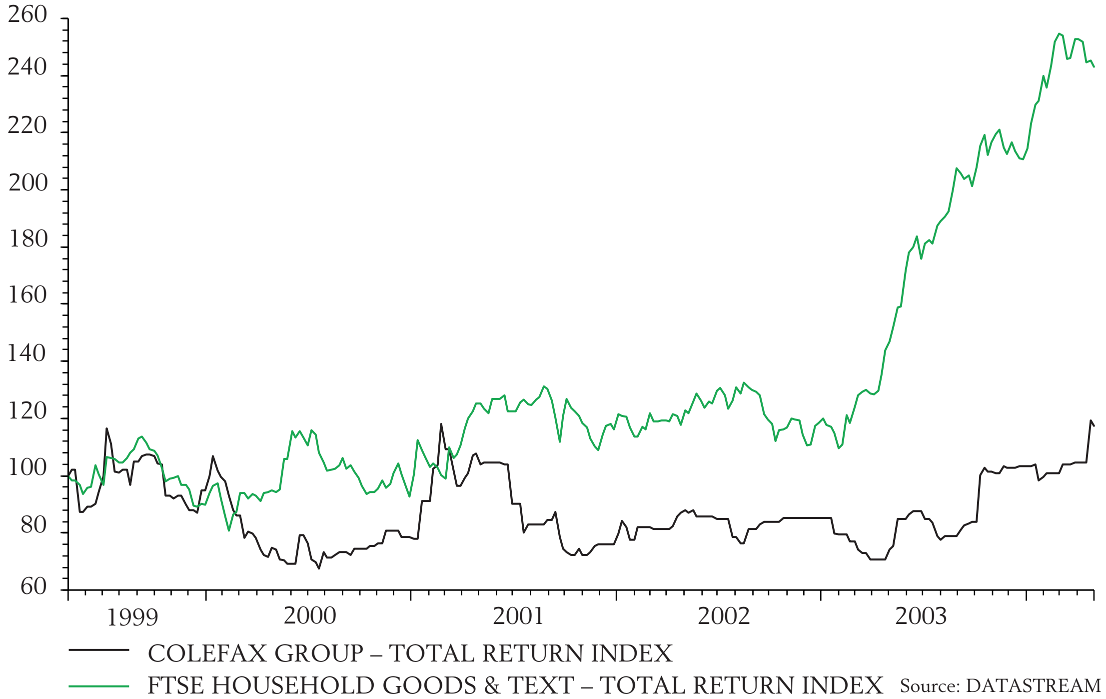
Pensions
Directors' pensions comprise contributions to defined contribution pension schemes which are managed on the Group's behalf by independent life assurance companies. Contributions are based on a fixed percentage of basic salary determined by the Remuneration Committee and are charged to the profit 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.

3. Service Contracts
All executive Directors have service contracts with a notice period of one year. All service contracts are on a rolling basis with no fixed term and there are no additional termination payments other than those under the rolling contracts.

Non-executive Directors do not have service contracts but have letters of appointment for a period of three years. The appointment of A. K. P. Smith, a non-executive Director, was renewed for three years with effect from 1st February 2003. Appointments can be terminated at any time by either party without compensation.

REMUNERATION REPORT

4. Performance Graph
The following graph shows the Company's performance measured by total shareholder return (share price growth plus dividends reinvested) compared to the FTSE Household Goods Sector for the five years from May 1999 to April 2004. This index was selected by the Committee as the most appropriate for comparative purposes.



Information subject to audit

5. Directors' Emoluments

	Salary	Fees	Benefits	Pensions	Annual Bonus	**2004 Total (including pensions)**	**2004 Total (excluding pensions)**	2003 Total (including pensions)	2003 Total (excluding pensions)	2003 Pensions
	£'000	£'000	£'000	£'000	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Executive Directors										
D. B. Green	265	—	32	43	65	**405**	**362**	325	280	45
A. Grafton	341*	—	1	6	—	**348**	**342**	237	221	16
R. M. Barker	145	—	8	12	20	**185**	**173**	164	153	11
W. Nicholls	140	—	17	10	—	**167**	**157**	160	150	10
K. Hall	145	—	—	11	15	**171**	**160**	171	160	11
Non-Executive Directors										
A. K. P. Smith	—	30	—	—	—	**30**	**30**	30	30	—
Sir M. Sorrell	—	—	—	—	—	**—**	**—**	30	30	—
Totals	1,036	30	58	82	100	**1,306**	**1,224**	1,117	1,024	93

*includes compensation for loss of office of £272,000

REMUNERATION REPORT

6. 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	
	2004	2003
D. B. Green	**4,322,862**	4,322,862
R. M. Barker	**105,000**	105,000
W. Nicholls	**305,354**	305,354
A. K. P. Smith	**20,000**	20,000
K. Hall	—	—

D. B. Green's shareholding included 102,400 (2003 – 102,400) ordinary shares in which his interest was non-beneficial. No Director was interested in the shares of any subsidiary company. On 17th May 2004, D. B. Green acquired 120,000 shares through the exercise of ESOP share options and R. Barker acquired 20,000 shares through the exercise of ESOP share options.

