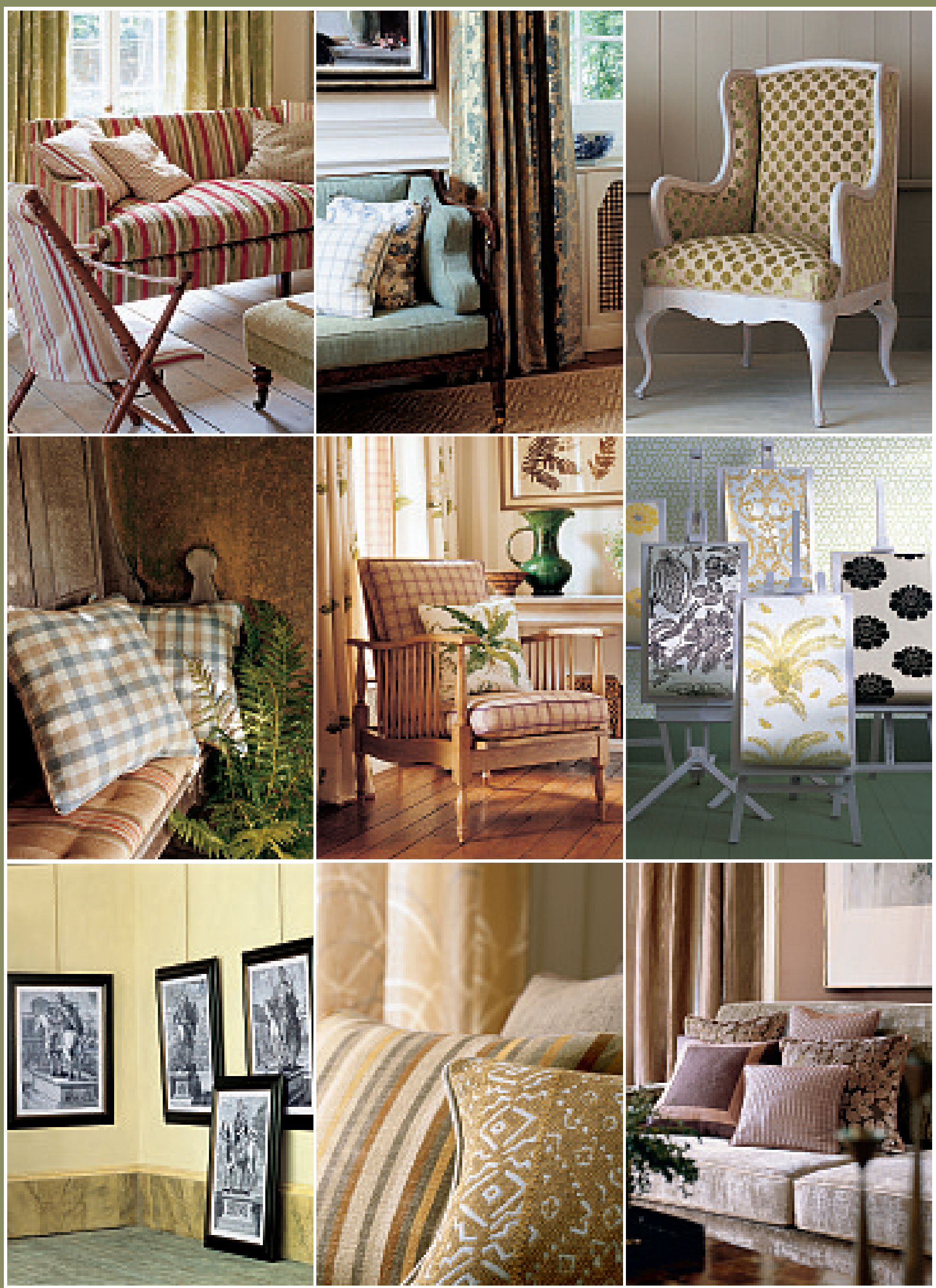
Colefax Group Plc



Annual Report and Accounts 2006

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, Germany and Italy which form part of an expanding worldwide distribution network.

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2001

THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT

COLEFAX & FOWLER LTD

FINANCIAL HIGHLIGHTS

	2006 £'000	2005 £'000	Increase/ (Decrease)
Turnover	**68,361**	64,455	6%
Operating profit	**4,419**	3,427	29%
Profit before taxation	**4,094**	3,147	30%
Profit attributable to shareholders	**2,824**	2,209	28%
Basic earnings per share	**17.4p**	13.1p	33%
Diluted earnings per share	**16.8p**	13.0p	29%
Dividends per share	**3.75p**	3.50p	7%
Shareholders' funds (as restated)	**15,506**	12,426	25%
Operating cash flow	**7,556**	4,786	58%
Net debt	**300**	4,051	(93)%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2006 increased by 30% to £4.09 million (2005 – £3.15 million) on sales up 6% at £68.36 million (2005 – £64.46 million). Earnings per share increased by 33% to 17.4p (2005 – 13.1p). Group net borrowings at the year-end were £0.30 million (2005 – £4.05 million), which represents gearing of 2% to net assets (2005 – 34%).

The Board has decided to recommend that the final dividend is increased by 10% to 2.37p (2005 – 2.16p) making a total for the year of 3.75p (2005 – 3.50p), an increase of 7%. The final dividend will be paid on 12th October 2006 to shareholders on the register at the close of business on 15th September 2006.

Our improved results this year were due to favourable trading conditions in all our major markets particularly the US which does not yet seem to have been affected by steadily rising interest rates. Trading has recovered in Continental Europe especially Germany which is our third largest European market.

Product Division

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

Sales in the Fabric Division, which represents 82% of Group sales, increased by 7% to £56.01 million (2005 – £52.24 million).

Sales in the US, which represents 57% of the Fabric Division's sales, increased by 6% on a constant currency basis. This market remained strong throughout the year with most territories performing well.

UK sales, which represent 18% of the Fabric Division's turnover, increased by 4% on a like for like basis. A strong high end housing market is behind the improvement in market conditions and this has continued into the current year.

Sales in Continental Europe, which represents 23% of the Fabric Division's turnover, increased by 2% on a constant currency basis. Particularly encouraging was the fact that two of our most important markets, France and Germany, showed a return to growth and we believe there are good opportunities to increase sales in these markets.

Sales in the rest of the world, which represents just 2% of the Fabric Division's sales, increased by 8% during the year mainly due to a strong recovery in Australia which is our largest territory in this market.

