Colefax Group plc

Annual Report and Accounts 2009

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

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2001
THE QUEEN'S AWARD FOR EXPORT ACHIEVEMENT
COLEFAX & FOWLER LTD

FINANCIAL HIGHLIGHTS

	2009 £'000	2008 £'000	Increase/ (Decrease)
Revenue	**75,562**	78,181	(3)%
Profit from operations	**2,656**	6,081	(56)%
Profit before taxation	**2,649**	5,942	(55)%
Profit attributable to shareholders	**1,830**	4,065	(55)%
Basic earnings per share	**12.9p**	27.5p	(53)%
Diluted earnings per share	**12.4p**	26.1p	(52)%
Dividends per share	**2.88p**	4.20p	(31)%
Equity	**21,133**	19,229	10%
Operating cash flow	**5,176**	6,956	(26)%
Net funds	**3,078**	2,419	27%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2009 decreased by 55% to £2.65 million (2008 – £5.94 million) on sales down 3% at £75.56 million (2008 – £78.18 million). Earnings per share decreased by 53% to 12.9p (2008 – 27.5p) and the Group ended the year with net funds of £3.08 million (2008 – £2.42 million).

During the year, the Group purchased for cancellation 550,000 shares at an average price of £1.63 per share, representing 3.6% of the Group's issued share capital at the start of the year.

Due to the current economic climate, the Board has decided to recommend that the final dividend is halved to 1.33p per share (2008 – 2.65p), making a total for the year of 2.88p (2008 – 4.20p), a decrease of 31%. The final dividend will be paid on 9th October 2009 to shareholders on the register at the close of business on 11th September 2009.

The principal reason for the reduction in this year's results has been the significant decrease in sales in our largest market, the US, from August 2008. In addition, a number of European markets, together with the UK, started to deteriorate from January 2009. In response to the downturn, the Group incurred reorganisation and redundancy costs of £876,000. Profits were also adversely affected by hedging contracts put in place in the early part of the year which meant that the Group did not fully benefit from the subsequent dramatic strengthening of the US dollar.

Product Division

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

Sales in the Fabric Division, which represent 81% of Group sales, decreased by 2% to £61.08 million (2008 – £62.15 million) and by 14% on a constant currency basis.

Sales in the US, which represent 51% of the Fabric Division's sales, decreased by 18% on a constant currency basis. The reduction in sales started in August 2008 and has significantly escalated since January 2009 and we are now experiencing monthly decreases of over 30% compared to the previous year. The most important market for us has always been New York and this area has been particularly badly hit. We currently have two showrooms in New York, which we propose to amalgamate into one at the end of this year. Whilst this will produce only limited cost savings, there are significant sales synergies to be gained once the market recovers. During the year we expanded our Florida showroom and made improvements to our LA showroom.

UK sales, which represent 20% of the Fabric Division's sales, decreased by 8% during the year. The Group benefited from a strong performance during the first six months of the year as the decline in sales did not start until October, and then only moderately. However, since February 2009 the rate of decline has become much more significant and is currently running at around 20% per month compared to the previous year. My view is that the UK housing market will experience a long period of decline and that it may be the latter part of 2010, at the earliest, before there is any real recovery.

Sales in Continental Europe, which represent 26% of the Fabric Division's sales, declined by 13% on a constant currency basis, with a very mixed performance between countries. Our principal market of France has held up reasonably well, although we are now starting to see greater reductions in sales each month. The well publicised problems of Spain and Eire have resulted in a substantial sales decline in those markets compared to the previous year. My view is that Europe will not escape the economic problems which are currently facing the UK and the US and the current rate of decline, which is around 20% compared to the previous year, will remain for at least the next 12 months.

Sales in the rest of the world, which represent just 3% of the Fabric Division's sales, increased by 3% in the year. As there is no major market, it is difficult to predict future trends in this region, but it is relatively unimportant to the Group.

CHAIRMAN'S STATEMENT

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 3% of Group sales, decreased by 15% to £2.47 million (2008 – £2.92 million) but this activity remained profitable in the year. Since January 2009, we have started to see a more significant decrease in sales and have made a number of redundancies in our manufacturing facility. We are concerned about the short-term performance of this area of the Group as it is dependent upon the London property market. We have however secured a number of significant contract projects which will help to cushion the shortfall.

- **Accessories – Manuel Canovas**

Sales in our Accessories Division, which account for 3% of Group sales, increased by 2% to £2.51 million (2008 – £2.47 million) but decreased by 13% on a like-for-like basis. The new management team have worked hard to put together an exciting new range for this year but I am concerned that in the current economic climate any real progress will be hard to achieve.

Interior Decorating Division

Interior decorating sales, which account for 13% of Group sales, decreased by 11% to £9.50 million (2008 – £10.64 million) following an exceptional performance in 2008. The current order book remains relatively strong and we are reasonably confident that this year's results will be similar to last year's. Sales of antiques decreased by 20% in the year to £1.13 million and we expect this area to remain challenging.

Prospects

In my Chairman's Statement in July last year, I stated that, in my opinion, recessions are usually deeper and last longer than everyone forecasts. Despite this, I believe that I may have still underestimated the seriousness of this recession and its affect on our business.

The US and most of our other major markets are in deep recession and, whilst we have taken action to reduce costs, these will not in any way off-set the level of sales decline that we are currently experiencing. We anticipate that trading conditions will remain very challenging for the current year and our principal focus will continue to be on conserving cash and maintaining tight control over our cost base. The Group has a strong balance sheet, with no debt, and is well placed to deal with the current recession and capitalise on any opportunities which may arise in the future.

I would like to thank all of our staff for their hard work during the year and for their continued enthusiasm and commitment.