7. Share Options

	Exercise Price	At 1st May 2003 No.	Exercised during the year No.	**At 30th April 2004 No.**	Date of Grant	Exercisable from	Expiry Date
R. M. Barker	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

In the prior year, R. M. Barker exercised options over 30,000 shares at an exercise price of 35p. At the date of exercise, the Company's share price was 67.5p, resulting in a gain of £9,750.

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 nil and the full cost of the options has been provided in previous years.

	Shares under option	Date of Grant	Exercisable from	Expiry Date
D. B. Green	120,000	14.11.01	14.11.02	13.11.11
K. Hall	50,000	14.11.01	14.11.02	13.11.11
R. M. Barker	20,000	14.11.01	14.11.02	13.11.11
A. Grafton (resigned 14th August 2003)*	20,000	14.11.01	14.11.02	13.11.11

The market price of the Company's shares at 30th April 2004 was 95.5p. The range of market prices during the financial year was between 61.5p and 95.5p.

* These share options lapsed upon resignation.

8. Resolution
A resolution to shareholders to approve the Report of the Remuneration Committee will be put forward at the AGM.

On behalf of the Board

A. K. P. Smith
Chairman of the Remuneration Committee
22nd July 2004

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 four executive and one 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 one non-executive Director who is independent of management and free from any business or other relationship which could materially interfere with the exercise of his 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 pages 9 to 11. 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, Report and 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 a 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, separate roles are unnecessary.

A3.1 The Board has four executive and one non-executive Director and 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 is not comprised of 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.

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 2004 up until the date of approval of the financial statements, 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 Group's 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; and
- The Group Risk Assessment Report has been reviewed by the Audit Committee and the Group Board.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC

We have audited the financial statements of Colefax Group Plc for the year ended 30th April 2004 on pages 17 to 34 which have been prepared under the accounting policies set out on pages 21 and 22. We have also audited the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report, the Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been 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 financial statements, if the group 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 regading directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the group's compliance with the seven provisions of the Combined Code issued in 1998 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 statement 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 financial statements. This other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

We conducted our audit in accordance with 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 financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also calculated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the group and the company at 30th April 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
22nd July 2004

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 30th April 2004

	Notes	2004 £'000	2003 £'000
Turnover	2	**63,381**	64,422
Cost of sales		**28,187**	28,088
Gross profit		**35,194**	36,334
Operating expenses	3	**32,007**	33,297
Operating profit	4	**3,187**	3,037
Interest	6	**(277)**	(236)
Profit on ordinary activities before taxation		**2,910**	2,801
Tax on profit on ordinary activities			
— UK		**(987)**	(445)
— Overseas		**10**	(562)
	7	**(977)**	(1,007)
Profit on ordinary activities after taxation		**1,933**	1,794
Dividends on equity shares	8	**(596)**	(594)
Retained profit for the year	20	**1,337**	1,200
Basic earnings per share	9	**10.4p**	8.9p
Diluted earnings per share	9	**10.2p**	8.8p

All activity has arisen from continuing operations.

GROUP BALANCE SHEET
At 30th April 2004

	Notes	2004 £'000	2003 £'000
Fixed assets:			
Tangible assets	10	**6,113**	7,068
Investments	11	**687**	687
		6,800	7,755
Current assets:			
Stocks and contracts in progress	12	**11,470**	13,039
Debtors	13	**8,697**	9,211
Cash at bank and in hand	14	**1,769**	1,639
		21,936	23,889
Creditors: amounts falling due within one year	15	**14,419**	16,683
Net current assets		**7,517**	7,206
Total assets less current liabilities		**14,317**	14,961
Creditors: amounts falling due after more than one year	16	**1,000**	1,500
Provision for liabilities and charges:			
Deferred taxation	17	**106**	130
		13,211	13,331
Capital and reserves:			
Called up share capital	19	**1,909**	2,009
Share premium account	20	**11,087**	11,087
Capital redemption reserve	20	**957**	857
Profit and loss account	20	**(742)**	(622)
Equity shareholders' funds	21	**13,211**	13,331

D. B. Green Director
R. M. Barker Director
22nd July 2004

The notes on pages 21 to 34 form part of these accounts.