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 3% of Group sales, increased by 15% to £2.09 million (2005 – £1.81 million) with all of the increase taking place in the second half of the year. The main factor behind the improvement has been the relocation of Kingcome's showroom to new premises next to our Colefax and Fowler showroom in London's Fulham Road. In January we closed our trade showroom in the Chelsea Harbour Design Centre realising significant cost savings. Kingcome has a very strong forward order book and we are confident of a good result for the current year.

- **Accessories – Manuel Canovas**

Manuel Canovas accessories are based in Paris and comprise sales of beachwear and scented candles which account for 4% of Group sales. During the year sales decreased by 2% to £2.80 millon (2005 – £2.86 million) due mainly to a customer store closure in France. Sales outside of France showed good growth particularly in the newer markets. We have launched our new collections for 2006 and the initial reaction has been encouraging.

Decorating Division

Interior decorating and antique sales which together account for 11% of Group sales, decreased by 2% to £7.40 million (2005 – £7.52 million) during the year. The decrease reflects very difficult

CHAIRMAN'S STATEMENT

antiques trading offset by a strong performance from our decorating teams. The level of decorating deposits remains healthy and as a result we anticipate a good performance for the current year.

Prospects
We will continue to focus on our principal objectives of improving operating profits and margins and using our free cash flow to enhance shareholder value and in addition we will continue to ensure that our creative quality and capability remain strong. Trading conditions in all our major markets continue to remain favourable and whilst the recent weakness of the US dollar will negatively impact our ability to improve margins, I am optimistic of another year of continued growth.

This year's improved results could not have been achieved without the talent and dedication of all our staff and I would like to thank them for their hard work and support.

David B. Green
Chairman

OPERATING AND FINANCIAL REVIEW

Financial Review

Group sales increased by 6% to £68.36 million (2005 – £64.46 million) and by 3% on a constant currency basis. This compares to a like for like increase of 5% last year and 1% in 2004. Last year the United States was the driving force behind the sales increase but this year we have seen favourable trading conditions in all our major markets and market conditions are the best they have been since the dot com boom ended in 2001. Colefax Group's most important market is the US, accounting for 48% of Group sales and 57% of fabric division sales. Whilst the US market remains strong we are wary of the impact of rising interest rates on the rate of economic growth and in particular the housing market on which we depend. Since June 2004 US interest rates have increased from 1% to their current level of 5.25%. A similar but slower trend is apparent in European interest rates.

In our core fabric division sales increased by 7% to £56.01 million but increased by 4% on a constant currency basis. One of the consequences of the widespread improvement in market conditions is improved cash generation by the high end fabric industry. This has led to a significant increase in the amount of product being launched by our competitors and as a result it is becoming more difficult to make real gains in market share. At the same time market tastes appear to be changing at an ever increasing pace with a consequential reduction in the product life cycle. Although far eastern suppliers are growing in significance the predominance of European sourced product means that the US market continues to be adversely affected by the strength of the euro against the dollar.

The Group's gross profit margin increased by almost 1% to 55.3% (2005 – 54.4%). The improvement is due to the strengthening of the US dollar, which against Sterling averaged $1.77 compared to $1.86 last year. Gross margin changes lag currency movements as higher or lower purchase prices feed first into stock and then into the cost of goods sold. Since our year end the US dollar has weakened significantly. We have hedged the dollar for the first half of the year, but if there is no recovery or even further deterioration then our gross margins will come under pressure in the second half of the current financial year.

The Group has relatively little 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.

	2006	2005	% Change
US Dollar Average	**1.77**	1.86	5%
US Dollar Closing	**1.80**	1.91	6%
Euro Average	**1.46**	1.46	0%
Euro Closing	**1.44**	1.48	3%

Group Operating Profits increased by 29% to £4.42 million (2005 – £3.43 million) representing a return on sales of 6.5% (2005 – 5.3%). Increasing the operating margin through managed sales growth and tight control of operating costs remains a core financial objective and we have set ourselves a long term target of 10%. In keeping with the rest of the industry high gross margins and relatively fixed operating expenses means that the operating profit performance of the company is highly sensitive to small fluctuations in sales. It will however be difficult to improve operating margins if the US dollar continues to weaken.

Share Buybacks

During the year the Group made no share buybacks. This was due to the non availability of a meaningful number of shares for purchase and cancellation. One of the consequences of not making any share buybacks was a very significant reduction in Group borrowings during the year. In the previous 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. During the year the Group's share price has increased from 92.5 pence to 158.5 pence which has reduced but not extinguished the attractiveness of share buybacks for enhancing shareholder value.

At our Annual General Meeting in September the Group will seek approval to buy back up to 15% of its issued ordinary shares but only if the directors believe such purchases are in the best interests of shareholders. The rationale for share buybacks is to reduce the Group's weighted average cost

OPERATING AND FINANCIAL REVIEW

of capital, increase earnings per share and maximize return on capital employed. The Group's cost of equity measured in terms of earnings per share as a percentage of the closing share price of 158.5p is 11% down from 14% last year.

Basic Earnings Per Share
Earnings per share increased by 33% to 17.4p (2005 – 13.1p) which is an historical record. The increase compares to a 28% increase in profit after tax. The difference reflects a 4% reduction in the weighted average number of shares in issue during the year due to share buybacks that took place in 2005. Diluted earnings per share which take into account the potential dilutive effect of share options, including ESOP options, are 3% below basic earnings per share at 16.8p (2005 – 13.0p).

Dividends
The Board has proposed a 10% increase in the final dividend to 2.37p per share (2005 – 2.16p) making a total for the year of 3.75p (2005 – 3.50p), which is an increase of 7%. This follows an increase of 5% last year. As stated last year it is the Board's intention to pursue a progressive dividend policy. The total cost of the dividend is £609,000 which represents dividend cover of 4.6 times (2005 – 3.9 times). At the year-end mid market closing price of 158.5p the dividend yield is 2.4% (2005 – 3.8%).

For the current year the company has adopted FRS 21 'Events after the balance sheet date' which removes the requirement to report dividends proposed after the balance sheet date in the profit and loss account and instead requires disclosures in the notes to the financial statements. Comparative figures have been restated accordingly. This has had the effect of increasing shareholders funds by £350,000 at 30th April 2005 and £385,000 at 30th April 2006.

Taxation
In a normal year we would expect the Group's effective tax rate to be around 34% reflecting the Group's mix of US and UK profits. The actual tax rate for the current year was 31% compared to 30% last year. For both years the tax charge is lower than normal. This is partly due to the utilisation of tax losses in France for which a deferred tax asset had not previously been recognised. These have now been used up. In addition the Group tax charge has been reduced by the reversal of a US deferred tax adjustment which does not apply on consolidation. Our underlying corporate tax rate in the US is in excess of 40% due to the combined effect of federal, state and local taxes.