David B. Green
Chairman
20th July 2009

REVIEW OF OPERATIONS AND FINANCE

Key Performance Indicators	**2009**	2008
Sales Growth	**(3.3)%**	10.1%
Constant Currency Sales Growth	**(14.0)%**	10.9%
Gross Profit Margin	**52.9%**	53.4%
Operating Profit Margin	**3.5%**	7.8%
Basic Earnings Per Share	**12.9p**	27.5p
Operating Cash Flow	**£5.2m**	£7.0m
Stock Turn (Days)	**136**	134
Cost of Equity Capital	**12.9%**	16.7%

Sales Growth

Group sales decreased by 3.3% to £75.56 million (2008 – £78.18 million) and by 14.0% on a constant currency basis. This compares to a 10.9% constant currency increase in 2008 and 8.1% in 2007. In our core Fabric Division like for like sales decreased by 18.1% in the US, 13.3% in Europe and 7.7% in the UK. These percentages mask the fact that sales declined markedly in the second half of the year particularly in our major market the US where sales for the three months to April 2009 were down by 32%. Sales declines of this magnitude are unprecedented and are having a profound effect on the industry. Our suppliers in particular are suffering from destocking by their customers and lower levels of new product investment whilst our clients are reporting sharp falls in their forward order books.

The UK was the Group's best performing market during the year although it accounts for only 20% of Fabric Division sales. We believe this reflects the strength of the property boom in the UK in 2007 and the first half of 2008. In the fabric industry the UK and also Europe have gone into recession much later than the US. As a Group our sales lag activity levels in the high end housing market and as the level of transactions remains extremely depressed we are not optimistic that business will recover in the short term. It is possible that we will see higher levels of refurbishment from people who are not moving house but this will not offset the impact of a steep decline in housing activity in all our major markets.

Gross Profit Margin

The Group's gross profit margin declined by 0.5% from 53.4% to 52.9%. The main reason for the decline is the strength of the Euro because the Group sources a high proportion of its fabrics from European suppliers. During the year the Euro averaged €1.19 to the pound compared to €1.39 in 2008. This put pressure on margins in the US and the UK which account for 71% of Fabric Division sales. The Group attempted to mitigate some of the strength of the Euro through price increases in the UK and the US but the speed and timing of the Euro's appreciation meant that they were not sufficient to offset the full impact. In addition market conditions are currently not conducive to further significant price increases.

During the year the US dollar appreciated by 25% from $1.98 to $1.48 and averaged $1.66 compared to $2.01 in the prior year. Although 51% of Fabric Division sales are in the US the Group unfortunately gained little benefit from the appreciation in the dollar due to hedging contracts put in place at the beginning of the year. Losses on forward contracts amounted to £1.29 million compared to a gain of £87,000 last year and are included in the cost of goods sold. Excluding these losses the Group's gross profit margin would have increased from 53.4% to 54.7%.

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

	2009	2008	% change
US dollar average	**1.66**	2.01	(17.41%)
US dollar closing	**1.48**	1.98	(25.25%)
Euro average	**1.19**	1.39	(14.39%)
Euro closing	**1.12**	1.27	(11.81%)

REVIEW OF OPERATIONS AND FINANCE

Operating Profit Margin

Group profit from operations decreased by 56.3% to £2.66 million (2008 – £6.08 million) representing an operating profit margin of 3.5% (2008 – 7.8%). The main reason for the decline in the operating profit margin was the 14% drop in constant currency sales. In addition the Group incurred redundancy and reorganisation costs of £876,000 (2008 – £413,000) in an effort to align costs with a much more challenging trading environment. The savings resulting from these actions will not be sufficient to offset expected further falls in sales in the current year and operating margins will remain under pressure. The Group's core Fabric Division is highly operationally geared with high gross profit margins and costs which are relatively fixed. This means that falling sales have a disproportionately large impact on operating margins. The key issue for the Group is when the US market will start to recover. At the present time this seems a long way off. The main internal driver of sales is investment in new product and this will be a difficult balancing act in the current economic climate. Until market conditions improve the Group strategy will focus on operating cash flow and maintaining a tight control over working capital.

Last year we stated that whilst tougher trading conditions would put pressure on operating margins we believed that the Group was well placed to weather any downturn in market conditions due to its strong balance sheet, its geographical diversity and its orientation towards the luxury end of the market. The Group still has a very strong balance sheet with net cash at the year end of £3.08 million and unused bank facilities of £7.51 million. However, the Group's geographical diversity is currently less of a benefit given that all our major markets are in recession. Also the nature of the current recession, which has seen massive wealth destruction throughout the world, means that the luxury sector has been particularly badly affected by the downturn.

Taxation

The Group tax charge was 30.9% (2008 – 31.6%). The small reduction in the effective rate is primarily due to the change in the mix of profits between the UK and the US where corporate tax rates are 28% and 40% respectively. Profits at our US subsidiary company Cowtan and Tout have been impacted by the slowdown in sales which began in August 2008. The Group balance sheet includes a significant deferred tax asset of £1.59 million (2008 – £2.0 million) mostly relating to timing differences in the US.

Basic Earnings Per Share

Group earnings per share decreased by 53% to 12.9p (2008 – 27.5p). This compares to a 55% reduction in post tax profits and the small difference is mostly explained by the effect of share buybacks in the current and prior years. During the year the Group bought for cancellation 550,000 shares representing 3.6% of the issued share capital at a cost of £895,000 or £1.63 per share. In the prior year the Group bought for cancellation 303,932 shares at a cost of £465,000 or £1.53 per share. These buybacks have reduced the weighted average number of shares in issue compared to last year by 4%.

Cost of Equity Capital

The Group Board remains committed to a strategy of share buybacks provided they enhance shareholder value through their effect on earnings per share, net assets per share and return on capital employed. The Group's cost of equity capital measured in terms of earnings per share as a percentage of the share price is 12.9%, down from 16.7% in 2008 and well in excess of the Group's post tax cost of debt of 1.7%. The Group was ungeared at the year end with net cash of £3.08 million. The Group Holding company has significant distributable reserves of £4.83 million to cover further share buybacks but any purchases will depend on cash generation and market conditions.

At our AGM on 15th September 2009, the Group will seek approval to buy back up to 15% of the issued share capital of the company or 2.22 million shares. The shareholding of David Green, Chairman and Chief Executive is currently 31% and as a result further share buybacks will require the renewal of an existing authority to waive Rule 9 of the Takeover Code. Under Rule 9 of the Code any person or persons acting in concert with a shareholding of 30% or more are required to make an offer for the entire issued share capital of the company. An Extraordinary General Meeting to seek approval of the waiver will be held on 15th September 2009 after our Annual General Meeting.

