Colefax Group Plc

Annual Report and Accounts 2005

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

CONTENTS

FINANCIAL HIGHLIGHTS

	2005 £'000	2004 £'000	Increase/ (Decrease)
Turnover	**64,455**	63,381	2%
Operating profit	**3,439**	3,187	8%
Profit before taxation	**3,147**	2,910	8%
Profit attributable to shareholders	**2,209**	1,933	14%
Basic earnings per share	**13.1p**	10.4p	26%
Diluted earnings per share	**13.0p**	10.2p	27%
Dividends per share	**3.50p**	3.40p	3%
Shareholders' funds (as restated)	**12,076**	12,745	(5)%
Operating cash flow	**4,786**	6,499	(26)%
Net debt	**4,051**	2,773	46%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2005 increased by 8% to £3.15 million (2004 – £2.91 million) on sales up 2% at £64.46 million (2004 – £63.38 million). Earnings per share increased by 26% to 13.1p (2004 – 10.4p). Excluding the effect of share buybacks, earnings per share increased by 11%. Group net borrowings at the year-end were £4.05 million (2004 – £2.77 million), which represents gearing of 34% to net assets. The increase in borrowings of £1.28 million includes £1.9 million spent on share buybacks during the year.

The Board has decided to recommend that the final dividend be increased by 5% to 2.16p (2004 – 2.06p) making a total for the year of 3.50p (2004 – 3.40p), an increase of 3%. The final dividend will be paid on 12th October 2005 to shareholders on the register at the close of business on 9th September 2005.

The most pleasing feature in this year's results was the significant increase in sales in the US, which is the Group's most important trading area. The UK produced a satisfactory result with a small sales increase and there were mixed results across our major markets in Continental Europe. However, for the majority of the year, the US dollar remained very weak and this continued to adversely affect our margin in the US.

Product Division

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

Fabric Division sales increased by 3% over last year and accounted for 81% of the Group's total turnover.

Sales in the US, which represent 54% of the Fabric Division's sales, increased by 12% on a constant currency basis. This market remained strong throughout the year, with the most significant event being the opening of our own showroom in Washington DC. This is an important market for us and we are starting to see significant sales growth as a result of the new showroom.

UK sales, which represent 21% of the Fabric Division's turnover, increased by 4% on a like for like basis. With the weakening of the high-end property market, we expect sales growth to slow this year.

Sales in Continental Europe, which represent 23% of the Fabric Division's turnover, increased by 6% on a constant currency basis. Particularly encouraging was the fact that our two most important markets, France and Italy, showed a return to growth. Germany remains difficult and produced flat sales for the year. There are opportunities for the Group to increase sales in Europe but there needs to be an improvement in market conditions.

Sales in the rest of the world, which represent 2% of the Fabric Division's sales, decreased by 14% during the year mainly due to a difficult year in Australia which is our largest territory in this market. The limited potential of this market means that it is not a major focus for the Group.

We are planning major launches of new fabric collections this year for all our brands and particularly exciting will be the introduction of our US fabric brand, Cowtan & Tout, into Europe for the first time in January 2006.

- **Furniture – Kingcome Sofas**

Sales of furniture, which account for 3% of Group sales, decreased by 12%, reflecting the current state of the furniture market in the UK. We relocated our London retail showroom in June and are planning a number of marketing initiatives to increase sales but do not expect any real improvement in market conditions over the short-term.

- **Accessories – Manuel Canovas**

Manuel Canovas accessories, which comprise sales of beachwear and scented candles, and account for 4% of Group sales, increased by 7% on a like for like basis. We have just launched our new 2006 collection and the input of a new stylist has resulted in a more fashionable collection. We are optimistic about this area of the Group's activities for the current year.

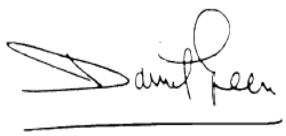
CHAIRMAN'S STATEMENT

Decorating Division
Interior decorating and antique sales, which together account for 12% of Group sales, increased by 3% during the year. The Division is seeing signs of improvement with a number of significant interior decorating contracts having been started this year. However, antique sales remain weak and continue to be affected by the weak US dollar.

Prospects
Trading conditions in our principal market, the US, remain strong and we are optimistic about the outcome for sales growth for this year. Trading in the UK, however, is showing signs of becoming tougher, and combined with unfavourable market conditions in Continental Europe, total sales growth for the product division will probably be less than last year.

It is disappointing that whilst we are achieving good sales growth in the US, the weakness of the US dollar continues to adversely affect the Group's ability to translate growth into a significant improvement in profitability. However, there are opportunities within certain markets and we are confident that there will be an improvement in the Group's performance in the medium term.

This year's results have been achieved by the hard work, dedication and talent of all our staff and I would like to thank them for their continued commitment to the growth and success of the Group.



David B. Green
Chairman

OPERATING AND FINANCIAL REVIEW

Financial Review

Group sales increased by 2% to £64.5 million (2004 – £63.4 million) and by 5% on a constant currency basis. This compares to a like for like increase of 1% last year and a 1% fall in 2003. The United States is the driving force behind the sales increase and this trend seems likely to continue in the current year reflecting a particularly strong US residential housing market. In contrast the UK market is widely reported as being more difficult and historically our performance tends to lag any slowdown in the property market. In all our markets we see interest rates as critical to trading prospects because of the sensitivity of housing transactions to changes in rates.

In our core fabric division, sales increased by 3% to £52.2 million but increased by 7% on a like for like basis. Trading remains highly competitive in all our major markets with companies continuing to invest heavily in new product launches. The furnishing fabric industry has been particularly affected by the weakness of the US dollar against the Euro and Sterling. This has significantly reduced profit margins on US sales and has hurt European manufacturers who have struggled to maintain their competitiveness. The recent strengthening of the US dollar will be welcomed throughout the industry although it remains to be seen if it will be sustained.