The Group balance sheet includes a significant deferred tax asset of £1.46 million (2005: £1.27 million). This mainly relates to various short term timing differences in the US.

Cashflow
The Group produced an exceptionally strong operating cashflow during the year of £7.6 million (2005 – £4.8 million). The increase was not wholly due to rising profits. The Group also benefited from very tight control of inventory which decreased by £1.4 million compared to an increase of £918,000 in the prior year. Next year we expect inventory levels to rise due to improving market conditions and the need to maintain high levels of customer service.

The strong operating cashflow combined with relatively low levels of capital expenditure and an absence of share buybacks meant that Group borrowings decreased by £3.7 million to just £0.3 million representing gearing of 2% to net tangible assets(2005 – 34%). Excluding dividends paid to shareholders of £574,000 the Group generated cash of £4.3 million during the year. This compares to profit after tax of £2.8 million. It is an ongoing objective that Group retained profits are at least matched by cash generation. Whilst we do not expect such strong cash generation in the current year the Group does expect good cash generation due to continuing low levels of capital expenditure. Capital expenditure during the year amounted to £1.8 million compared to a depreciation charge of £2.1 million.

Net interest paid during the year reduced to £167,000 (2004 – £291,000) reflecting the reduction in Group borrowings during the year. This trend will continue in the current year as borrowings are eliminated and the Group moves into a net cash position.

OPERATING AND FINANCIAL REVIEW

IFRS
The Group will adopt IFRS for the year ending 30th April 2008 and the first reporting under the new accounting rules will be for the interim period ending 31st October 2007.

Going Concern
The Directors are confident having made appropriate enquiries that the Group and the Company have adequate resources to continue in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

R. M. Barker

Rob Barker
Group Finance Director

DIRECTORS, BANKERS AND ADVISERS

Directors

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

Secretary and Registered Office

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

Registered in England No. 1870320

Nominated Advisers and Stockbrokers

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London EC2N 1PH

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8 Baker Street
London W1U 3LL

Solicitors

SJ Berwin
10 Queen Street Place
London EC4R 1BE

Bankers

HSBC Bank plc
31 Holborn
London EC1N 2HR

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New York
NY 10018
U.S.A.

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

Registrars and Transfer Office

Computershare Investor Services PLC
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Bridgwater Road
Bristol BS99 7NH

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2006.

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

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

Financial Instruments
Details of the use of financial instruments by the Group are contained in note 18 on page 26 of the financial statements.

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

Resolution Number 6, proposed as an ordinary resolution, would authorise the Directors to allot shares in the Company up to a maximum of the authorised but unissued share capital of the Company (this represents 25% of the issued share capital as at 20th July 2006) for a period expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

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

Resolution Number 8, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £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 2006. 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 2006, the latest practical date prior to publication of this report, was 319,000 (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.

Results and Dividends
The Group's profit on ordinary activities after taxation was £2,824,000 (2005 – £2,209,000). An interim dividend of 1.38p (2005 – 1.34p) per share was paid to shareholders on 12th April 2006. The Directors recommend the payment of a final dividend of 2.37p (2005 – 2.16p) per share to be paid on 12th October 2006 to shareholders on the register at the close of business on 15th September 2006. The total dividend is 3.75p (2005 – 3.50p) per share and the total of the interim and proposed final dividend is £609,000 (2005 – £567,000).

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

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

DIRECTORS' REPORT

Payment to Suppliers
It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30th April 2006, the Group had an average of 38 days purchases outstanding to trade creditors (2005 – 41 days).

Charitable Donations
During the year the Group made various charitable donations totalling £28,129 (2005 – £72,625).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2006.

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

K. Hall joined the Group in 1994 and since March 1999 has been Chief Executive Office of the Group's US subsidiary Cowtan & Tout Inc.

Non-Executive Directors
A. K. P. Smith was appointed as non-executive Director in February 1994. He is also the non-executive Chairman of Space NK Ltd and a 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 2006:

	Number of shares	%
D. B. Green	4,442,862	26.0
Discretionary Unit Fund Managers	3,000,000	17.6
Schroder Investment Management	2,757,674	16.1
Hunter Hall Investment Management	1,815,000	10.6
Colefax Group Plc ESOP	862,422	5.0

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	
	2006	2005
D. B. Green	**4,442,862**	4,442,862
R. M. Barker	**125,000**	125,000
W. Nicholls	**305,354**	305,354
A. K. P. Smith	**20,000**	20,000
K. Hall	**35,000**	20,000

D. B. Green's shareholding included 102,400 (2005 – 102,400) ordinary shares in which his interest was non-beneficial. No Director was interested in the shares of any subsidiary company. On 13th March 2006, K. Hall acquired 15,000 shares through the exercise of ESOP share options

Share Options

	Exercise Price	At 1st May 2005 No.	Exercised during the year No.	**At 30th April 2006 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

DIRECTORS' REPORT

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 each have an exercise price of £1 in total.

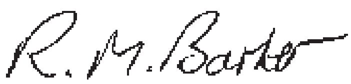
	Exercise price	At 1st May 2005	Granted/ (Exercised) during the year	**At 30th April 2006**	Date of Grant	Exercisable from	Expiry Date
D. B. Green	£1	—	100,000	**100,000**	28.04.06	28.04.06	27.04.16
R. M. Barker	£1	—	75,000	**75,000**	28.04.06	28.04.06	27.04.16
K. Hall	£1	—	100,000	**100,000**	28.04.06	28.04.06	27.04.16
K. Hall	£1	30,000	(15,000)	**15,000**	14.11.01	14.11.02	13.11.11

The market price of the Company's shares at 30th April 2006 was 158.5p. The range of market prices during the financial year was between 89p and 159.5p.

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

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

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



By order of the Board

R. M. Barker BSc ACA
Secretary
20th July 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 group and parent company financial statements (the ''financial statements'') of Colefax Group Plc for the year ended 30th April 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Financial Highlights. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 April 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 April 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
20th July 2006

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 30th April 2006

	Notes	2006 £'000	As restated 2005 £'000
Turnover	2	**68,361**	64,455
Cost of sales		**30,575**	29,335
Gross profit		**37,786**	35,120
Operating expenses	3	**33,367**	31,693
Operating profit	4	**4,419**	3,427
(Loss)/profit on disposal of fixed assets		**(177)**	12
Profit on ordinary activities before interest and taxation		**4,242**	3,439
Interest	6	**(148)**	(292)
Profit on ordinary activities before taxation		**4,094**	3,147
Tax on profit on ordinary activities			
— UK		**(933)**	(924)
— Overseas		**(337)**	(14)
	7	**(1,270)**	(938)
Profit for the financial year	20	**2,824**	2,209
Basic earnings per share	9	**17.4p**	13.1p
Diluted earnings per share	9	**16.8p**	13.0p

All activity has arisen from continuing operations.