COMPANY BALANCE SHEET
At 30th April 2004

	Notes	2004 £'000	2003 £'000
Fixed assets:			
Investments	11	**26,208**	26,208
Current assets:			
Debtors	13	**8,982**	6,289
Creditors: amounts falling due within one year	15	**8,105**	5,393
Net current assets		**877**	896
Total assets less current liabilities		**27,085**	27,104
Creditors: amounts falling due after more than one year	16	**1,000**	1,500
		26,085	25,604
Capital and reserves:			
Called up share capital	19	**1,909**	2,009
Share premium account	20	**11,087**	11,087
Merger reserve	20	**10,762**	10,762
Capital redemption reserve	20	**957**	857
Profit and loss account	20	**1,370**	889
Equity shareholders' funds		**26,085**	25,604

D. B. Green Director
R. M. Barker Director
22nd July 2004

The notes on pages 21 to 34 form part of these accounts.

GROUP CASH FLOW STATEMENT

For the year ended 30th April 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	4(b)	**6,499**	6,191
Returns on investments and servicing of finance:			
Interest received		**9**	40
Interest paid		**(273)**	(262)
		(264)	(222)
Taxation:			
UK Corporation tax paid		**(679)**	(572)
Overseas tax paid		**(141)**	(668)
		(820)	(1,240)
Capital expenditure and financial investment:			
Payments to acquire tangible fixed assets		**(1,771)**	(2,106)
Receipts from sales of tangible fixed assets		**96**	93
		(1,675)	(2,013)
Equity dividends paid		**(634)**	(661)
Cash inflow before financing		**3,106**	2,055
Financing:			
Purchase of own shares		**(782)**	(2,414)
New long-term loan		**—**	2,000
Repayment of long-term loans		**(1,371)**	(957)
Net cash outflow from financing		**(2,153)**	(1,371)
Increase in cash in the period	14	**953**	684

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30th April 2004

		2004 £'000	2003 £'000
Profit for the financial year		**1,933**	1,794
Currency translation differences on foreign currency net investments		**(238)**	258
Currency translation differences on foreign currency loans		**(756)**	(674)
Deferred tax on long-term loan foreign currency movements		**319**	276
Total recognised gains and losses relating to the year	21	**1,258**	1,654

NOTES TO THE ACCOUNTS

At 30th April 2004

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 financial statements consolidate the financial statements of Colefax Group PLC and its subsidiaries for the year ended 30th April 2004. 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 financial statements of the holding company was £1,859,000 (2003 - £3,164,000).

(c) 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 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.

(d) 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 or life of the asset
Furniture, fixtures and equipment	—5-10 years
Motor vehicles	—4 years
Screens and originations	—4 years

Assets in the course of construction are not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(e) 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.

(f) 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.

(g) Deferred Taxation
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 than 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 recognised 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.

NOTES TO THE ACCOUNTS

At 30th April 2004

1. **Accounting Policies** *continued*

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.

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

(i) Pension Scheme Arrangements
The Group operates defined contribution pension schemes which are 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.

(j) 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.

(k) 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 contracts designated as hedges of forecast foreign exchange are deferred until the financial period in which they are realised.

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

NOTES TO THE ACCOUNTS
At 30th April 2004

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	
	2004	2003	**2004**	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Business Activity:						
Product division	**56,096**	57,002	**15,862**	18,021	**2,969**	2,745
Decorating division	**7,285**	7,420	**1,088**	1,071	**218**	292
	63,381	64,422	**16,950**	19,092	**3,187**	3,037
Geographical Area:						
Country of Origin:						
United Kingdom	**32,757**	32,412	**9,168**	10,334		
United States of America	**27,307**	28,752	**5,949**	6,552		
Europe	**3,317**	3,258	**1,833**	2,206		
	63,381	64,422	**16,950**	19,092		
Country of Destination:						
United Kingdom	**16,626**	17,178				
United States of America	**28,780**	31,485				
Europe	**15,192**	13,627				
Rest of World	**2,783**	2,132				
	63,381	64,422				

Net assets are stated before cash, bank overdrafts and loans of £2,773,000 (2003 – £5,042,000) and net tax payable of £965,000 (2003 – £719,000).

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

	2004	2003
	£'000	£'000
Distribution and marketing costs	**21,015**	22,449
Administrative costs	**10,992**	10,848
Total operating expenses	**32,007**	33,297

4. Operating Profit

	2004	2003
	£'000	£'000
(a) This is stated after charging or (crediting):		
Auditors' remuneration — audit (UK)	**72**	57
— audit (overseas)	**53**	60
— non audit (UK only)	**—**	58
Depreciation of owned fixed assets	**2,315**	2,454
Operating lease rentals — land and buildings	**2,681**	2,775
— other	**63**	71

(b) Cash flow statement
Reconciliation of operating profit to net cash inflow from operating activities:

	2004	2003
Operating profit	**3,187**	3,037
Depreciation charges	**2,315**	2,454
Profit on sale of tangible fixed assets	**(24)**	(22)
Decrease in stocks	**1,206**	171
Decrease/(Increase) in debtors	**646**	(200)
(Decrease)/Increase in creditors	**(831)**	751
Net cash inflow from operating activities	**6,499**	6,191

NOTES TO THE ACCOUNTS

At 30th April 2004

			2004 £'000	2003 £'000
5.	**Staff Costs**	Staff costs, including Executive Directors, were as follows:		
		Wages and salaries	**12,833**	13,204
		Social security costs	**1,671**	1,699
		Other pension costs	**288**	283
			14,792	15,186

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

	No.	No.
Distribution and marketing	**351**	376
Administration	**83**	93
	434	469

Details of Directors' remuneration for each Director, pension contributions and share options are shown in the Remuneration Report on pages 11 and 12.