The Group's gross profit margin decreased 1% to 55%. This follows a 1% fall last year and is entirely due to the weakness of the US dollar. There is a lag effect from currency deterioration as higher European and UK purchase prices feed first into stock and then into the US cost of goods sold. However, provided there is no further weakening of the US dollar there should be no further margin erosion in the current year. In monetary terms a 1% margin decrease impacts profit by £640,000.

Just over 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 £646,000 compared to £686,000 last year. This profit is credited to administrative expenses in our profit and loss account and exactly compensates for the 1% margin deterioration during the year. However, the average US dollar to sterling rate during the year was 1.86 against 1.72 last year and so our hedging gains have been made from much weaker spot positions.

For the current year, the Group has forward contracts in place to cover approximately 93% of its US sterling exposure. At the year-end rate of 1.91 these contracts were showing a gain of £728,000 although this has largely been eliminated by the recent strengthening of the US dollar. The Group as yet has no forward cover in place for the year to April 2007. In the absence of forward cover every one cent movement in the US dollar against sterling impacts Group profits by approximately £70,000.

The Group has relatively little transactional exposure to the euro, as there is a natural hedge between euro purchases and sales. Currently Euro denominated purchases and other costs exceed Euro sales and so the Group has a marginal preference for a weaker Euro.

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

	2005	2004	% Change
US Dollar Average	1.86	1.72	(8%)
US Dollar Closing	1.91	1.77	(8%)
Euro Average	1.46	1.45	(1%)
Euro Closing	1.48	1.48	–

Group Operating Profits increased by 8% to £3.4 million (2004 – £3.2 million) representing a return on sales of 5% (2004 – 5%). This operating margin compares to a historical peak of 9% achieved at the height of the dotcom boom in 2001 when the average dollar rate was 1.47. Increasing the operating margin through managed sales growth and tight control of operating costs remains a core financial objective. In keeping with the rest of the industry, high gross margins and relatively fixed operating expenses means that the profit performance of the company is highly sensitive to small fluctuations in sales.

OPERATING AND FINANCIAL REVIEW

Share Buybacks
During the year the Group purchased and cancelled two million shares representing 10.5% of the issued share capital at a cost of £1.9 million or 95p per share. Since September 1999 the Group has purchased and cancelled 11.57 million shares at a cost of £9.1 million and representing 41% of the issued share 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. At the year end closing share price of 92.5 pence the Group's cost of equity capital is 14%, up from 11% last year. This compares to a post tax cost of debt of just 4%. As a result the Group will look to make further share buybacks but only if the directors believe they are in the best interests of shareholders.

Basic Earnings Per Share
Earnings per share increased by 26% to 13.1p (2004 – 10.4p). This is exceptional and compares to an 8% increase in profit before tax. It is due to two factors. Firstly share buybacks reduced the weighted average number of shares in issue during the year by 10%. Secondly, for reasons explained in the tax note below, the Group has an unusually low tax charge of 30% compared to 34% last year. This has increased basic earnings per share by 6%. Diluted earnings per share which takes into account the potential dilutive effect of share options, including ESOP options, are 1% below basic earnings per share at 13.0p (2004 – 10.2p).

Dividends
The Board has proposed a 5% increase in the final dividend to 2.16p per share (2004 – 2.06p) making a total for the year of 3.5p (2004 – 3.4p), an increase of 3%. This follows three years of flat dividends which reflected difficult trading conditions combined with uncertainties arising from the weakness of the US dollar. As stated last year it is the Board's intention to pursue a progressive dividend policy. The total cost of the dividend is £567,000 which represents dividend cover of 3.9 times (2004 – 3.2 times). The reduced cost and increased cover is due to the effect of share buybacks during the year. At the year-end mid market closing price of 92.5p the dividend yield is 3.8%

Taxation
The Group tax rate for the year was 30% compared to an underlying rate of 34% last year. The lower tax charge is due to the utilization of tax losses in France which originated in 2004 and deferred tax adjustments in the US. The tax charge also reflects lower taxable profits in the US caused by the further weakness of the US dollar throughout the year. Next year the Group anticipates that the tax charge will return to 2003 levels. Our corporate tax rate is in excess of 40% in the US due to the combined effect of federal, state and local taxes. If the recent strengthening of the US dollar is sustained this will lead to increased US profits and an increased effective tax rate for the Group.

The Group balance sheet still includes a significant deferred tax asset of £1,273,000 (2004 – £857,000). This mainly relates to an unrealised foreign exchange loss on a long-term sterling loan between the Group and our US subsidiary Cowtan and Tout and will unwind if the US dollar strengthens. The unrealised loss, net of deferred tax, has been included in the Group statement of total recognised gains and losses.

Cashflow
Group borrowings increased by £1.3 million to £4.05 million representing gearing of 34% to net tangible assets (2004 – 21%). The increase is partially explained by the £1.9 million of share buybacks during the year. Excluding share buybacks and dividends paid, the Group generated cash of £1.3 million during the year. This compares to profit after tax of £2.2 million. The adverse difference is mainly due to an increase of £912,000 in working capital comprising increased stock of £918,000, increased debtors of £547,000 and increased creditors of £553,000. The cash generation of £1.3 million compares to £3.1 million last year which was exceptional and was due to a £1.2 million reduction in inventory coupled with very low capital expenditure. In part this year's increase in inventory reflects strong growth in the US and is a characteristic of our business. Inventory levels are the key to high levels of customer service although the Group is committed to very tight controls over working capital. It is an ongoing objective that Group retained profits are matched by cash generation.

OPERATING AND FINANCIAL REVIEW

Capital expenditure during the year amounted to £2.2 million compared to a depreciation charge of £2.3 million. The main non recurring capital item this year was our new showroom in Washington. Next year the Group anticipates lower capital expenditure of approximately £1.8 million. This includes investment in a new Kingcome Sofas retail showroom.

Net interest paid during the year was £292,000 (2004 – £277,000). 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.