The notes on pages 17 to 32 form part of these accounts.

GROUP BALANCE SHEET
At 30th April 2006

	Notes	2006 £'000	As restated 2005 £'000
Fixed assets:			
Tangible assets	10	**5,403**	5,792
Current assets:			
Stocks and contracts in progress	12	**10,942**	12,167
Debtors	13	**11,498**	9,559
Cash at bank and in hand	14	**2,347**	1,736
		24,787	23,462
Creditors: amounts falling due within one year	15	**14,493**	16,152
Net current assets		**10,294**	7,310
Total assets less current liabilities		**15,697**	13,102
Creditors: amounts falling due after more than one year	16	**—**	500
Provision for liabilities and charges:			
Deferred taxation	17	**57**	64
Net assets excluding pension liability		**15,640**	12,538
Pensions liability	24	**134**	112
Net assets including pensions liability		**15,506**	12,426
Capital and reserves:			
Called up share capital	19	**1,709**	1,709
Share premium account	20	**11,087**	11,087
Capital redemption reserve	20	**1,157**	1,157
ESOP share reserve	20	**(287)**	(499)
ESOP capital reserve	20	**228**	—
Profit and loss account	20	**1,612**	(1,028)
Shareholders' funds	21	**15,506**	12,426

The financial statements were approved by the board of directors and authorised for issue on 20th July 2006.

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

The notes on pages 17 to 32 form part of these accounts.

COMPANY BALANCE SHEET
At 30th April 2006

	Notes	2006 £'000	As restated 2005 £'000
Fixed assets:			
Investments	11	**25,521**	25,521
Current assets:			
Debtors	13	**3,772**	9,513
Creditors: amounts falling due within one year	15	**2,248**	8,535
Net current assets		**1,524**	978
Total assets less current liabilities		**27,045**	26,499
Creditors: amounts falling due after more than one year	16	**—**	500
		27,045	25,999
Capital and reserves:			
Called up share capital	19	**1,709**	1,709
Share premium account	20	**11,087**	11,087
Merger reserve	20	**10,762**	10,762
Capital redemption reserve	20	**1,157**	1,157
ESOP share reserve	20	**(287)**	(499)
ESOP capital reserve	20	**228**	—
Profit and loss account	20	**2,389**	1,783
Shareholders' funds		**27,045**	25,999

The financial statements were approved by the board of directors and authorised for issue on 20th July 2006.

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

The notes on pages 17 to 32 form part of these accounts.

GROUP CASH FLOW STATEMENT

For the year ended 30th April 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	4(b)	**7,556**	4,786
Returns on investments and servicing of finance:			
Interest received		**80**	20
Interest paid		**(247)**	(311)
		(167)	(291)
Taxation:			
UK Corporation tax paid		**(988)**	(1,074)
Overseas tax paid		**(411)**	–
		(1,399)	(1,074)
Capital expenditure and financial investment:			
Payments to acquire tangible fixed assets		**(1,781)**	(2,179)
Receipts from sales of tangible fixed assets		**64**	32
		(1,717)	(2,147)
Equity dividends paid		**(574)**	(571)
Cash inflow before financing		**3,699**	703
Financing:			
Purchase of own shares		**—**	(1,900)
Repayment of long-term loans		**(500)**	(500)
Net cash outflow from financing		**(500)**	(2,400)
Increase/(decrease) in cash in the period	14	**3,199**	(1,697)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30th April 2006

		2006 £'000	2005 £'000
Profit for the financial year		**2,824**	2,209
Currency translation differences on foreign currency net investments		**127**	(62)
Currency translation differences on foreign currency loans		**453**	(546)
Deferred tax on long-term loan foreign currency movements		**(189)**	230
Total recognised gains and losses relating to the year	21	**3,215**	1,831

NOTES TO THE ACCOUNTS
At 30th April 2006

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 FRS 17 'Retirement benefits', FRS 21 'Events after balance sheet date', FRS 22 'Earnings per share', relevant parts of FRS 25 'Financial instruments: disclosure and presentation' and FRS 28 'Corresponding amounts'. The Group has also voluntarily adopted FRS 20 'Share based payments'.

FRS 17 'Retirement benefits'
The Group has adopted FRS 17 'Retirement benefits' which replaces SSAP 24 'Accounting for pensions'. Contributions to the Group's defined benefit pension scheme were charged to the profit and loss account so as to spread the cost of pensions over employees' expected working lives with the Group. FRS 17 requires that the pension scheme surplus or deficit is recognised in full.

There has been no impact of this accounting policy change on the comparatives.

FRS 20 'Share based payment'
The Group has voluntarily adopted FRS 20 'Share based payment' a year early, application of which is obligatory for periods commencing on or after 1st January 2006.

FRS 20 'Share based payment' requires the recognition of share-based payments at fair value at the date of grant. Prior to the adoption of FRS 20, the Group recognised the financial effect of its ESOP share based payments in the following way: when shares and share options were awarded to employees a charge was made to the profit and loss account based on the difference between the cost price of the ESOP shares and the option exercise price.

As at 1 May 2005 there were no unvested options outstanding and so it has not been necessary to apply the transitional provisions of FRS 20 to options outstanding from prior years.

For 2006, the impact of share-based payments is a net charge to the profit and loss account of £293,600 (share-based payment expense net of deferred tax of £145,150). This gross cost is included in administrative expenses in the consolidated profit and loss account.

FRS 21 'Events after balance sheet date'
The Group has adopted FRS 21 'Events after balance sheet date'. Previously, equity dividends declared after the balance sheet date were recognised as liabilities at the year end, as required by company law and SSAP 17 'Accounting for post balance sheet events'. In accordance with FRS 21 and recent changes to the law, if a final equity dividend is declared after the balance sheet date but before the financial statements are authorised for issue, the dividend is not recognised as a liability at the balance sheet date.

The adoption of FRS 21 has resulted in an increase in shareholders funds of £350,000 at 1st May 2005 (2004 – £354,000) due to the write back of the dividend proposed at 30th April 2005.