REVIEW OF OPERATIONS AND FINANCE

Dividends
The Board has proposed a 50% decrease in the final dividend to 1.33p (2008 – 2.65p) making a total for the year of 2.88p (2008 – 4.20p) which is a decrease of 31.4%. This represents a break with the Group's progressive dividend policy which sought to increase the dividend every year and reflects the very challenging trading conditions facing the Group. The total cost of the dividend is £407,000 which represents dividend cover of 4.5 times (2008 – 6.7 times). This remains a high level of cover but the Board continues to believe that the interests of shareholders are best served by utilising the Group's cash and distributable reserves for share buybacks or to fund acquisitions which fit with the Group's existing brand portfolio.

Cash flow
The Group had an operating cash flow of £5.18 million in 2009 compared to £6.96 million last year. The net decrease in working capital was £725,000 comprising a decrease in stock of £1.03 million, an increase in debtors of £310,000 and an increase in creditors of £3,000. It is logical to expect a reduction in working capital when sales are falling but the reality of reducing stock whilst at the same time maintaining high levels of customer service is challenging and takes time. Managing stock has if anything become more difficult due to a trend towards shorter product life cycles but it is critical to Group cash flow. During the year our stock turn increased slightly from 134 to 136 days.

Tax cash flows decreased to £1.58 million from £2.31 million last year partly reflecting the decline in operating profits. This payment is higher than the profit and loss charge of £819,000 and is due to timing differences and changes in deferred tax.

Capital expenditure during the year was £1.73 million compared to depreciation of £1.80 million. The main non recurring item of capital expenditure this year was a new showroom in Florida which was completed in April. In the current year we have two major capital projects. Firstly we are merging our two showrooms in New York which will result in significant sales synergies especially when market conditions improve. Secondly we are expanding our trade showroom in Paris to properly incorporate our full range of fabrics and wallpapers.

Cash generation before dividends and share buybacks was £1.87 million (2008 – £3.05 million) and compares to profit after tax of £1.83 million. Dividend payments were £592,000 (2008 – £604,000) and share buybacks were £895,000 (2008 – £465,000). As a result the Group has ended the year with net cash of £3.08 million.

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

Rob Barker
Group Finance Director

DIRECTORS, BANKERS AND ADVISERS

Directors

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

Secretary and Registered Office

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Registered in England No. 1870320

Nominated Advisers and Stockbrokers

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Registrars and Transfer Office

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The Pavilions
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Bristol BS99 7NH

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2009.

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

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

Financial Instruments
Details of the use of financial instruments by the Group are contained in note 19 on pages 31 to 33 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 one third of the issued share capital of the Company for a period expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

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

Resolution Number 8, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £222,150 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 2009. This power will only be exercised by the Board when it is satisfied that any purchase would have a beneficial impact on earnings per share, would not have a material adverse impact upon attributable assets and would be in the interests of shareholders.

Results and Dividends
The Group's profit after tax was £1,830,000 (2008 – £4,065,000). An interim dividend of 1.55p (2008 – 1.55p) per share was paid to shareholders on 14th April 2009. The Directors recommend the payment of a final dividend of 1.33p (2008 – 2.65p) per share to be paid on 9th October 2009 to shareholders on the register at the close of business on 11th September 2009. The total dividend is 2.88p (2008 – 4.20p) per share and the total of the interim and proposed final dividend is £407,000 (2008 – £599,000).

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.

The Group believes in the policy of equal opportunities. Recruitment and promotion are undertaken on the basis of merit, regardless of gender, race, age, marital status, sexual orientation, religion, nationality, colour and disability.

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

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 2009, the Group had an average of 34 days purchases outstanding to trade creditors (2008 – 35 days). The parent company has no trade creditors.

Charitable Donations
During the year the Group made various charitable donations totalling £20,885 (2008 – £25,685).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2009.

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

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

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 20th July 2009:

	Number of shares	%
D. B. Green	4,592,862	31.0
Discretionary Unit Fund Managers	3,000,000	20.3
Schroder Investment Management	2,144,927	14.5
Hunter Hall Investment Management	1,644,000	11.1
Colefax Group Plc ESOP	647,422	4.4

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	
	2009	2008
D. B. Green	**4,592,862**	4,442,862
R. M. Barker	**105,000**	105,000
W. Nicholls	**260,354**	260,354
A. K. P. Smith	**45,000**	45,000
K. Hall	**50,000**	50,000

D. B. Green's shareholding included 402,400 (2008 – 402,400) ordinary shares in which his interest was non-beneficial. No Director has interests in the shares of any subsidiary company. On 28th October 2008 D. B. Green acquired 150,000 shares through the exercise of ESOP share options.

DIRECTORS' REPORT

Share Options
The following options are outstanding in respect of the Colefax Group plc Employee Share Ownership Plan Trust. The options each have an exercise price of £1 in total.

	Total Exercise price	At 1st May 2008	Granted/ (Exercised) during the year	**At 30th April 2009**	Date of Grant	Exercisable from	Expiry Date
D. B. Green	£1	100,000	(100,000)	**–**	28.04.06	28.04.06	27.04.16
D. B. Green	£1	50,000	(50,000)	**–**	27.04.07	27.04.07	26.04.17
R. M. Barker	£1	75,000	–	**75,000**	28.04.06	28.04.06	27.04.16
R. M. Barker	£1	50,000	–	**50,000**	27.04.07	27.04.07	26.04.17
R. M. Barker	£1	100,000	–	**100,000**	30.04.08	30.04.08	29.04.18
K. Hall	£1	100,000	–	**100,000**	28.04.06	28.04.06	27.04.16
K. Hall	£1	50,000	–	**50,000**	27.04.07	27.04.07	26.04.17
K. Hall	£1	100,000	–	**100,000**	30.04.08	30.04.08	29.04.18

The market price of the Company's shares at 30th April 2009 was 100.0p. The range of market prices during the financial year was between 81.50p and 170.00p.