Given the above and based on the plans for 2005–06 after making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the 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

R. M. Barker BSc ACA
39 Brook Street, London W1K 4JE

Registered in England No. 1870320

Nominated Advisers and Stockbrokers

KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

Solicitors

SJ Berwin
222 Gray's Inn Road
London WC1X 8XF

Bankers

HSBC Bank plc
31 Holborn
London EC1N 2HR

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

Registrars and Transfer Office

Computershare Services PLC
P.O. Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2005.

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 25% of the issued share capital as at 20th July 2005) 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 £256,350 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 20th July 2005. 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 20th July 2005, the latest practical date prior to publication of this report, was 404,000 (2% 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% of the issued ordinary share capital.

During the year to 30th April 2005 the Company purchased 10p shares in the market with an aggregate nominal value of £200,000 and a total cost of £1.9 million. This represented 10.5% of the issued share capital at the time. The shares were subsequently cancelled. The reason for the share buybacks was to increase earnings per share, maximise return on capital employed, and reduce the Group's weighted average cost of capital. If the Group makes any further share buybacks, it is the Board's intention to cancel the shares acquired.

Results and Dividends
The Group's profit on ordinary activities after taxation was £2,209,000 (2004 – £1,933,000). An interim dividend of 1.34p (2004 – 1.34p) per share was paid to shareholders on 13th April 2005. The Directors recommend the payment of a final dividend of 2.16p (2004 – 2.06p) per share to be paid on 12th October 2005 to shareholders on the register at the close of business on 9th September 2005. The total dividend is 3.50p (2004 – 3.40p) per share and the total dividend cost is £567,000 (2004 – £596,000), leaving a profit of £1,642,000 (2004 – £1,337,000) to be transferred to retained earnings.

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

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

DIRECTORS' REPORT

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 2005, the Company had an average of 41 days purchases outstanding to trade creditors (2004 – 41 days).

Charitable Donations
During the year the Group made various charitable donations totalling £72,625 (2004 – £49,831).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2005.

On 19th August 2004, the Group moved from the main market of the London Stock Exchange to the Alternative Investment Market (AIM). Although it is not a requirement of AIM, the Group continues to comply with the 2003 FRC Code for Corporate Governance appended to the Listing Rules of the Financial Services Authority insofar as is reasonably possible.

In accordance with the 2003 FRC Code for Corporate Governance, D. B. Green and A. K. P. Smith will retire by rotation at the Annual General Meeting. Resolutions 5 and 6 propose their re-election as Directors. D. B. Green has a service contract, which is terminable by one year's notice by either the Company, or the Director. A. K. P. Smith has a letter of appointment as a non-executive Director which is terminable by either the Company or the Director at any time.

D. B. Green joined the Group in 1986 as Chief Executive and was also appointed as Chairman in April 1996. Previously he was a founder member of Carlton Communications plc, now part of ITV plc.

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.

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 20th July 2005:

	Number of shares	%
D. B. Green	4,442,862	26.0
Discretionary Unit Fund Managers	3,000,000	17.6
Schroder Investment Management	2,627,674	15.4
Hunter Hall Investment Management	1,815,000	10.6
Colefax Group Plc ESOP	892,422	5.2

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
20th July 2005

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 2005 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 2005.

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. During the year, Mr. D. B. Green sacrificed salary of £250,100 in return for additional pension contributions.

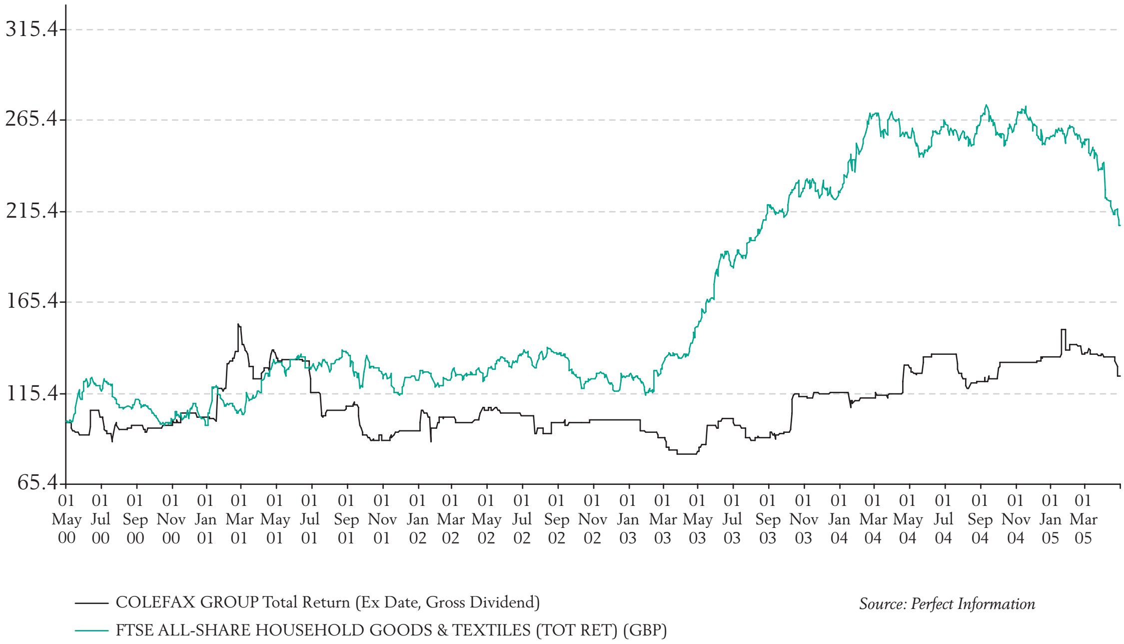
3. Service Contracts
All executive Directors have service contracts with a notice period of one year. All service contracts are on a rolling basis with no fixed term and there are no additional termination payments other than those under the rolling contracts.