(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 2006. No profit and loss account is presented for the Company as provided in S.230 of the Companies Act 1985. The profit dealt with in the financial statements of the holding company was £1,180,000 (2005 – £2,530,000).

(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

NOTES TO THE ACCOUNTS

At 30th April 2006

1. **Accounting Policies** *continued*

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 exception:

- 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;

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.

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.

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

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Group are charged to the profit and loss account or the statement of total recognised gains and losses in accordance with FRS 17 'Retirement benefits'.

NOTES TO THE ACCOUNTS
At 30th April 2006

1. **Accounting Policies** *continued*

(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.

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

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

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	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Business Activity:						
Product division	**60,961**	56,928	**15,657**	16,018	**4,081**	3,218
Decorating division	**7,400**	7,527	**1,402**	1,501	**338**	209
Total	**68,361**	64,455	**17,059**	17,519	**4,419**	3,427
Geographical Area:						
Country of Origin:						
United Kingdom	**33,979**	33,339	**9,674**	9,225		
United States	**31,582**	28,248	**5,498**	6,435		
Europe	**2,800**	2,868	**1,887**	1,859		
Total	**68,361**	64,455	**17,059**	17,519		
Country of Destination:						
United Kingdom	**17,712**	16,798				
United States	**33,039**	29,526				
Europe	**15,184**	15,072				
Rest of World	**2,426**	3,059				
Total	**68,361**	64,455				

Net assets are stated before cash, bank overdrafts and loans of £300,000 (2005 – £4,051,000) and net tax payable of £1,253,000 (2005 – £1,042,000).

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

NOTES TO THE ACCOUNTS
At 30th April 2006

3. Operating Expenses

	2006 £'000	2005 £'000
Distribution and marketing costs	**22,518**	20,775
Administrative costs	**10,849**	10,918
Total operating expenses	**33,367**	31,693

4. Operating Profit

(a) This is stated after charging:

	2006 £'000	2005 £'000
Auditors' remuneration — audit (UK)	**60**	62
— audit (overseas)	**60**	52
— non audit (UK only)	**27**	40
Depreciation of owned fixed assets	**2,116**	2,271
Operating lease rentals — land and buildings	**3,054**	2,814
— other	**65**	58
Exchange differences	**(47)**	659
Pension costs	**276**	563
Share-based payment (see note 22)	**439**	—

(b) Cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:

	2006 £'000	2005 £'000
Operating profit	**4,419**	3,427
Depreciation charges	**2,116**	2,271
Decrease/(increase) in stocks	**1,442**	(918)
Increase in debtors	**(1,615)**	(547)
Increase in creditors	**1,194**	553
Net cash inflow from operating activities	**7,556**	4,786

5. Staff Costs

Staff costs, including Executive Directors, were as follows:

	2006 £'000	2005 £'000
Wages and salaries	**12,745**	11,752
Social security costs	**1,696**	1,570
Other pension costs	**269**	563
	14,710	13,885

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

	No.	No.
Distribution and marketing	**331**	339
Administration	**80**	82
	411	421

The Company did not have any employees during the year.

	2006 £'000	2005 £'000
Directors' remuneration was as follows:		
Directors' emoluments	**1,052**	657
Pension contributions	**36**	361
Gain on the exercise of share options	**19**	150
	1,107	1,168
Emoluments of the highest paid Director:		
Emoluments	**476**	142
Pension contributions	**—**	327
Gain on the exercise of share options	**—**	112
	476	581

NOTES TO THE ACCOUNTS
At 30th April 2006

5. **Staff Costs** *continued*

Four Directors participated in the Group's defined contribution pension scheme in 2006 (2005 – four). No Directors participated in the Group's defined benefit pension scheme in 2006 (2005 – nil).

During the year, one Director acquired shares through the exercise of ESOP share options. This resulted in total unrealised gains of £19,000 (2005 – £150,000), 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.

Out of the share based payment charge (see note 4 on page 20), £370,000 relates to share based payments to directors (2005 – £nil)

6. **Interest**

	2006 £'000	2005 £'000
Interest payable:		
Bank loans and overdrafts repayable within five years	**228**	312
Interest receivable:		
Bank and other interest receivable	**(80)**	(20)
	148	292

7. **Tax on Profit on ordinary activities**

	2006 £'000	2005 £'000
(a) Analysis of charge for the year		
UK corporation tax		
UK corporation tax on profits of the year	**1,484**	1,057
Double tax relief	**(409)**	—
Adjustments in respect of previous years	**(68)**	41
	1,007	1,098
Overseas tax		
Overseas tax on profits of the year	**612**	40
Adjustments in respect of previous years	**(15)**	70
	597	110
Total current tax	**1,604**	1,208
Deferred tax		
Origination and reversal of timing differences	**(334)**	(270)
	1,270	938

(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.

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	**4,094**	3,147
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 – 30%)	**1,228**	944
Effect of:		
Disallowed expenses and non-taxable income	**164**	155
Depreciation in excess of capital allowances	**235**	73
Short-term timing differences	**95**	35
Adjustments in respect of previous periods	**(83)**	111
Excess foreign tax on overseas income	**126**	92
Utilisation of tax losses	**(161)**	(202)
	1,604	1,208

NOTES TO THE ACCOUNTS
At 30th April 2006

		2006 £'000	As restated 2005 £'000
8. **Dividends**	Final (paid) of 2.16p (2005 – 2.06p) on 12th October 2005	**350**	354
	Interim (paid) of 1.38p (2005 – 1.34p) on 12th April 2006	**224**	217
		574	571
	Final dividend proposed for the year of 2.37p (2005 – 2.16p)	**385**	350

9. **Earnings per share**

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £2,824,000 (2005 – £2,209,000) and on 16,227,578 (2005 – 16,846,893) 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 £2,824,000 (2005 – £2,209,000) and on 16,728,940 (2005 – 17,031,297) being the weighted average number of shares in issue during the year, calculated as follows:

	2006	2005
Basic weighted average number of shares	**16,227,578**	16,846,893
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**501,362**	184,404
	16,728,940	17,031,297

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 2005	231	6,137	4,604	393	4,270	15,635
Exchange adjustment	—	240	153	1	195	589
Additions	—	452	395	92	842	1,781
Disposals	—	(314)	(932)	(88)	(464)	(1,798)
At 30th April 2006	**231**	**6,515**	**4,220**	**398**	**4,843**	**16,207**
Depreciation:						
At 1st May 2005	36	3,581	3,504	192	2,530	9,843
Exchange adjustment	—	155	130	—	117	402
Charge for the year	3	583	503	92	935	2,116
Disposals	—	(165)	(928)	(88)	(376)	(1,557)
At 30th April 2006	**39**	**4,154**	**3,209**	**196**	**3,206**	**10,804**
Net Book Value:						
At 30th April 2006	**192**	**2,361**	**1,011**	**202**	**1,637**	**5,403**
At 1st May 2005	195	2,556	1,100	201	1,740	5,792

		Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
11. **Investments**	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 2006

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.