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

R. M. Barker BSc ACA
Secretary
20th July 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Directors' Responsibilities

The directors are responsible for keeping adequate accounting records that show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for the financial year.

The directors are required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare the financial statements for the company in accordance with IFRS as adopted by the EU.

In preparing the group and company 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 the group and the company financial statements have been prepared in accordance with IFRS as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for preparing a directors' report which complies with the requirements of the Companies Act 2006.

Website Publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. 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 2009 which comprise the group and company balance sheet, the group income statement, the group and company cash flow statements and the group statement of recognised income and expenses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30th April 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Diane Campbell (senior statutory auditor)
For and on behalf of BDO Stoy Hayward LLP, statutory auditor
London
20th July 2009

GROUP INCOME STATEMENT

For the year ended 30th April 2009

	Notes	2009 £'000	2008 £'000
Revenue	3	**75,562**	78,181
Cost of sales		**35,555**	36,467
Gross profit		**40,007**	41,714
Operating expenses	5	**37,351**	35,633
Profit from operations	6	**2,656**	6,081
Finance income		**45**	127
Finance expense		**(52)**	(266)
	8	**(7)**	(139)
Profit before taxation		**2,649**	5,942
Tax expense			
– UK		**(535)**	(1,899)
– Overseas		**(284)**	22
	9	**(819)**	(1,877)
Profit for the year attributable to the equity holders of the parent	21	**1,830**	4,065
Basic earnings per share	11	**12.9p**	27.5p
Diluted earnings per share	11	**12.4p**	26.1p

All activity has arisen from continuing operations.

The notes on pages 18 to 37 form part of these Consolidated financial statements.

GROUP BALANCE SHEET
At 30th April 2009

	Notes	**2009 £'000**	2008 £'000
Non-current assets:			
Property, plant and equipment	12	**5,718**	4,960
Deferred tax asset	18	**1,590**	1,991
		7,308	6,951
Current assets:			
Inventories and work in progress	14	**13,255**	13,357
Trade and other receivables	15	**11,661**	10,561
Cash and cash equivalents	16	**3,079**	3,862
		27,995	27,780
Trade and other payables:			
Current corporation tax		**387**	995
Other amounts falling due in one year		**13,298**	14,152
	17	**13,685**	15,147
Net current assets		**14,310**	12,633
Total assets less current liabilities		**21,618**	19,584
Non-current liabilities:			
Deferred tax liability	18	**–**	123
Pension liability	25	**485**	232
		485	355
Net assets		**21,133**	19,229
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	20	**1,481**	1,536
Share premium account	21	**11,148**	11,148
Capital redemption reserve	21	**1,393**	1,338
ESOP share reserve	21	**(30)**	(20)
Share based payment reserve	21	**475**	664
Foreign exchange reserve	21	**2,055**	124
Cash flow hedge reserve	21	**(370)**	–
Retained earnings	21	**4,981**	4,439
Total equity	22	**21,133**	19,229

The financial statements were approved by the board of directors and authorised for issue on 20th July 2009.

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

The notes on pages 18 to 37 form part of these Consolidated financial statements.

COMPANY BALANCE SHEET

At 30th April 2009

	Notes	**2009 £'000**	2008 £'000
Non-current assets:			
Investments	13	**27,562**	27,562
Current assets:			
Trade and other receivables	15	**3,529**	3,472
Cash and cash equivalents	16	**–**	358
		3,529	3,830
Trade and other payables: amounts falling due within one year	17	**1,002**	10
Net current assets		**2,527**	3,820
Net assets		**30,089**	31,382
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	20	**1,481**	1,536
Share premium account	21	**11,148**	11,148
Merger reserve	21	**10,762**	10,762
Capital redemption reserve	21	**1,393**	1,338
ESOP share reserve	21	**–**	(20)
Share based payment reserve	21	**475**	664
Retained earnings	21	**4,830**	5,954
Total equity		**30,089**	31,382

The financial statements were approved by the board of directors and authorised for issue on 20th July 2009.

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

The notes on pages 18 to 37 form part of these Consolidated financial statements.

GROUP CASH FLOW STATEMENT

For the year ended 30th April 2009

	Notes	2009 £'000	2008 £'000
Operating activities			
Profit before taxation		**2,649**	5,942
Finance income		**(45)**	(127)
Finance expense		**52**	266
Depreciation	12	**1,795**	1,690
Cash flows from operations before changes in working capital		**4,451**	7,771
Decrease/(increase) in inventories and work in progress		**1,032**	(1,215)
Increase in trade and other receivables		**(310)**	(672)
Increase in trade and other payables		**3**	1,072
Cash generated from operations		**5,176**	6,956
Taxation paid			
UK corporation tax paid		**(1,343)**	(2,002)
Overseas tax paid		**(237)**	(307)
		(1,580)	(2,309)
Net cash inflow from operating activities		**3,596**	4,647
Investing activities			
Payments to acquire property, plant and equipment	12	**(1,729)**	(1,448)
Receipts from sales of property, plant and equipment		**33**	10
Interest received		**38**	125
Net cash outflow from investing		**(1,658)**	(1,313)
Financing activities			
Purchase of own shares		**(895)**	(465)
Interest paid		**(72)**	(280)
Equity dividends paid		**(592)**	(604)
Net cash outflow from financing		**(1,559)**	(1,349)
Net increase in cash and cash equivalents		**379**	1,985
Cash and cash equivalents at beginning of year		**2,419**	363
Exchange gains/(losses) on cash and cash equivalents		**280**	71
Cash and cash equivalents at end of year	16	**3,078**	2,419

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSES

For the year ended 30th April 2009

	2009 £'000	2008 £'000
Currency translation differences on foreign currency net investments	**2,961**	704
Deferred tax on long-term loan foreign currency movements	**(1,030)**	(41)
Unrealised losses on cash flow hedges	**(514)**	–
Deferred tax on unrealised losses on cash flow hedges	**144**	–
Net income recognised directly in equity	**1,561**	663
Profit for the year	**1,830**	4,065
Total recognised income and expense for the year	**3,391**	4,728

The notes on pages 18 to 37 form part of these Consolidated financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 30th April 2009