			2004 £'000	2003 £'000
6.	**Interest**	Interest payable:		
		Bank loans and overdrafts repayable within five years	**286**	276
		Interest receivable:		
		Bank and other interest receivable	**(9)**	(40)
			277	236

			2004 £'000	2003 £'000
7.	**Tax on Profit on ordinary activities**	(a) Analysis of charge for the year		
		UK corporation tax		
		UK corporation tax on profits of the year	**1,061**	1,181
		Adjustments in respect of previous years	**(8)**	19
			1,053	1,200
		Double taxation relief	**—**	(649)
			1,053	551
		Overseas Tax		
		Overseas Tax on profits of the year	**33**	599
		Total current tax	**1,086**	1,150
		Deferred tax		
		Originating and reversal of timing differences	**(109)**	(143)
			977	1,007

(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 on the following page.

NOTES TO THE ACCOUNTS
At 30th April 2004

7. Tax on Profit on ordinary activities *continued*

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	**2,910**	2,801
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%)	**873**	840
Effect of:		
Disallowed expenses and non-taxable income	**190**	122
Depreciation in excess of capital allowances	**72**	24
Short-term timing differences	**(93)**	(2)
Adjustments in respect of previous periods	**8**	19
Excess foreign tax on overseas income	**101**	216
Tax losses	**(65)**	(68)
Other	**—**	(1)
	1,086	1,150

8. Dividends

	2004 £'000	2003 £'000
Interim (paid) of 1.34p (2003 – 1.34p) on 8th April 2004	**242**	255
Final (proposed) of 2.06p (2003 – 2.06p) payable on 12th October 2004	**354**	392
Dividends overprovided in previous years	**—**	(53)
	596	594

9. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,933,000 (2003 – £1,794,000) and on 18,630,756 (2003 – 20,176,029) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,933,000 (2003 – £1,794,000) and on 18,960,402 (2003 – 20,476,029) being the weighted average number of shares in issue during the year, calculated as follows:

	2004	2003
Basic weighted average number of shares	**18,630,756**	20,176,029
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**329,646**	300,000
	18,960,402	20,476,029

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 2003	231	6,198	5,959	385	4,976	17,749
Exchange adjustment	—	(421)	(267)	(1)	(393)	(1,082)
Additions	—	488	278	160	845	1,771
Disposals	—	(243)	(402)	(123)	(335)	(1,103)
At 30th April 2004	231	6,022	5,568	421	5,093	17,335
Depreciation:						
At 1st May 2003	30	3,558	3,999	178	2,916	10,681
Exchange adjustment	—	(267)	(227)	(1)	(248)	(743)
Charge for the year	3	517	718	91	986	2,315
Disposals	—	(243)	(401)	(52)	(335)	(1,031)
At 30th April 2004	33	3,565	4,089	216	3,319	11,222
Net Book Value:						
At 30th April 2004	198	2,457	1,479	205	1,774	6,113
At 1st May 2003	201	2,640	1,960	207	2,060	7,068

NOTES TO THE ACCOUNTS
At 30th April 2004

		Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
11. **Investments**	Investments in subsidiary undertakings				
	Shares	**—**	—	**17,871**	17,871
	Loans	**—**	—	**7,650**	7,650
	Own Shares at cost	**687**	687	**687**	687
		687	687	**26,208**	26,208

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**
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, 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 Own Shares represent the cost of 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. This loan facility was increased to £800,000 on 19th July 2000. At 30th April 2004, the market value of the shares was £1,010,000 (2003 – £650,000). Dividends on these shares have been waived.

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

345,000 shares in the ESOP were under option at the balance sheet date.

NOTES TO THE ACCOUNTS
At 30th April 2004

		Group 2004 £'000	Group 2003 £'000
12. **Stocks and Contracts in Progress**	Finished goods for resale	**11,352**	12,879
	Contracts in progress	**1,239**	1,153
	Less: progress payments received and receivable	**(1,121)**	(993)
		11,470	13,039

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

		Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
13. **Debtors**	Amounts owed by subsidiary undertakings	**—**	—	**8,982**	6,289
	Trade debtors	**6,443**	7,047	**—**	—
	Other debtors	**338**	501	**—**	—
	Prepayments and accrued income	**1,059**	1,166	**—**	—
	Deferred taxation	**857**	497	**—**	—
		8,697	9,211	**8,982**	6,289