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 September 2002. 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 2000 to April 2005. This index was selected by the Committee as the most appropriate for comparative purposes.



Source: Perfect Information

5. Directors' Emoluments

	Salary	Fees	Benefits	Pensions	Annual Bonus	**2005 Total (including pensions)**	**2005 Total (excluding pensions)**	2004 Total (including pensions)	2004 Total (excluding pensions)	2004 Pensions
	£'000	£'000	£'000	£'000	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Executive Directors										
D. B. Green	77	—	33	327	32	**469**	**142**	405	362	43
A. Grafton	—	—	—	—	—	**—**	**—**	348*	342*	6
R. M. Barker	150	—	9	12	15	**186**	**174**	185	173	12
W. Nicholls	133	—	17	11	—	**161**	**150**	167	157	10
K. Hall	148	—	—	11	13	**172**	**161**	171	160	11
Non-Executive Directors										
A. K. P. Smith	—	30	—	—	—	**30**	**30**	30	30	—
Totals	508	30	59	361	60	**1,018**	**657**	1,306	1,224	82

*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	
	2005	2004
D. B. Green	**4,442,862**	4,322,862
R. M. Barker	**125,000**	105,000
W. Nicholls	**305,354**	305,354
A. K. P. Smith	**20,000**	20,000
K. Hall	**20,000**	—

D. B. Green's shareholding included 102,400 (2004 – 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. M. Barker and K. Hall each acquired 20,000 shares through the exercise of ESOP share options.

7. Share Options

	Exercise Price	At 1st May 2004 No.	Exercised during the year No.	**At 30th April 2005 No.**	Date of Grant	Exercisable from	Expiry Date
K. Hall	111p	20,000	—	**20,000**	24.07.97	24.07.00	23.07.07
K. Hall	83p	100,000	—	**100,000**	06.04.99	06.04.02	05.04.09

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
K. Hall	30,000	14.11.01	14.11.02	13.11.11

The market price of the Company's shares at 30th April 2005 was 92.5p. The range of market prices during the financial year was between 87.5p and 111.5p.

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
20th July 2005

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance in accordance with recommended best practice for companies listed on the Alternative Investment Market. 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 2003 FRC 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 Appointments to the Board—Terms of reference are prepared by the Board on appointment of all new Directors.

A5 Information and Professional Development—All Directors regularly receive information concerning the Group's operations, finances, risk factors and its people, enabling them to fulfil their duties and obligations as Directors.

A6 Performance Evaluation—The Chairman regularly reviews the performance of the Board and carries out periodic informal evaluations on the Directors.

A7 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.

Part C—Accountability and Audit

C1 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.

C2 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.

C3 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.

Part D—Relations with Shareholders

D1 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.

D2 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.

CORPORATE GOVERNANCE

2003 FRC Code Compliance
The Directors consider that throughout the accounting period the Company complied with all the provisions of Section 1 of the 2003 FRC 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.

A4.1 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 The remuneration committee comprises Alan Smith, a non-executive Director, and David Green and hence
B2.2 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.

C2.1 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.

C3.1 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 2003 FRC 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 2005 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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 2005 on pages 17 to 35 which have been prepared under the accounting policies set out on pages 21 and 22.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements 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 regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Financial Highlights 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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also considered the overall adequacy of the presentation of information in the financial statements.

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 2005 and of the profit of the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
20th July 2005

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 30th April 2005

	Notes	2005 £'000	2004 £'000
Turnover	2	**64,455**	63,381
Cost of sales		**29,335**	28,187
Gross profit		**35,120**	35,194
Operating expenses	3	**31,681**	32,007
Operating profit	4	**3,439**	3,187
Interest	6	**(292)**	(277)
Profit on ordinary activities before taxation		**3,147**	2,910
Tax on profit on ordinary activities			
— UK		**(924)**	(987)
— Overseas		**(14)**	10
	7	**(938)**	(977)
Profit on ordinary activities after taxation		**2,209**	1,933
Dividends on equity shares	8	**(567)**	(596)
Retained profit for the year	20	**1,642**	1,337
Basic earnings per share	9	**13.1p**	10.4p
Diluted earnings per share	9	**13.0p**	10.2p

All activity has arisen from continuing operations.

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

GROUP BALANCE SHEET
At 30th April 2005

	Notes	2005 £'000	As restated 2004 £'000
Fixed assets:			
Tangible assets	10	**5,792**	6,113
Current assets:			
Stocks and contracts in progress	12	**12,167**	11,470
Debtors	13	**9,559**	8,697
Cash at bank and in hand	14	**1,736**	1,769
		23,462	21,936
Creditors: amounts falling due within one year	15	**16,614**	14,198
Net current assets		**6,848**	7,738
Total assets less current liabilities		**12,640**	13,851
Creditors: amounts falling due after more than one year	16	**500**	1,000
Provision for liabilities and charges:			
Deferred taxation	17	**64**	106
		12,076	12,745
Capital and reserves:			
Called up share capital	19	**1,709**	1,909
Share premium account	20	**11,087**	11,087
Capital redemption reserve	20	**1,157**	957
ESOP share reserve	20	**(499)**	(466)
Profit and loss account	20	**(1,378)**	(742)
Equity shareholders' funds	21	**12,076**	12,745

D. B. Green Director
R. M. Barker Director
20th July 2005

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

COMPANY BALANCE SHEET

At 30th April 2005

	Notes	2005 £'000	As restated 2004 £'000
Fixed assets:			
Investments	11	**25,521**	25,521
Current assets:			
Debtors	13	**9,513**	8,982
Creditors: amounts falling due within one year	15	**8,885**	7,884
Net current assets		**628**	1,098
Total assets less current liabilities		**26,149**	26,619
Creditors: amounts falling due after more than one year	16	**500**	1,000
		25,649	25,619
Capital and reserves:			
Called up share capital	19	**1,709**	1,909
Share premium account	20	**11,087**	11,087
Merger reserve	20	**10,762**	10,762
Capital redemption reserve	20	**1,157**	957
ESOP share reserve	20	**(499)**	(466)
Profit and loss account	20	**1,433**	1,370
Equity shareholders' funds		**25,649**	25,619