	Notes	**2009 £'000**	2008 £'000
Operating activities			
Profit before taxation		**484**	378
Finance income		**(575)**	(562)
Finance expense		**–**	148
Cash flows from operations before changes in working capital		**(91)**	(36)
Decrease in trade and other receivables		**988**	2,470
Decrease in trade and other payables		**(7)**	(32)
Cash generated from operations		**890**	2,402
Taxation paid			
UK corporation tax paid		**(1,327)**	(1,902)
Net cash (outflow)/inflow from operating activities		**(437)**	500
Investing activities			
Interest received		**568**	4
Dividends received from subsidiaries		**–**	3,400
Net cash inflow from investing		**568**	3,404
Financing activities			
Purchase of own shares		**(895)**	(465)
Interest paid		**–**	(179)
Equity dividends paid		**(592)**	(604)
Net cash outflow from financing		**(1,487)**	(1,248)
Net (decrease)/increase in cash and cash equivalents		**(1,356)**	2,656
Cash and cash equivalents at beginning of year		**358**	(2,298)
Cash and cash equivalents at end of year	16	**(998)**	358

The notes on pages 18 to 37 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

1. **Accounting Policies**

General Information

Colefax Group Plc is a limited company incorporated in the United Kingdom. The principal activity of the Company is to act as a holding company for the Group's trading subsidiaries. The address of its registered office and principal place of business are disclosed on page 7. The principal activities of the Group are the design, marketing, distribution and retailing of furnishing, fabrics, wallpapers, trimmings, related products and upholstered furniture in the UK and overseas and the sale of antiques; interior and architectural design, project management, decoration and furnishing for private individuals and commercial firms.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The policies have been applied to the Group and Company, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("EU adopted IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements in accordance with IFRS.

Changes in Accounting Policies

(a) Standards, interpretations and amendments to published standards effective in 2009 but which are not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are currently not relevant to the Group's operations:

– *IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1st March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group as none of the Group companies has a currency of a hyperinflationary economy as its functional currency.

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1st January 2009 or later periods and which the Group has decided not to adopt early. These are:

– *Amendments to IFRS 7, Financial Instruments:Disclosures* (effective for accounting periods beginning on or after 1st January 2009). This Amendment requires the analysis of each class of financial asset and financial liability, into a three level fair value measurement hierarchy. It requires additional disclosures in respect of those financial instruments classified at Level Three (namely those that are measured using a valuation technique which uses inputs that are not based on observable market data). It also implements some changes to the definition of and disclosures associated with liquidity risk. The Group expects to apply this standard in the accounting period beginning on 1st May 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

– *IFRS 8, Operating Segments* (effective for accounting periods beginning on or after 1st January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group expects to apply this standard in the accounting period beginning on 1st May 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

– *Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1st July 2009). The revised IFRS 3 and IAS 27 are still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

1. **Accounting Policies** *continued*

– *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee share save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 1, Presentation of Financial Statements: A Revised Presentation* (effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The revised version of IAS 1 (revised 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005 and key changes include: the requirement to aggregate information in the financial statements on the basis of shared characteristic; changes in the titles of some primary statements (non mandatory); introducing the possibility of a single Statement of Comprehensive income (combining the Income Statement and the Statement of Recognised Income and Expense); Only the total of comprehensive income is to be shown in the Statement of Changes in equity. Management is currently assessing the impact of the Amendment on the accounts.

– *Amendments to IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1st January 2009). This amendment is still to be endorsed by the EU. The amendments result in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. The Group expects to apply this standard in the accounting period beginning 1st May 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

– *Amendments to IFRS 1 and IAS 27, Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for accounting periods beginning on or after 1st January 2009). These amendments are still to be endorsed by the EU. The amendments permit the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 Financial instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.

– *Improvements to IFRS* (effective for accounting periods beginning on or after 1st July 2009) and *Improvements to IFRS* (effective for accounting periods beginning on or after 1st January 2010). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS, the elimination of inconsistencies between Standards, and a restructuring of IFRS 1 First-time Adoption of IFRS. Management is currently assessing the impact of the Amendment on the accounts.

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

The following standards, interpretations and amendments to published standards are not yet effective and are not relevant to the Group:

– *Amendments to IAS 39 and IFRS 7, Reclassification of Financial Instruments*

– *IFRIC 16, Hedges of a Net Investment in a Foreign Operation*

– *Amendments to IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions*

– *Amendments to IAS 39, Financial Instruments: Recognition and Measurement: Eligible Hedged Items*

The following principal accounting policies have been applied consistently in the preparation of the financial statements:

Basis of Consolidation

Where the Group has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of Colefax Group Plc and its subsidiaries as if they formed a single entity.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

1. **Accounting Policies** *continued*

No income statement is presented for the Company as provided in S.408 of the Companies Act 2006. The profit dealt with in the financial statements of Company was £164,000 (2008 – £3,427,000). Total recognised income and expenses relating to the year for the Company consists of profit for the year only.

Acquisitions are accounted for using the acquisition method. Under the acquisition method the results of subsidiary undertakings are included from the date of acquisition.

Where merger accounting was used in business combinations prior to 1st May 2006 (transition date), the investment is still recorded in the Company's balance sheet at the nominal value of the shares issued, together with the fair value of any additional consideration paid as the Group has applied the IFRS 1 'First-time Adoption of International Financial Reporting Standards' exemption relating to business combinations.

In the Group Financial Statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. Any difference between the nominal value of the shares acquired by the Group and those issued by the company to acquire them is taken to reserves.

Goodwill

Goodwill arising on acquisitions prior to 30th April 1998 was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated upon transition to IFRS.

Investments in Subsidiaries

Investments in subsidiaries in the Company balance sheet are stated at cost less any provision for impairment.

Revenue Recognition

Revenue, which excludes value added taxes, represents the amounts receivable from its customers for goods and services supplied. Sales of goods are recognised when goods are delivered and title has passed. Sales of services are recognised when the service has been completed

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price and costs directly incurred in bringing the asset into use. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on all property, plant and equipment other than freehold land at rates calculated to write off the cost less estimated residual value evenly over its expected useful life, as follows:

Freehold buildings	50 years
Leasehold 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Provision is made for obsolete, slow moving and defective stocks.