		Group 2004 £'000	Group 2003 £'000
14. **Cash and Financing**	**Reconciliation of Net Cash Flow to Movement in Net Debt**		
	Increase in cash	**953**	684
	New bank loan	**—**	(2,000)
	Repayment of bank loans	**1,371**	957
	Movement in net debt resulting from cash flows	**2,324**	(359)
	Exchange differences	**(55)**	78
	Movement in net debt in the period	**2,269**	(281)
	Net debt at 1st May	**(5,042)**	(4,761)
	Net debt at 30th April	**(2,773)**	(5,042)

	At 1st May 2003 £'000	Cash flow £'000	Other £'000	Exchange differences £'000	**At 30th April 2004 £'000**
Analysis of Net Debt					
Cash at bank and in hand	1,639	253	—	(123)	**1,769**
Overdrafts	(3,742)	700	—	—	**(3,042)**
	(2,103)	953	—	(123)	**(1,273)**
Debt due within one year	(1,439)	1,371	(500)	68	**(500)**
Debt due after one year	(1,500)	—	500	—	**(1,000)**
Net debt	(5,042)	2,324	—	(55)	**(2,773)**

NOTES TO THE ACCOUNTS

At 30th April 2004

15. Creditors: amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Current instalments due on loans	**500**	1,439	**500**	500
Bank overdraft	**3,042**	3,742	**6,245**	3,707
Amounts owed to subsidiary undertakings	**—**	—	**961**	770
Trade creditors	**4,566**	4,497	**—**	—
Accruals	**2,918**	2,882	**45**	24
Payments received on account	**697**	1,295	**—**	—
Corporation tax	**965**	719	**—**	—
Other taxes and social security costs	**863**	916	**—**	—
Other creditors	**514**	801	**—**	—
Proposed dividend	**354**	392	**354**	392
	14,419	16,683	**8,105**	5,393

16. Creditors: amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loan repayable within 1-2 years	**500**	500	**500**	500
Bank loans repayable within 2-5 years	**500**	1,000	**500**	1,000
	1,000	1,500	**1,000**	1,500

Interest payable on the bank loan outstanding at 30th April 2004 and 2003 is at 1.00% over HSBC base rate.

17. Deferred Taxation

	Group 2004 £'000	Group 2003 £'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on tangible fixed assets	**(143)**	(98)
Short-term timing differences	**(608)**	(269)
	(751)	(367)
This is made up as follows:		
Deferred taxation included in Debtors	**(857)**	(497)
Deferred taxation included in Provision for liabilities and charges	**106**	130
	(751)	(367)

	Deferred taxation £'000
Movements in provisions:	
At 1st May 2003	(367)
Movement in the year	(428)
Translation adjustment	44
At 30th April 2004	(751)

Factors affecting the future tax charge:

A deferred tax asset amounting to £52,000 (2003 – £52,000) 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 £196,000 (2003 – £315,000) 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.

NOTES TO THE ACCOUNTS
At 30th April 2004

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 2004

	Net foreign currency monetary assets/(liabilities)				
	Sterling £'000	US Dollar £'000	Eurozone £'000	Other £'000	Total £'000
Functional Currency of group unit					
Sterling	—	(72)	(2,489)	196	(2,365)
US Dollar	2,446	—	—	—	2,446
Total	2,446	(72)	(2,489)	196	81

At 30th April 2003

	Net foreign currency monetary assets/(liabilities)				
	Sterling £'000	US Dollar £'000	Eurozone £'000	Other £'000	Total £'000
Functional Currency of group unit					
Sterling	—	(36)	(3,931)	237	(3,730)
US Dollar	2,214	—	—	—	2,214
Total	2,214	(36)	(3,931)	237	(1,516)

Borrowing Facilities
The Group has various borrowing facilities available to it amounting to £8.3 million (2003 – £9.8 million). The undrawn committed facilities available at 30th April 2004 in respect of which all conditions had been met at that date total £5.5 million (2003 – £4.8 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:

		2004	
	Gains £'000	**Losses £'000**	**Total £'000**
Unrecognised gains on hedges at 1st May 2003	**585**	**—**	**585**
Gains arising in previous years that were recognised in the current year	**686**	**—**	**686**
Gains arising in the year that were not recognised in the current year	**448**	**—**	**448**
Unrecognised gains on hedges at 30th April 2004	**688**	**—**	**688**
of which			
Expected to be recognised in the year ended 30th April 2005	**398**	**—**	**398**
Expected to be recognised in the year ended 30th April 2006	**290**	**—**	**290**

NOTES TO THE ACCOUNTS
At 30th April 2004

18. Financial Instruments *continued*

	Gains £'000	2003 Losses £'000	Total £'000
Unrecognised gains on hedges at 1st May 2002	175	—	175
Gains arising in previous years that were recognised in the current year	655	—	655
Gains arising in the year that were not recognised in the current year	316	—	316
Unrecognised gains on hedges at 30th April 2003	585	—	585
of which			
Expected to be recognised in the year ended 30th April 2004	477	—	477
Expected to be recognised in the year ended 30th April 2005	108	—	108