D. B. Green Director
R. M. Barker Director
20th July 2005

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

GROUP CASH FLOW STATEMENT
For the year ended 30th April 2005

	Notes	2005 £'000	2004 £'000
Net cash inflow from operating activities	4(b)	**4,786**	6,499
Returns on investments and servicing of finance:			
Interest received		**20**	9
Interest paid		**(311)**	(273)
		(291)	(264)
Taxation:			
UK Corporation tax paid		**(1,074)**	(679)
Overseas tax paid		**—**	(141)
		(1,074)	(820)
Capital expenditure and financial investment:			
Payments to acquire tangible fixed assets		**(2,179)**	(1,771)
Receipts from sales of tangible fixed assets		**32**	96
		(2,147)	(1,675)
Equity dividends paid		**(571)**	(634)
Cash inflow before financing		**703**	3,106
Financing:			
Purchase of own shares		**(1,900)**	(782)
Repayment of long-term loans		**(500)**	(1,371)
Net cash outflow from financing		**(2,400)**	(2,153)
(Decrease)/increase in cash in the period	14	**(1,697)**	953

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30th April 2005

	Notes	2005 £'000	2004 £'000
Profit for the financial year		**2,209**	1,933
Currency translation differences on foreign currency net investments		**(62)**	(238)
Currency translation differences on foreign currency loans		**(546)**	(756)
Deferred tax on long-term loan foreign currency movements		**230**	319
Total recognised gains and losses relating to the year	21	**1,831**	1,258

NOTES TO THE ACCOUNTS

At 30th April 2005

1. **Accounting Policies**

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

In preparing these accounts the Group has adopted UITF Abstract 38 'Accounting for ESOP trusts' for the first time. Further details are given in note 11.

(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 2005. 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 £2,530,000 (2004 – £1,859,000).

(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 2005

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 2005

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 is recognised when the risks and rewards of owning the goods has passed to the customer, which is generally on delivery.

Turnover, net assets and operating profit are:

	Turnover		Net Assets		Operating Profit	
				As restated		
	2005	2004	**2005**	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Business Activity:						
Product division	**56,928**	56,096	**15,668**	15,395	**3,230**	2,969
Decorating division	**7,527**	7,285	**1,501**	1,088	**209**	218
Total	**64,455**	63,381	**17,169**	16,483	**3,439**	3,187
Geographical Area:						
Country of Origin:						
United Kingdom	**33,339**	32,757	**8,875**	8,701		
United States (C&T)	**28,248**	27,307	**6,435**	5,949		
Europe (Canovas)	**2,868**	3,317	**1,859**	1,833		
Total	**64,455**	63,381	**17,169**	16,483		
Country of Destination:						
United Kingdom	**16,798**	16,626				
United States	**29,526**	28,780				
Europe	**15,072**	15,192				
Rest of World	**3,059**	2,783				
Total	**64,455**	63,381				

Net assets are stated before cash, bank overdrafts and loans of £4,051,000 (2004 – £2,773,000) and net tax payable of £1,042,000 (2004 – £965,000).

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

	2005	2004
	£'000	£'000
Distribution and marketing costs	**20,775**	21,015
Administrative costs	**10,906**	10,992
Total operating expenses	**31,681**	32,007

4. Operating Profit

	2005	2004
	£'000	£'000
(a) This is stated after charging:		
Auditors' remuneration — audit (UK)	**62**	72
— audit (overseas)	**52**	53
— non audit (UK only)	**40**	—
Depreciation of owned fixed assets	**2,271**	2,315
Operating lease rentals — land and buildings	**2,660**	2,681
— other	**58**	63

(b) Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	**3,439**	3,187
Depreciation charges	**2,271**	2,315
Profit on sale of tangible fixed assets	**(12)**	(24)
(Increase)/decrease in stocks	**(918)**	1,206
(Increase)/decrease in debtors	**(547)**	646
Increase/(decrease) in creditors	**553**	(831)
Net cash inflow from operating activities	**4,786**	6,499

NOTES TO THE ACCOUNTS
At 30th April 2005

			2005 £'000	2004 £'000
5.	**Staff Costs**	Staff costs, including Executive Directors, were as follows:		
		Wages and salaries	**11,752**	12,833
		Social security costs	**1,570**	1,671
		Other pension costs	**563**	288
			13,885	14,792

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

	No.	No.
Distribution and marketing	**339**	351
Administration	**82**	83
	421	434

	2005 £'000	2004 £'000
Directors' remuneration was as follows:		
Directors' emoluments	**657**	952
Pension contributions	**361**	82
	1,018	1,034
Emoluments of the highest paid Director:		
Emoluments	**142**	362
Pension contributions	**327**	43
	469	405

Four Directors participated in the Group's defined contribution pension scheme in 2005 (2004 – five). No Directors participated in the Group's defined pension scheme in 2005 (2004 – nil).

During the year, three Directors acquired shares through the exercise of ESOP share options. This resulted in total unrealised gains of £150,000 (2004 – nil), based on the market value of the shares on the date of exercise. The cost of the ESOP share options was included in prior years' Directors' remuneration.

Further disclosure on the remuneration of each individual Director is given in the Remuneration Report on pages 11 and 12.

			2005 £'000	2004 £'000
6.	**Interest**	Interest payable:		
		Bank loans and overdrafts repayable within five years	**312**	286
		Interest receivable:		
		Bank and other interest receivable	**(20)**	(9)
			292	277

NOTES TO THE ACCOUNTS
At 30th April 2005

		2005 £'000	2004 £'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	**1,057**	1,061
	Adjustments in respect of previous years	**41**	(8)
		1,098	1,053
	Overseas tax		
	Overseas tax on profits of the year	**40**	33
	Adjustments in respect of previous years	**70**	—
		110	33
	Total current tax	**1,208**	1,086
	Deferred tax		
	Origination and reversal of timing differences	**(270)**	(109)
		938	977

(b) Factors affecting the tax charge for the year

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

The differences are explained below.