Work in Progress

Work in progress is 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 work in progress to its present location and condition. Provision is made for any losses expected to arise on completion of the work entered into at the date of the balance sheet.

Taxation

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

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

1. **Accounting Policies** *continued*

Deferred Taxation
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and Deferred Tax for the year
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

Lease Commitments
Leases where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term.

Retirement Benefits
Defined Contribution Schemes
The Group operates defined contribution pension schemes which are externally administered. Payments made to the funds are charged when payable to the income statement as part of employment costs. There are no outstanding or prepaid contributions at the year end.

Defined Benefit Schemes
One Group company operates a defined benefit pension scheme for employees. The scheme's funds are administered by trustees and are independent of Group finances. Annual contributions are based on external actuarial advice.

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

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Group are charged to the income statement or the statement of total recognised income and expenses in accordance with IAS 19 'Employee Benefits'.

Foreign Currency
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Great British Pounds ('GBP'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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 form part of the net investment are taken directly to reserves. Loans are designated as part of the net investment, when settlement is neither planned nor likely to occur in the foreseeable future.

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies including loans to subsidiaries are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Financial Instruments
Cash and Cash Equivalents
Cash equivalents are defined as including short term deposits with original maturity within 3 months. For the purposes of the cash flow statements cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with the same bank where there is a legal right and intention to offset.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2009

1. **Accounting Policies** *continued*

Trade and Other Receivables
Trade and other receivables do not carry interest and are stated at their nominal (invoiced) value as reduced by appropriate allowances for estimated irrecoverable amounts. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the income statement.

Trade and Other Payables
Trade and other payables do not carry interest and are recognised and carried at original invoice cost and are a short-term liability of the Group.

Derivative Financial Instruments
The Group uses derivative financial instruments such as foreign currency contracts to hedge its risk associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Forward Contracts
The Group uses forward foreign currency contracts to reduce transactional currency exposures on future expected purchases made by its US subsidiary. It is the Group's policy not to hold or issue derivative instruments for speculative purposes.

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

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

Employee Share Option Plan (ESOP)
The cost of the Group's shares held by the ESOP is debited to the ESOP share reserve and is deducted from shareholders' funds in the Group 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.

Share-Based Payments
When share and share options are granted to employees a charge is made to the income statement and a corresponding entry made in reserves to record the fair value of the award. This charge is spread over the period of performance relating to the grant.

When shares and share options are granted to employees of subsidiary companies, the fair value of the award made is treated as a capital contribution spread over the period of performance relating to the grant. The corresponding entry is made in reserves.

Dividends
Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is in the year in which they are paid. Final dividends are not accrued until the proposed dividend has been approved by the shareholders at the Annual General Meeting.

Segmental Reporting
A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

2. Critical Accounting Estimates and Judgements

In preparation of consolidated financial statements under IFRS the Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred tax

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Inventories

The Group reviews the net realisable value of, and demand for, its inventories to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the success of future collections, competitor actions, supplier prices and economic trends.

Pension Assumptions

The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 25. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the consolidated income statement and the balance sheet.

Income Taxes

The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Financial Instruments

As described in note 19, the Board use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instrument. Details of the assumptions used are provided in note 19.

Share based payments

The Group operates an equity-settled share based remuneration scheme for directors and employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of the share options is estimated on the date of the grant based on certain assumptions. Those assumptions are described in note 23.

3. Revenue

	2009 £'000	2008 £'000
Revenue arises from:		
Sale of goods	**74,188**	76,906
Provision of services	**1,374**	1,275
	75,562	78,181

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

4. **Segmental Analysis**

The Group operates in the following main business segments: retailing of furnishing fabrics and related products (product division) and interior and architectural design for private and commercial clients (decorating division).

The Group's primary reporting format for reporting segment information is business segments.

	Product division		Decorating division		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Revenue:						
Total segment revenue	**66,205**	67,741	**9,497**	10,641	**75,702**	78,382
Inter-segment revenue	**(140)**	(201)	**–**	–	**(140)**	(201)
Revenue	**66,065**	67,540	**9,497**	10,641	**75,562**	78,181
Segment result:						
Profit from operations	**2,137**	4,402	**519**	1,679	**2,656**	6,081
Finance income/(charge)					**(7)**	(139)
Profit before taxation					**2,649**	5,942
Tax expense					**819**	1,877
Profit for the year					**1,830**	4,065
Other segment items included in the income statement are as follows:						
Depreciation (note 12)	**1,670**	1,579	**125**	111	**1,795**	1,690

All results are from continuing operations.

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

Segmental assets and liabilities as at 30th April 2009 and capital expenditure for the year then ended are as follows:

	Product division		Decorating division		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Assets	**30,365**	31,261	**4,938**	3,470	**35,303**	34,731
Liabilities	**10,580**	13,017	**3,590**	2,485	**14,170**	15,502
Capital expenditures	**1,639**	1,377	**90**	71	**1,729**	1,448

The Group's secondary reporting format for reporting segment information is geographic segments.

	External revenue by location of customers		Total assets by location of assets		Capital expenditure by location of assets	
	2009	2008	**2009**	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
United Kingdom	**21,295**	24,594	**20,038**	21,198	**432**	522
United States	**32,752**	32,371	**11,250**	9,911	**1,201**	815
Europe	**18,179**	17,255	**4,015**	3,622	**96**	111
Rest of World	**3,336**	3,961	**–**	–	**–**	–
Total	**75,562**	78,181	**35,303**	34,731	**1,729**	1,448

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

			2009 £'000	2008 £'000
5.	**Operating Expenses**	Distribution and marketing costs	**24,222**	22,887
		Administrative costs	**13,129**	12,746
		Total operating expenses	**37,351**	35,633

			2009 £'000	2008 £'000
6.	**Profit from Operations**	This has been arrived at after charging/(crediting):		
		Audit services – group	**24**	24
		Audit services – subsidiaries	**114**	116
		Non-audit services – taxation	**29**	46
		Non-audit services – corporate finance	**25**	40
		Depreciation of owned property, plant and equipment	**1,795**	1,690
		Operating lease rentals – land and buildings	**3,057**	2,998
		Operating lease rentals – plant and machinery	**53**	57
		(Profit)/loss on the disposal of fixed assets	**(31)**	5
		Exchange differences	**2,166**	553
		Pension costs (see note 25)	**213**	269
		Share-based payment (see note 23)	**–**	293
		Redundancy and reorganisation costs	**876**	413

			2009 £'000	2008 £'000
7.	**Staff Costs**	Staff costs, including Executive Directors, were as follows:		
		Wages and salaries	**14,416**	14,034
		Social security costs	**2,055**	1,944
		Pension costs	**213**	269
			16,684	16,247

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

	No.	No.
Distribution and marketing	**323**	352
Administration	**69**	75
	392	427

The holding Company did not have any employees during the year.