At 30th April 2006, the ESOP Trust owned 862,422 (2005 – 892,422) ordinary shares of 10p in the Company at cost, with a market value of £1,366,939 (2005 – £825,490). Dividends on these shares have been waived.

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

425,000 shares in the ESOP were under option at the balance sheet date:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
25,000	2	£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
325,000	5	£1 total	28.04.06	28.04.06	27.04.16

12. Stocks and Contracts in Progress

	Group 2006 £'000	Group 2005 £'000
Finished goods for resale	**10,792**	11,845
Contracts in progress	**965**	817
Less: progress payments received and receivable	**(815)**	(495)
	10,942	12,167

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

NOTES TO THE ACCOUNTS
At 30th April 2006

13. Debtors

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Amounts owed by subsidiary undertakings	—	—	**3,772**	9,513
Trade debtors	**8,517**	6,760	—	—
Other debtors	**268**	435	—	—
Prepayments and accrued income	**1,249**	1,091	—	—
Deferred taxation	**1,464**	1,273	—	—
	11,498	9,559	**3,772**	9,513

All amounts shown under debtors fall due for payment within one year.

Deferred tax asset is also discussed in note 17 on page 25.

14. Cash and Financing

Reconciliation of Net Cash Flow to Movement in Net Debt	Group 2006 £'000	Group 2005 £'000
Increase/(decrease) in cash	**3,199**	(1,697)
Repayment of bank loan	**500**	500
Movement in net debt resulting from cash flows	**3,699**	(1,197)
Translation differences	**52**	(81)
Movement in net debt in the period	**3,751**	(1,278)
Net debt at 1st May	**(4,051)**	(2,773)
Net debt at 30th April	**(300)**	(4,051)

Analysis of Net Debt	At 1st May 2005 £'000	Cash flow £'000	Other £'000	Exchange differences £'000	**At 30th April 2006 £'000**
Cash at bank and in hand	1,736	559	—	52	**2,347**
Overdrafts	(4,787)	2,640	—	—	**(2,147)**
	(3,051)	3,199	—	52	**200**
Debt due within one year	(500)	500	(500)	—	**(500)**
Debt due after one year	(500)	—	500	—	**0**
Net debt	(4,051)	3,699	—	52	**(300)**

'Other' relates to changes in the maturity of debt.

15. Creditors: amounts falling due within one year

	Group 2006 £'000	Group As restated 2005 £'000	Company 2006 £'000	Company As restated 2005 £'000
Current instalments due on loans	**500**	500	**500**	500
Bank overdraft	**2,147**	4,787	**1,426**	6,375
Amounts owed to subsidiary undertakings	—	—	**26**	1,589
Trade creditors	**4,584**	4,835	—	—
Accruals	**3,066**	2,901	**33**	40
Payments received on account	**1,033**	813	—	—
Corporation tax	**1,253**	1,042	**263**	31
Other taxes and social security costs	**1,034**	790	—	—
Other creditors	**876**	484	—	—
	14,493	16,152	**2,248**	8,535

The bank loan is secured as disclosed in note 16 on page 25.

NOTES TO THE ACCOUNTS
At 30th April 2006

		Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
16. **Creditors: amounts falling due after more than one year**	Bank loan repayable within 1-2 years	**—**	500	**—**	500

Interest payable on the bank loan outstanding at 30th April 2006 and 2005 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 2006 £'000	Group 2005 £'000
17. **Deferred Taxation**	Deferred taxation has been provided as follows:		
	Accelerated capital allowances on tangible fixed assets	**57**	64
	Excess of depreciation over capital allowances on tangible fixed assets	**(402)**	(247)
	Short-term timing differences	**(1,062)**	(1,026)
		(1,407)	(1,209)
	This is made up as follows:		
	Deferred taxation included in Debtors	**(1,464)**	(1,273)
	Deferred taxation included in Provision for liabilities and charges	**57**	64
		(1,407)	(1,209)

	Deferred taxation £'000
Movements in provisions:	
At 1st May 2005	(1,209)
Movement in year	(140)
Translation adjustment	(58)
At 30th April 2006	**(1,407)**

Factors affecting the future tax charge:

A deferred tax asset amounting to £35,000 (2005 – £360,000) for capital losses and foreign losses has not been recognised. This is because in the opinion of the Directors there will be no suitable taxable gains in the foreseeable future, and it cannot be regarded as more likely than not that there will be suitable taxable profits from which any future reversal of the underlying timing differences can be deducted.

NOTES TO THE ACCOUNTS

At 30th April 2006

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 2006

	Net foreign currency monetary assets/(liabilities)				
	Sterling £'000	**US Dollar £'000**	**Eurozone £'000**	**Other £'000**	**Total £'000**
Functional Currency of group unit					
Sterling	**—**	**(49)**	**(2,586)**	**256**	**(2,379)**
US Dollar	**1,017**	**—**	**—**	**—**	**1,017**
Total	**1,107**	**(49)**	**(2,586)**	**256**	**(1,362)**

At 30th April 2005

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

Borrowing Facilities
The Group has various borrowing facilities available to it amounting to £7.8 million (2005 – £8.2 million). The undrawn committed facilities available at 30th April 2006 in respect of which all conditions had been met at that date total £7.5 million (2005 – £4.1 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:

		2006	
	Gains £'000	**Losses £'000**	**Total £'000**
Unrecognised gains on hedges at 1st May 2005	**728**	**—**	**728**
Gains arising in previous years that were recognised in the current year	**190**	**(81)**	**109**
Gains arising in the year that were not recognised in the current year	**131**	**—**	**131**
Unrecognised gains on hedges at 30th April 2006	**131**	**—**	**131**
of which			
Expected to be recognised in the year ended 30th April 2007	**131**	**—**	**131**

NOTES TO THE ACCOUNTS
At 30th April 2006

18. Financial Instruments *continued*

	2005 Gains £'000	2005 Losses £'000	2005 Total £'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

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 2006	**Floating Rate Financial Assets £'000**	**Floating Rate Financial Liabilities £'000**	**Total net Financial Liabilities £'000**
Sterling	**8**	**(1,895)**	**(1,887)**
US Dollar	**1,808**	**—**	**1,808**
Euro Currencies	**467**	**(752)**	**(285)**
Swedish Kronor	**26**	**—**	**26**
Other	**38**	**—**	**38**
	2,347	**(2,647)**	**(300)**

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)

NOTES TO THE ACCOUNTS
At 30th April 2006

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.