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation	**3,147**	2,910
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 – 30%)	**944**	873
Effect of:		
Disallowed expenses and non-taxable income	**155**	190
Depreciation in excess of capital allowances	**73**	72
Short-term timing differences	**35**	(93)
Adjustments in respect of previous periods	**111**	8
Excess foreign tax on overseas income	**92**	101
Utilisation of tax losses	**(202)**	(65)
	1,208	1,086

		2005 £'000	2004 £'000
8. **Dividends**	Interim (paid) of 1.34p (2004 – 1.34p) on 13th April 2005	**217**	242
	Final (proposed) of 2.16p (2004 – 2.06p) payable on 12th October 2005	**350**	354
		567	596

NOTES TO THE ACCOUNTS
At 30th April 2005

9. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £2,209,000 (2004 – £1,933,000) and on 16,846,893 (2004 – 18,630,756) 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 £2,209,000 (2004 – £1,933,000) and on 17,031,297 (2004 – 18,960,402) being the weighted average number of shares in issue during the year, calculated as follows:

	2005	2004
Basic weighted average number of shares	**16,846,893**	18,630,756
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**184,404**	329,646
	17,031,297	18,960,402

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 2004	231	6,022	5,568	421	5,093	17,335
Exchange adjustment	—	(296)	(155)	—	(282)	(733)
Additions	—	751	291	111	1,026	2,179
Disposals	—	(340)	(1,100)	(139)	(1,567)	(3,146)
At 30th April 2005	231	6,137	4,604	393	4,270	15,635
Depreciation:						
At 1st May 2004	33	3,565	4,089	216	3,319	11,222
Exchange adjustment	—	(196)	(140)	(1)	(187)	(524)
Charge for the year	3	552	656	95	965	2,271
Disposals	—	(340)	(1,101)	(118)	(1,567)	(3,126)
At 30th April 2005	36	3,581	3,504	192	2,530	9,843
Net Book Value:						
At 30th April 2005	195	2,556	1,100	201	1,740	5,792
At 1st May 2004	198	2,457	1,479	205	1,774	6,113

11. Investments

	Group		Company	
		As restated		As restated
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Investments in subsidiary undertakings				
Shares	**—**	—	**17,871**	17,871
Loans	**—**	—	**7,650**	7,650
	—	—	**25,521**	25,521

NOTES TO THE ACCOUNTS
At 30th April 2005

11. Investments *continued*

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

*Owned directly by parent company

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

Previously own shares held by an Employees' Share Ownership Plan (ESOP) Trust were classified as an investment in own shares within fixed asset investments as required by UITF Abstract 13 'Accounting for ESOP trusts'. This year the Group has adopted UITF 38, which replaces UITF 13, and which requires amounts paid and received by the ESOP trust for transactions in the Group's own shares to be reported directly in shareholders' funds.

The effect of this accounting policy change on the comparatives is that net assets have been reduced by £466,000. Had this accounting policy not changed, current year net assets would have been £499,000 higher.

At 30th April 2005, the ESOP Trust owned 892,422 (2004 – 1,057,422) ordinary shares of 10p in the Company at cost, with a market value of £825,490 (2004 – £1,010,000). Dividends on these shares have been waived.

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

130,000 shares in the ESOP were under option at the balance sheet date:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
55,000	4	£1 total	14.11.01	14.11.02	13.11.11
50,000	2	£1 total	21.10.02	21.10.03	20.10.12
25,000	1	£1 total	29.03.04	29.03.05	28.03.14

12. Stocks and Contracts in Progress

	Group 2005 £'000	Group 2004 £'000
Finished goods for resale	**11,845**	11,352
Contracts in progress	**817**	1,239
Less: progress payments received and receivable	**(495)**	(1,121)
	12,167	11,470

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

NOTES TO THE ACCOUNTS

At 30th April 2005

		Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
13. Debtors	Amounts owed by subsidiary undertakings	**—**	—	**9,513**	8,982
	Trade debtors	**6,760**	6,443	—	—
	Other debtors	**435**	338	—	—
	Prepayments and accrued income	**1,091**	1,059	—	—
	Deferred taxation (note 17)	**1,273**	857	—	—
		9,559	8,697	**9,513**	8,982

		Group 2005 £'000	Group 2004 £'000
14. Cash and Financing	**Reconciliation of Net Cash Flow to Movement in Net Debt**		
	(Decrease)/increase in cash	**(1,697)**	953
	Repayment of bank loans	**500**	1,371
	Movement in net debt resulting from cash flows	**(1,197)**	2,324
	Exchange differences	**(81)**	(55)
	Movement in net debt in the period	**(1,278)**	2,269
	Net debt at 1st May	**(2,773)**	(5,042)
	Net debt at 30th April	**(4,051)**	(2,773)

	At 1st May 2004 £'000	Cash flow £'000	Other £'000	Exchange differences £'000	**At 30th April 2005 £'000**
Analysis of Net Debt					
Cash at bank and in hand	1,769	48	—	(81)	**1,736**
Overdrafts	(3,042)	(1,745)	—	—	**(4,787)**
	(1,273)	(1,697)	—	(81)	**(3,051)**
Debt due within one year	(500)	500	(500)	—	**(500)**
Debt due after one year	(1,000)	—	500	—	**(500)**
Net debt	(2,773)	(1,197)	—	(81)	**(4,051)**