	2009 £'000	2008 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,197**	1,174
Pension contributions	**35**	37
Gain on exercise of share options	**139**	64
	1,371	1,275
Emoluments of the highest paid director:		
Emoluments	**535**	553
Gain on exercise of share options	**139**	–
	674	553

As the directors have the authority and responsibility for planning, directing and controlling the activities of the Group they are seen to be key management.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

7. **Staff Costs** *continued*

Two Directors participated in Group defined contribution pension schemes in 2009 (2008 – three). No Directors participated in Group defined benefit pension schemes in 2009 (2008 – nil).

No options were granted in the year and therefore no share based payment charge arises. Of the share based payment charge for the previous year (see note 6), £279,000 related to share based payments to directors.

8. **Finance income and expense**

	2009 £'000	2008 £'000
Finance expense:		
Bank loans and overdrafts repayable within five years	**(52)**	(266)
Finance income:		
Bank and other interest receivable	**45**	127
	(7)	(139)

9. **Tax on Profit on ordinary activities**

	2009 £'000	2008 £'000
(a) Analysis of charge for the year		
UK corporation tax		
UK corporation tax on profits of the year	**566**	2,141
Double tax relief	**–**	(301)
Adjustments in respect of previous years	**(68)**	(35)
	498	1,805
Overseas tax		
Overseas tax on profits of the year	**366**	1
Adjustments in respect of previous years	**47**	(76)
	413	(75)
Total current tax	**911**	1,730
Deferred tax		
Origination and reversal of timing differences	**(92)**	147
Total income tax expense	**819**	1,877

(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.

	2009 £'000	2008 £'000
Profit before taxation	**2,649**	5,942
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2008 – 28%)	**742**	1,664
Effect of:		
Disallowed expenses and non-taxable income	**79**	280
Adjustments in respect of prior period (current tax)	**(21)**	(111)
Adjustments in respect of prior period (deferred tax)	**15**	85
Rate differences	**97**	189
Tax losses not recognised	**8**	66
Overseas tax relieved	**–**	(301)
French tax credit received	**(94)**	(51)
Unprovided deferred tax	**(21)**	44
French minimum tax	**14**	12
Total tax expense	**819**	1,877

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

9. **Tax on Profit on ordinary activities** *continued*

The Group's overseas tax rates are higher than those in the UK primarily because profits earned in the United States are taxed at a rate in excess of 28%. There is no indication that these rates are likely to change in the near future.

10. **Dividends**

	2009 £'000	2008 £'000
Final (paid) of 2.65p (2007 – 2.55p) on 10th October 2008	**373**	378
Interim (paid) of 1.55p (2008 – 1.55p) on 14th April 2009	**219**	226
	592	604
Final dividend proposed for the year of 1.33p (2008 – 2.65p)	**188**	373

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

11. **Earnings per share**

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,830,000 (2008 – £4,065,000) and on 14,215,866 (2008 – 14,784,331) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,830,000 (2008 – £4,065,000) and on 14,810,866 (2008 – 15,553,508) being the weighted average number of shares in issue during the year, calculated as follows:

	2009 No.	2008 No.
Basic weighted average number of shares	**14,215,866**	14,784,331
Dilutive potential ordinary shares, including shares under option owned by the Colefax Group Plc ESOP Trust	**595,000**	769,177
	14,810,866	15,553,508

12. **Property, plant and equipment**

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 2008	231	6,487	4,645	469	5,964	17,796
Exchange adjustment	–	1,412	960	6	1,862	4,240
Additions	–	437	380	118	794	1,729
Disposals	–	(355)	(105)	(130)	(204)	(794)
At 30th April 2009	**231**	**7,981**	**5,880**	**463**	**8,416**	**22,971**
Depreciation:						
At 1st May 2008	45	4,681	3,467	274	4,369	12,836
Exchange adjustment	–	1,134	850	3	1,427	3,414
Charge for the year	3	365	387	106	934	1,795
Disposals	–	(355)	(105)	(128)	(204)	(792)
At 30th April 2009	**48**	**5,825**	**4,599**	**255**	**6,526**	**17,253**
Net Book Value:						
At 30th April 2009	**183**	**2,156**	**1,281**	**208**	**1,890**	**5,718**
At 1st May 2008	186	1,806	1,178	195	1,595	4,960

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

12. Property, plant and equipment *continued*

	Freehold Property £'000	Short Leasehold £'000	Furniture, Fixtures and Equipment £'000	Motor Vehicles £'000	Screens and Originations £'000	Total £'000
Group						
Cost:						
At 1st May 2007	231	6,316	4,110	456	5,064	16,177
Exchange adjustment	–	42	199	6	55	302
Additions	–	133	428	41	846	1,448
Disposals	–	(4)	(92)	(34)	(1)	(131)
At 30th April 2008	**231**	**6,487**	**4,645**	**469**	**5,964**	**17,796**
Depreciation:						
At 1st May 2007	42	4,209	3,088	180	3,523	11,042
Exchange adjustment	–	34	141	3	42	220
Charge for the year	3	442	330	110	805	1,690
Disposals	–	(4)	(92)	(19)	(1)	(116)
At 30th April 2008	**45**	**4,681**	**3,467**	**274**	**4,369**	**12,836**
Net Book Value:						
At 30th April 2008	**186**	**1,806**	**1,178**	**195**	**1,595**	**4,960**
At 1st May 2007	189	2,107	1,022	276	1,541	5,135