Credit risk
The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally to assess credit risk of new customers before entering contracts. Such credit ratings are then factored into the credit assessment process to determine the appropriate credit limit for each customer.

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 46% 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 26% 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 2006, the Group has outstanding forward contracts with a fair value of £131,000 (2005 – £728,000).

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.

19. **Called Up Share Capital**

	Authorised		Allotted, called up and fully paid	
	2006	2005	**2006**	2005
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,709,000**	£1,709,000
Number of shares	**33,000,000**	33,000,000	**17,090,000**	17,090,000

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 2006:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
70,000	10	111p	24.07.97	24.07.00	23.07.07
219,000	18	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 the Directors' Report on pages 8 to 10.

Share options over the ESOP shares are shown in note 11 on page 23.

NOTES TO THE ACCOUNTS
At 30th April 2006

20. Reserves

	Merger Reserve £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	ESOP Share Reserve £'000	ESOP Capital Share Reserve £'000	Profit and Loss Account £'000
Group:						
At 1st May 2005 as previously stated	—	11,087	1,157	(499)	—	(1,378)
Prior year adjustment in respect of FRS 21	—	—	—	—	—	350
At 1st May 2005 as restated	—	11,087	1,157	(499)	—	(1,028)
ESOP shares granted	—	—	—	212	228	—
Foreign Currency translation	—	—	—	—	—	390
Dividends paid	—	—	—	—	—	(574)
Profit for the year	—	—	—	—	—	2,824
At 30th April 2006	**—**	**11,087**	**1,157**	**(287)**	**228**	**1,612**
Company:						
At 1st May 2005 as previously stated	10,762	11,087	1,157	(499)	—	1,433
Prior year adjustment in respect of FRS 21	—	—	—	—	—	350
At 1st May 2005 as restated	10,762	11,087	1,157	(499)	—	1,783
ESOP shares granted	—	—	—	212	228	—
Profit for the year	—	—	—	—	—	1,180
Dividends paid	—	—	—	—	—	(574)
At 30th April 2006	**10,762**	**11,087**	**1,157**	**(287)**	**228**	**2,389**

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2005 – £23,062,000).

21. Group Reconciliation of Movements in Shareholders' Funds

	2006 £'000	2005 £'000
Total recognised gains and losses relating to the year	**3,215**	1,831
Dividends	**(574)**	(571)
Repurchase of shares	**—**	(1,900)
Lapse of ESOP shares	**—**	(33)
ESOP shares granted	**439**	—
Net decrease in shareholders' funds	**3,080**	(673)
Shareholders' funds at 1st May as previously stated	**12,076**	12,745
Prior year adjustments	**350**	354
Shareholders' funds at 1st May as restated	**12,426**	13,099
Shareholders' funds at 30th April	**15,506**	12,426

NOTES TO THE ACCOUNTS
At 30th April 2006

22. **Share Based Payment**

The Group operates an equity-settled share based remuneration scheme for directors and employees. In certain circumstances, the conditions are that the shares cannot be sold for a minimum of three years. The shares in this scheme are disclosed in the table below.

	2006 Weighted average exercise price	**2006 Number**	2005 Weighted average exercise price	2005 Number
Outstanding at 1st May	**£1 total**	**130,000**	£1 total	345,000
Granted during the year	**£1 total**	**325,000**	—	—
Exercised during the year	**£1 total**	**(30,000)**	£1 total	(165,000)
Lapsed during the year	**—**	**—**	£1 total	(50,000)
Outstanding at 30th April	**£1 total**	**425,000**	£1 total	130,000

All of the options outstanding at the end of the year had vested and were exercisable (2005 – all).

The weighted average share price (at date of exercise) of options exercised during the year was 119.8p (2005 – 93.5p).

The weighted average fair value of each option granted during the year was 158.5p (2005 – no options granted).

Share based payment charge

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

	2006 £'000	2005 £'000
The share-based remuneration expense (note 4) comprises:		
Employee share option scheme	**439**	—

The Group also operates an approved executive share option scheme. No options have been granted since October 2000 and there are currently no plans to grant options under this scheme. The share options outstanding under this scheme are disclosed in note 19 on page 28.

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

23. **Commitments Under Operating Leases**

At 30th April 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	2006		2005	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	**—**	**6**	22	5
In two to five years	**1,190**	**54**	1,180	48
After five years	**1,808**	**—**	1,698	—
	2,998	**60**	2,900	53

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

NOTES TO THE ACCOUNTS
At 30th April 2006

24. **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 £23,641 (2005 – £29,753).

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 £251,866 (2005 – £532,835).

FRS 17 has been adopted in full for the first time in the year ended 30 April 2006.

The Group's US subsidiary Cowtan & Tout operates a funded benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen on lst July 1997. The scheme was closed to new members on 31st December 1997. Existing members' current pension contributions were transferred to a defined contribution scheme and hence all future benefits became fixed on the date the scheme was closed. The most recent actuarial valuation of the fund was on 30th April 2006 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% (2005, 2004 – 5%). The market value of investments at 30th April 2006 was £769,097 (2005 – £761,422, 2004 – £892,676), all of which have an expected long term rate of return of 5% (2005, 2004 – 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 2006 was £996,004 (2005 – £950,778, 2004 – £1,051,288), resulting in an unfunded actuarial accrued liability of £226,907 (2005 – £189,356, 2004 – £158,612). An accrual of £227,000 (2005 – £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 £93,000 (2005 – £77,650, 2004 – £64,750).