		Group 2005 £'000	Group As restated 2004 £'000	Company 2005 £'000	Company As restated 2004 £'000
15. Creditors: amounts falling due within one year	Current instalments due on loans	**500**	500	**500**	500
	Bank overdraft	**4,787**	3,042	**6,375**	6,245
	Amounts owed to subsidiary undertakings	**—**	—	**1,589**	740
	Trade creditors	**4,835**	4,566	**—**	—
	Accruals	**2,901**	2,697	**40**	45
	Payments received on account	**813**	697	**—**	—
	Corporation tax	**1,042**	965	**31**	—
	Other taxes and social security costs	**790**	863	**—**	—
	Other creditors	**596**	514	**—**	—
	Proposed dividend	**350**	354	**350**	354
		16,614	14,198	**8,885**	7,884

NOTES TO THE ACCOUNTS
At 30th April 2005

		Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
16. **Creditors: amounts falling due after more than one year**	Bank loan repayable within 1-2 years	**500**	500	**500**	500
	Bank loans repayable within 2-5 years	**—**	500	**—**	500
		500	1,000	**500**	1,000

Interest payable on the bank loan outstanding at 30th April 2005 and 2004 is at 1.00% over HSBC base rate.

The bank loan, together with the Group's overdraft facilities, is secured by an unlimited multilateral company guarantee and a first fixed and floating charge over all assets of the Company.

		Group 2005 £'000	Group 2004 £'000
17. **Deferred Taxation**	Deferred taxation has been provided as follows:		
	Accelerated capital allowances on tangible fixed assets	**64**	106
	Excess of depreciation over capital allowances on tangible fixed assets	**(247)**	(249)
	Short-term timing differences	**(1,026)**	(608)
		(1,209)	(751)
	This is made up as follows:		
	Deferred taxation included in Debtors	**(1,273)**	(857)
	Deferred taxation included in Provision for liabilities and charges	**64**	106
		(1,209)	(751)

	Deferred taxation £'000
Movements in provisions:	
At 1st May 2004	(751)
Charged to the profit and loss account	(270)
Charged to the statement of total recognised gains and losses	(230)
Translation adjustment	42
At 30th April 2005	(1,209)

Factors affecting the future tax charge:

A deferred tax asset amounting to £52,000 (2004 – £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 £97,000 (2004 – £196,000) 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.

A deferred tax asset of £189,000 (2004 – £291,000) in respect of French 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 2005

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 2005

	Net foreign currency monetary assets/(liabilities)				
	Sterling	US Dollar	Eurozone	Other	Total
	£'000	£'000	£'000	£'000	£'000
Functional Currency of group unit					
Sterling	—	74	(4,257)	252	(3,931)
US Dollar	934	—	—	—	934
Total	934	74	(4,257)	252	(2,997)

At 30th April 2004

	Net foreign currency monetary assets/(liabilities)				
	Sterling	US Dollar	Eurozone	Other	Total
	£'000	£'000	£'000	£'000	£'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

Borrowing Facilities
The Group has various borrowing facilities available to it amounting to £8.2 million (2004 – £8.3 million). The undrawn committed facilities available at 30th April 2005 in respect of which all conditions had been met at that date total £4.1 million (2004 – £5.5 million). Group borrowing facilities are reviewed annually with HSBC.

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:

		2005	
	Gains	**Losses**	**Total**
	£'000	**£'000**	**£'000**
Unrecognised gains on hedges at 1st May 2004	688	—	688
Gains arising in previous years that were recognised in the current year	646	—	646
Gains arising in previous years that were not recognised in the current year	139	—	139
Gains arising in the year that were not recognised in the current year	589	—	589
Unrecognised gains on hedges at 30th April 2005	728	—	728
of which			
Expected to be recognised in the year ended 30th April 2006	728	—	728

NOTES TO THE ACCOUNTS
At 30th April 2005

18. Financial Instruments *continued*

	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 previous years that were not recognised in the current year	240	—	240
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

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 2005	Floating Rate Financial Assets £'000	Floating Rate Financial Liabilities £'000	Total net Financial Liabilities £'000
Sterling	9	(2,919)	(2,910)
US Dollar	1,115	(12)	1,103
Euro Currencies	545	(2,856)	(2,311)
Swedish Kronor	22	—	22
Other	45	—	45
	1,736	(5,787)	(4,051)

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)

NOTES TO THE ACCOUNTS

At 30th April 2005

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 2005, 25% 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 44% 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 2005, the Group has outstanding forward contracts with a fair value of £728,000 (2004 – £688,000).

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	
		2005	2004	**2005**	2004
19. **Called Up Share Capital**	Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,709,000**	£1,909,000

In the 2004 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 2005 the company purchased 2,000,000 10p shares in the market for an aggregate nominal value of £200,000. This represented 10.48% 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 2005:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
75,000	11	111p	24.07.97	24.07.00	23.07.07
299,000	31	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 2005

20. Reserves

	Merger Reserve £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	ESOP Share Reserve £'000	Profit and Loss Account £'000
Group:					
At 1st May 2004	—	11,087	957	—	(742)
Prior year adjustment in respect of UITF 38	—	—	—	(466)	—
At 1st May 2004 (as restated)	—	11,087	957	(466)	(742)
Share buy backs	—	—	200	—	(1,900)
Movement in ESOP shares	—	—	—	(33)	—
Foreign Currency translation	—	—	—	—	(378)
Profit retained	—	—	—	—	1,642
At 30th April 2005	—	11,087	1,157	(499)	(1,378)
Company:					
At 1st May 2004	10,762	11,087	957	—	1,370
Prior year adjustment in respect of UITF 38	—	—	—	(466)	—
At 1st May 2004 (as restated)	10,762	11,087	957	(466)	1,370
Share buy backs	—	—	200	—	(1,900)
Movement in ESOP shares	—	—	—	(33)	—
Profit retained	—	—	—	—	1,963
At 30th April 2005	10,762	11,087	1,157	(499)	1,433

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2004 – £23,062,000).