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 2004	Floating Rate Financial Assets £'000	Floating Rate Financial Liabilities £'000	Total net Financial Liabilities £'000
Sterling	8	(3,149)	(3,141)
US Dollar	1,140	(24)	1,116
Euro Currencies	570	(1,369)	(799)
Swedish Kronor	26	—	26
Other	25	—	25
	1,769	(4,542)	(2,773)

At 30th April 2003	Floating Rate Financial Assets £'000	Floating Rate Financial Liabilities £'000	Total net Financial Liabilities £'000
Sterling	27	(2,899)	(2,872)
US Dollar	1,121	(964)	157
Euro Currencies	435	(2,818)	(2,383)
Swedish Kronor	19	—	19
Other	37	—	37
	1,639	(6,681)	(5,042)

NOTES TO THE ACCOUNTS
At 30th April 2004

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 2004, 54% of net borrowings were in the form of a sterling denominated bank loan, repayable in 6 half-yearly instalments from October 2004.

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 43% 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 28% 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 2004, the Group has outstanding forward contracts with a fair value of £688,000 (2003 – £585,000).

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.

The fair value of outstanding forward contracts is the same as the unrecognised gain. The book value is nil.

		Authorised		Allotted, called up and fully paid	
		2004	2003	**2004**	2003
19. Called Up Share Capital	Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,909,000**	£2,009,010

In the 2003 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 2004 the company purchased 1,000,100 10p shares in the market for an aggregate nominal value of £100,010. This represented 4.98% of the issued 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 2004:

(a) Share Options

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
97,000	7	78p	22.08.94	22.08.97	21.08.04
75,000	11	111p	24.07.97	24.07.00	23.07.07
309,000	33	83p	06.04.99	06.04.02	05.04.09
30,000	2	72p	20.10.00	20.10.03	20.10.10

Details of share options and shareholdings of Directors are shown in paragraph 7 of the Remuneration Report on page 12.

NOTES TO THE ACCOUNTS
At 30th April 2004

20. Reserves

	Merger Reserve £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000
Group:				
At 1st May 2003	—	11,087	857	(622)
Share buy backs	—	—	100	(782)
Foreign Currency translation	—	—	—	(675)
Profit retained	—	—	—	1,337
At 30th April 2004	—	11,087	957	(742)
Company:				
At 1st May 2003	10,762	11,087	857	889
Share buy backs	—	—	100	(782)
Profit retained	—	—	—	1,263
At 30th April 2004	10,762	11,087	957	1,370

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2003 – £23,062,000).

21. Group Reconciliation of Movements in Shareholders' Funds

	2004 £'000	2003 £'000
Total recognised gains and losses relating to the year	**1,258**	1,654
Dividends	**(596)**	(594)
Repurchase of shares	**(782)**	(2,414)
Exercise of share options	**—**	45
Net decrease in shareholders' funds	**(120)**	(1,309)
Shareholders' funds at 1st May	**13,331**	14,640
Shareholders' funds at 30th April	**13,211**	13,331

22. Commitments Under Operating Leases

At 30th April 2004 the Group had annual commitments under non-cancellable operating leases as follows:

	2004 Land and Buildings £'000	**Other £'000**	2003 Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	**60**	**15**	337	6
In two to five years	**1,066**	**36**	1,028	44
After five years	**1,734**	**—**	1,509	—
	2,860	**51**	2,874	50

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

NOTES TO THE ACCOUNTS

At 30th April 2004

23. **Pension Commitments**

Group companies operate a defined contribution 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 £37,157 (2003 – £47,545).

Group companies also make pension contributions for eligible employees to group personal pension schemes. These schemes are independently administered. The pension cost charge represents contributions payable by Group companies to the schemes during the year and amounted to £250,704 (2003 – £235,499).

SSAP 24 disclosures for the year ended 30th April 2004:

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 lst 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 2004. The actuary valued the fund at £892,676 (2003 – £1,064,590) which was sufficient to cover 85% (2003 – 90%) 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% (2003 – 5%), no annual increase in total pensionable remuneration and a discount on liabilities of 5% (2003 – 5.5%).

FRS 17 disclosure for the year ended 30th April 2004:

The Accounting Standards Board (ASB) has deferred the full mandatory adoption of FRS 17 following an announcement by the International Accounting Standards Board that it is to review IAS 19, the current international accounting standard for retirement benefits. Currently, FRS 17 requires disclosures only. This is the third year that disclosures have been made for the Group under FRS 17.