The fair value of the assets in the scheme and the expected rate of return at 30 April 2006 were:

	2006 £'000	2005 £'000	2004 £'000
Cash and cash equivalents	**25**	762	892
Fixed income	**395**	—	—
Equities	**349**	—	—
Total market value of assets	**769**	762	892
Present value of scheme liabilities	**(996)**	(951)	(1,051)
Deficit in scheme	**(227)**	(189)	(159)
Related deferred tax asset	**93**	77	65
Net pension liability	**(134)**	(112)	(94)

	2006 £'000	2005 £'000
Movement in deficit during the year:		
Deficit in scheme at 1st May 2005	**(189)**	(159)
Cash contributions	**—**	—
Finance charge	**(10)**	(7)
Actuarial gains and losses	**(17)**	(36)
Currency translation differences	**(11)**	13
Deficit in scheme at 30th April 2006	**(227)**	(189)

NOTES TO THE ACCOUNTS

At 30th April 2006

24. **Pension Commitments** *continued*

	2006 £'000	**% scheme assets/ liabilities**	2005 £'000	% scheme assets/ liabilities	2004 £'000	% scheme assets/ liabilities	2003 £'000	% scheme assets/ liabilities
History of experience gains and losses:								
Actual return less expected return on pension scheme assets	**3**	**(0.5%)**	(32)	4.2%	(30)	(3.4%)	117	11.0%
Experience losses arising on the pension scheme liabilities	**(20)**	**2.0%**	(4)	0.4%	(20)	1.9%	(132)	11.2%
Actuarial loss	**(17)**	**1.7%**	(36)	3.7%	(50)	4.8%	(15)	1.3%

25. **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 2006, the value of subsidiary overdrafts covered by the guarantee amounted to £1,611,689 (2005 – £3,365,630).

FIVE YEAR REVIEW

	2006 £'000	As restated 2005 £'000	2004 £'000	2003 £'000	2002 £'000
Turnover	**68,361**	64,455	63,381	64,422	67,307
Operating profit	**4,419**	3,427	3,187	3,037	4,225
Profit before taxation	**4,094**	3,147	2,910	2,801	3,859
Profit attributable to shareholders	**2,824**	2,209	1,933	1,794	2,535
Basic earnings per share	**17.4p**	13.1p	10.4p	8.9p	11.1p
Diluted earnings per share	**16.8p**	13.0p	10.2p	8.8p	10.9p
Dividends per share	**3.75p**	3.50p	3.40p	3.40p	3.40p
Shareholders' funds	**15,506**	12,426	12,745	13,331	14,640
Operating cash flow	**7,556**	4,786	6,499	6,191	6,909
Net debt	**300**	4,051	2,773	5,042	4,761

NOTICE OF MEETING

Notice is hereby given that the 2006 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 12th September 2006 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 2006, together with the reports of the Directors and of the auditors thereon.

2. To declare a final dividend of 2.37p 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 K. Hall, who retires by rotation, as a Director.

Special Business

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

6. THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate nominal amount of £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).

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

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

   (b) shall be limited to:

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

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

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

      (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £85,450.

NOTICE OF MEETING

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

   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 2,563,500 (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
20th July 2006

Registered Office
39 Brook Street
London W1K 4JE

Notes:

1. Only those members entered in the register of members of the Company as at 6.00 p.m. on 8th September 2006 shall be entitled to attend and vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00 p.m. on 8th September 2006 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 10.

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.

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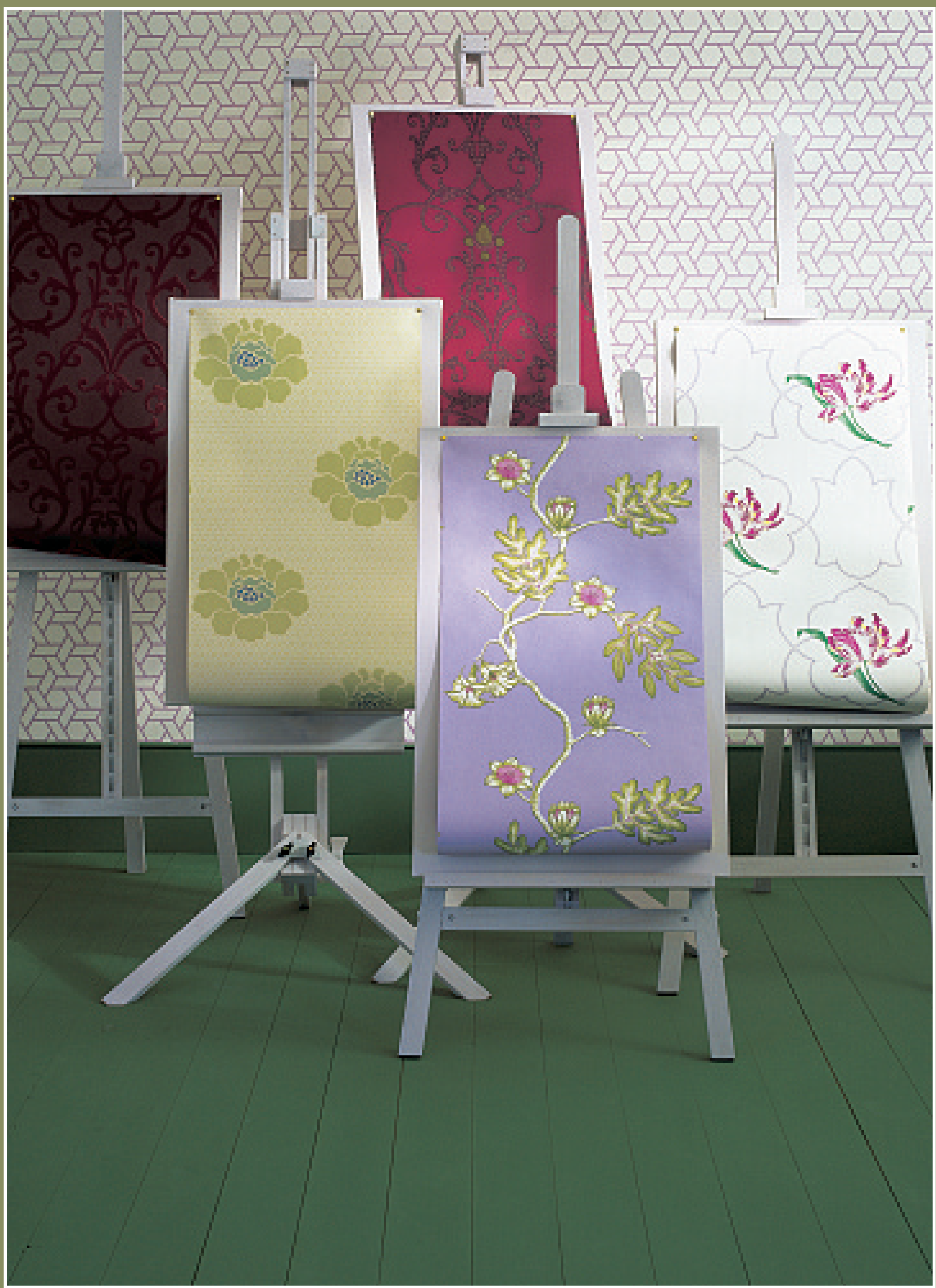

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