21. Group Reconciliation of Movements in Shareholders' Funds

	2005 £'000	As restated 2004 £'000
Total recognised gains and losses relating to the year	**1,831**	1,258
Dividends	**(567)**	(596)
Repurchase of shares	**(1,900)**	(782)
Lapse of ESOP shares	**(33)**	(16)
Net decrease in shareholders' funds	**(669)**	(136)
Shareholders' funds at 1st May as previously stated	**13,211**	13,331
Prior year adjustments	**(466)**	(450)
Shareholders' funds at 1st May as restated	**12,745**	12,881
Shareholders' funds at 30th April	**12,076**	12,745

22. Commitments Under Operating Leases

At 30th April 2005 the Group had annual commitments under non-cancellable operating leases as follows:

	2005 Land and Buildings £'000	**Other £'000**	2004 Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	**22**	**5**	60	15
In two to five years	**1,180**	**48**	1,066	36
After five years	**1,698**	**—**	1,734	—
	2,900	**53**	2,860	51

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

NOTES TO THE ACCOUNTS
At 30th April 2005

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 £29,753 (2004 – £37,157).
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 £532,835 (2004 – £250,704).

SSAP 24 disclosures for the year ended 30th April 2005:

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 2005. The actuary valued the fund at £761,422 (2004 – £892,676) which was sufficient to cover 80% (2004 – 85%) of the benefits accrued to the members. The principle actuarial assumptions adopted in the valuation were a long term rate of return on assets of 5% (2004 – 5%), no annual increase in total pensionable remuneration and a discount on liabilities of 5% (2004 – 5%). The actuary valued the scheme liabilities at 30th April 2005 at £950,778 (2004 – £1,051,288). An accrual of £189,000 (2004 – £158,000) covering the unfunded actuarial accrued liability is included in the Group balance sheet together with a related deferred tax asset of £77,650 (2004 – £64,750).

FRS 17 disclosure for the year ended 30th April 2005:

FRS 17 does not have to be fully adopted until the year ended 30th April 2006. The Group has taken advantage of the transitional arrangements allowed under FRS 17, which requires disclosures only.

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 2005 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% (2004 – 5%, 2003 – 5.5%). The market value of investments at 30th April 2005 was £761,422 (2004 – £892,676, 2003 – £1,064,590), all of which were held in government bonds with an expected long term rate of return of 5% (2004, 2003 – 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 2005 was £950,778 (2004 – £1,051,288, 2003 – £1,180,477), resulting in an unfunded actuarial accrued liability of £189,356 (2004 – £158,612, 2003 – £115,887).

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 2005 are set out below:

	2005 £'000	2004 £'000
Group profit and loss account:		
Expected return on pension scheme assets	**41**	47
Interest on pension liabilities	**(48)**	(52)
Net charge to finance income	**(7)**	(5)
Total charge to profit and loss account	**(7)**	(5)

	2005 £'000	**% scheme assets/ liabilities**	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	**(32)**	**4.2%**	(30)	3.4%	117	11.0%
Experience losses arising on the pension scheme liabilities	**(4)**	**0.4%**	(20)	1.9%	(132)	11.2%
Actuarial loss	**(36)**	**3.7%**	(50)	4.8%	(15)	1.3%

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 2005, the additional pension charge in the Group profit and loss account would be as follows:

	2005	2004
	£'000	£'000
FRS 17 profit and loss charge – including unfunded pension plans	**(7)**	(5)
Movement in the unfunded actuarial accrued liability in the year:		
Deficit in scheme at 1st May 2004	**(159)**	(116)
Cash contributions	**—**	—
Finance charge	**(7)**	(5)
Actuarial loss recognised in statements of total recognised gains and losses	**(36)**	(50)
Currency translation differences	**13**	12
Deficit in scheme at 30th April 2005	**(189)**	(159)

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 2005, the value of subsidiary overdrafts covered by the guarantee amounted to £3,365,630 (2004 – £1,876,227).

FIVE YEAR REVIEW

	2005 £'000	As restated 2004 £'000	2003 £'000	2002 £'000	2001 £'000
Turnover	**64,455**	63,381	64,422	67,307	70,412
Operational profit	**3,439**	3,187	3,037	4,225	6,461
Profit before taxation	**3,147**	2,910	2,801	3,859	5,918
Profit attributable to shareholders	**2,209**	1,933	1,794	2,535	3,952
Basic earnings per share	**13.1p**	10.4p	8.9p	11.1p	16.5p
Diluted earnings per share	**13.0p**	10.2p	8.8p	10.9p	16.4p
Dividends per share	**3.50p**	3.40p	3.40p	3.40p	3.30p
Shareholders' funds	**12,076**	12,745	13,331	14,640	13,970
Operating cash flow	**4,786**	6,499	6,191	6,909	8,058
Net debt	**4,051**	2,773	5,042	4,761	6,029

NOTICE OF MEETING

Notice is hereby given that the 2005 Annual General Meeting of Colefax Group plc will be held at 39 Brook Street,London W1K 4JE on 13th September 2005 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 2005, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.16p 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 D. B. Green, who retires by rotation, as a Director.
6. To re-elect A. K. P. Smith, who retires by rotation, as a Director.

Special Business

To consider and, if thought fit, to pass the following resolutions of which 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 2005.
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 £85,450.

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 2,563,500 (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.

By order of the Board
R. M. Barker BSc ACA
Secretary
Dated 20th July 2005

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 9th September 2005 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 9th September 2005 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 8 to 9.

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; and

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

Printed by Park Communications 33023

FORM OF PROXY

For use by holders of shares in COLEFAX GROUP PLC ("the Company") at the 2005 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 13th September 2005 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 D. B. Green		
6. To re-elect A. K. P. Smith		
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*		

*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.

Third Fold and Tuck in

BUSINESS REPLY SERVICE
Licence No. EH 59

1

Computershare Services PLC
PO Box 457
Owen House
8 Bankhead Crossway North
Edinburgh EH11 0XG

First Fold

Second Fold

Head Office: 19/23 Grosvenor Hill, London W1K 3QD
Tel: 020 7493 2231 Fax: 020 7495 3123