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 2004 using the projected unit 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% (2003 – 5.5%) (2002 – 6%). The market value of investments at 30th April 2004 was £892,676 (2003 – £1,064,590) (2002 – £1,065,467), all of which were held in government bonds with an expected long term rate of return of 5% (2003 – 5%) (2002 – 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 2004 was £1,051,288 (2003 – £1,180,477) (2002 – £1,193,696), resulting in an unfunded actuarial accrued liability of £158,612 (2003 – £115,887) (2002 – £128,229). An accrual of £158,000 (2003 - £175,000) (2002 – £192,000) covering the unfunded actuarial accrued liability is included in the Group balance sheet together with a related deferred tax asset of £64,750 (2003 – £71,750) (2002 – £78,720).

Had the Group adopted FRS 17 early, the amounts that would have been charged to the Group profit and loss account and Group statement of total recognised gains and losses for the year ended 30th April 2004 are set out below:

	2004 £'000	2003 £'000
Group profit and loss account:		
Expected return on pension scheme assets	**47**	52
Interest on pension liabilities	**(52)**	(58)
Net charge to finance income	**(5)**	(6)
Total charge to profit and loss account	**(5)**	(6)

	2004 £'000	**% scheme assets/ (liabilities)**	2003 £'000	% scheme assets/ (liabilities)
Group statement of total recognised gains and losses:				
Actual return less expected return on pension scheme assets	**(30)**	**(3.4%)**	117	11%
Experience losses arising on the pension scheme liabilities	**(20)**	**(2.2%)**	(132)	(12%)
Actuarial loss	**(50)**	**(5.6%)**	(15)	(1%)

NOTES TO THE ACCOUNTS

At 30th April 2004

23. **Pension Commitments** *continued*

Had the Group adopted FRS 17 in full for the year ended 30th April 2004, the additional pension charge in the Group profit and loss account would be as follows:

	2004 **£'000**	2003 £'000
FRS 17 profit and loss charge – including unfunded pension plans	**(5)**	(6)
SSAP 24 profit and loss charge – included unfunded pension plans	**—**	—
Difference	**(5)**	(6)
Movement in the unfunded actuarial accrued liability in the year:		
Deficit in scheme at 1st May 2003	**(116)**	(128)
Cash contributions	**—**	22
Finance charge	**(5)**	(6)
Actuarial loss recognised in statements of total recognised gains and losses	**(50)**	(15)
Currency translation differences	**12**	11
Deficit in scheme at 30th April 2004	**(159)**	(116)

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. At 30th April 2004, the value of subsidiary overdrafts covered by the guarantee amounted to £1,876,227.

24. **Post Balance Sheet Events**

On 21st May 2004, the Group purchased and cancelled one million shares at a cost of 93p per share. After the share buyback, the total number of shares in issue amount to 18,090,000.

FIVE YEAR REVIEW

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Turnover	**63,381**	64,422	67,307	70,412	63,923
Operational profit	**3,187**	3,037	4,225	6,461	5,185
Profit before taxation	**2,910**	2,801	3,859	5,918	4,751
Profit attributable to shareholders	**1,933**	1,794	2,535	3,952	2,988
Basic earnings per share	**10.4p**	8.9p	11.1p	16.5p	12.5p
Earnings per share after exceptional items	**10.4p**	8.9p	11.1p	16.5p	11.2p
Dividends per share	**3.40p**	3.40p	3.40p	3.30p	3.15p
Shareholders' funds	**13,211**	13,331	14,640	13,970	11,325
Operating cash flow	**6,499**	6,191	6,909	8,058	7,251
Net debt	**2,773**	5,042	4,761	6,029	5,632

NOTICE OF MEETING

Notice is hereby given that the 2004 Annual General Meeting of Colefax Group plc will be held at 39 Brook Street,London W1K 4JE on 14th September 2004 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 2004, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.06p per ordinary share.
3. To re-appoint BDO Stoy Hayward LLP as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which accounts are laid.
4. To authorise the Directors to determine the remuneration of the auditors.
5. To re-elect R. Barker, who retires by rotation, as a Director.
6. To re-elect W. Nicholls, who retires by rotation, as a Director.

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolutions 9, 10 and 11 will be proposed as special resolutions.

7. To approve the Remuneration Report for the financial year ended 30th April 2004.
8. 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 £433,933 (being the amount of the authorised but unissued share capital of the Company) for a period expiring (unless previously renewed varied substituted or revoked by the Company in general meeting) fifteen months after the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement and so that all previous authorities given by the Company in general meeting pursuant to Section 80 of the Act are revoked (save to the extent relied upon prior to the passing of this resolution).
9. THAT, subject to the passing of Resolution 8, the Directors be and are hereby generally empowered pursuant to Section 95 of the Act to allot or make offers or agreements to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company pursuant to the authority conferred by Resolution 8 as if Section 89(1) of the Act did not apply to such allotment provided that this power:

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

   (b) shall be limited to:

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

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

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

      (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £90,450.

NOTICE OF MEETING

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

    (a) the maximum aggregate number of ordinary shares authorised to be purchased is 2,713,500 (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.

11. THAT the new Articles of Association, tabled at the meeting and initialled by the Chairman thereof for indentification purposes, be hereby adopted as the new Articles of Association of the Company in substitution for and to the exclusion of its existing Articles of Association.

By order of the Board
R. M. Barker BSc ACA
Secretary
Dated 22nd July 2004

Registered Office
39 Brook Street
London W1K 4JE

Notes:

1. Only those members entered in the register of members of the Company as at 6 p.m. on 12th September 2004 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 12th September 2004 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 7 to 8.
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; and

    (iii) a copy of the proposed new Articles of Association.

APPENDIX

Colefax Group PLC ("the Company") Principal Changes to the Articles of Association

Calls on Shares, Forfeiture and Liens

- All references to calls on shares, forfeiture and liens in respect of nil paid or partly paid shares are to be removed in the proposed new Articles of Association. The Company, being listed, should only under normal circumstances issue fully paid up shares and so these provisions, which are contained in the existing Articles, are deemed unnecessary.

Transfer of Shares

- Provisions are contained in the proposed new Articles of Association setting out the specific procedure and time frames for notifying a transferee of a refusal by the Directors to register the transfer.
- Specific provisions relating to uncertificated shares and transfers of uncertificated shares under the Uncertificated Securities Regulations 2001 are included in the proposed new Articles of Association.

Annual General Meetings

- The proposed new Articles of Association specifically state that the Company will hold one annual general meeting each year and that not more than 15 months shall elapse between each meeting.
- The proposed new Articles of Association stipulate a notice period for Annual General Meetings of 20 business days in accordance with the Combined Code on Corporate Governance.
- Provisions are contained in the proposed new Articles of Association enabling voting and the delivery of notices and proxies by electronic means.

Disenfranchisement

- In accordance with current practice, the proposed new Articles of Association expressly state that section 212 of the Companies Act 1985 is deemed to be incorporated into the Articles. If a shareholder fails to respond to a section 212 notice and holds at least 0.25% of any class of shares, he may in certain circumstances be disenfranchised.

Directors

- In accordance with the Combined Code on Corporate Governance, the proposed new Articles of Association stipulate that the maximum number of directors shall be 8.
- Under the proposed new Articles of Association, the aggregate ordinary remuneration of the directors is to be limited to £100,000. The Directors may (if they see fit) agree to the extra remuneration of a Director if he devotes special attention to matters outside the scope of his ordinary duties.

Alternate Directors

- In order to ensure the smooth operation of the Board, a Director may appoint an alternate to attend and vote at Board meetings in the absence of his appointor. The proposed new Articles of Association contain detailed provisions governing the appointment of an alternate and the powers and duties of an alternate.

Directors interests

- More detailed provisions on Directors' interests are contained in the proposed new Articles of Association. In particular, under the current proposals, a Director may vote in respect of any resolution proposing the purchase and/or maintenance by the Company of any insurance policy for his own benefit.

Removal of Directors

- Under the proposed new Articles of Association, a Director may be removed from office by a notice in writing signed by all his co-Directors.
- The Directors may remove as well as elect a Chairman.

Meetings of Directors

- In order to enable the Directors to make full use of modern teleconferencing facilities, the proposed new Articles of Association allow Directors to attend meetings by telephone or other conference facilities.

Secretary

- The proposed new Articles of Association allow the Directors not only to appoint a Secretary but to determine the terms and period of the appointment and to remove the Secretary from office.

Dividends

- The proposed new Articles of Association allow the Company to retain dividend payments until any person entitled to become a member due to the transmission of shares actually becomes a member in respect of such shares.
- The Company has the right to stop sending dividend cheques to a member if the same are returned on two consecutive occasions.

Accounts

- Under the proposed new Articles of Association, the Company may circulate summary financial statements rather than full reports and accounts where this is permitted by law.
- The Company's auditors are to be given the right to attend general meetings.

Indemnity

- Under the proposed new Articles of Association, the Company may purchase and maintain insurance for Directors, officers, employees and auditors in respect of any liability incurred by such person as a result of any act or omission in relation to the Company and/or any of its subsidiaries.

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FORM OF PROXY

For use by holders of shares in COLEFAX GROUP PLC ("the Company") at the 2004 Annual General Meeting

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 W1K 4JE on 14th September 2004 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 adopt the annual accounts		
2. To declare the final dividend		
3. Re-appointment of auditors		
4. Determine the remuneration of auditors		
5. To re-elect R. Barker		
6. To re-elect W. Nicholls		
7. To approve the Directors' remuneration report		
8. To give the Directors authority to allot shares under s80 Companies Act 1985		
9. To empower the Directors to disapply s89(1) Companies Act*		
10. To authorise the purchase by the Company of its own shares*		
11. To adopt the new Articles of Association*		

*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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