13. Investments

	Shares £'000	Loans £'000	Total £'000
Company:			
At 30th April 2009 and 1st May 2008	**19,912**	**7,650**	**27,562**

The principal subsidiaries of the Group, all of which have been included in these consolidated financial statements, are as follows

Name of Company	**Incorporation and Principal Country of Operation**	**Effective % of Issued Share Capital held by the Group**	**Principal Products**
Colefax and Fowler Limited*	England and Wales	100%	Fabrics and Wallpapers
Sibyl Colefax and John Fowler Limited*	England and Wales	100%	Interior and Architectural Design
Kingcome Sofas Limited*	England and Wales	100%	Upholstered Furniture
Colefax and Fowler Holdings Limited*	England and Wales	100%	Holding Company for Colefax and Fowler Inc
Cowtan & Tout Incorporated	USA	100%	Fabrics and Wallpapers
Manuel Canovas SAS*	France	100%	Fabrics, Wallpapers and Accessories
Colefax and Fowler GmbH	Germany	100%	Fabrics and Wallpapers
Colefax and Fowler Srl	Italy	100%	Fabrics and Wallpapers

*Owned directly by parent company

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

At 30th April 2009, the ESOP Trust owned 647,422 (2008 – 797,422) ordinary shares of 10p in the Company at cost, with a market value of £647,422 (2008 – £1,307,772). Dividends on these shares have been waived.

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

NOTES TO THE ACCOUNTS
For the year ended 30th April 2009

13. Investments *continued*

595,000 shares in the ESOP were under option at the balance sheet date:

Number of shares	Number of option holders	Exercise price	Date of grant	Exercisable from	Expiry Date
25,000	1	£1 total	21.10.02	21.10.03	20.10.12
25,000	1	£1 total	29.03.04	29.03.05	28.03.14
225,000	4	£1 total	28.04.06	28.04.06	27.04.16
110,000	3	£1 total	27.04.07	27.04.07	26.04.17
210,000	3	£1 total	30.04.08	30.04.08	29.04.18

14. Inventories and work in progress

	Group	
	2009	2008
	£'000	£'000
Finished goods for resale	**13,121**	12,706
Work in progress	**992**	1,407
Less: progress payments received and receivable	**(858)**	(756)
	13,255	13,357

15. Trade and other receivables

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Amounts owed by subsidiary undertakings	**–**	–	**3,236**	2,831
Trade receivables	**9,758**	8,807	**–**	–
Other receivables	**596**	596	**80**	–
Prepayments and accrued income	**1,307**	1,158	**213**	641
	11,661	10,561	**3,529**	3,472

All receivables fall due for payment within one year.

16. Cash and cash equivalents

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

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**3,079**	3,862	**–**	358
Bank overdrafts	**(1)**	(1,443)	**(998)**	–
	3,078	2,419	**(998)**	358

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents are considered to be their book value.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

		Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
17. Trade and other payables – current	Bank overdraft	**1**	1,443	**998**	–
	Trade payables	**4,394**	4,983	**–**	–
	Accruals	**2,900**	3,848	**4**	10
	Forward contracts	**514**	–	**–**	–
	Payments received on account	**1,447**	1,169	**–**	–
	Corporation tax	**387**	995	**–**	–
	Other taxes and social security costs	**1,626**	1,106	**–**	–
	Other payables	**2,416**	1,603	**–**	–
		13,685	15,147	**1,002**	10

The Group's overdraft facilities are secured by an unlimited multilateral company guarantee and a first fixed and floating charge over all assets of the Company.

		Group 2009 £'000	Group 2008 £'000
18. Deferred Taxation	Deferred taxation has been provided as follows:		
	Accelerated capital allowances on property, plant and equipment	**81**	86
	Excess of depreciation over capital allowances on property, plant and equipment	**(393)**	(319)
	Short-term timing differences	**(1,278)**	(1,635)
		(1,590)	(1,868)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that more assets will be recovered.

	2009	2008
This is made up as follows:		
Deferred taxation included in non-current assets	**(1,590)**	(1,991)
Deferred taxation included in non-current liabilities	**–**	123
	(1,590)	(1,868)

	Deferred taxation £'000	Deferred taxation £'000
Movements in provisions:		
At 1st May	**(1,868)**	(2,129)
(Credited)/charged to the income statement	**(92)**	147
(Charged)/credited directly to equity	**886**	(29)
Movement relating to change in tax rate	**–**	142
Translation adjustment	**(516)**	1
At 30th April	**(1,590)**	(1,868)

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

	2009 £'000	2008 £'000
Fair value reserves in shareholders' equity:		
Cash flow hedge reserve (see note 21)	**(144)**	–
Share options granted	**–**	12
Deferred tax on long-term loan foreign currency movements	**1,030**	(41)
	886	(29)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

18. **Deferred Taxation** *continued*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset amounting to £37,000 (2008 – £25,000) primarily for capital 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.

19. **Financial Instruments**

The financial instruments of the Group as classified in the financial statements as at 30th April 2009 can be analysed under the following IAS 39 categories:

Group	Loans and receivables **2009** **£'000**	Loans and receivables 2008 £'000	Total **2009** **£'000**	Total 2008 £'000
Financial assets				
Trade and other receivables	**10,354**	9,403	**10,354**	9,403
Net cash and cash equivalents	**3,079**	3,862	**3,079**	3,862
Total	**13,433**	13,265	**13,433**	13,265

	Liabilities at fair value through profit or loss **2009** **£'000**	Liabilities at fair value through profit or loss 2008 £'000	Other financial liabilities **2009** **£'000**	Other financial liabilities 2008 £'000	Total **2009** **£'000**	Total 2008 £'000
Financial liabilities						
Forward contracts	**514**	–	**–**	–	**514**	–
Trade and short term creditors	**–**	–	**7,294**	10,274	**7,294**	10,274
Total	**514**	–	**7,294**	10,274	**7,808**	10,274

The Group's principal financial instruments comprise of cash, short-term deposits, bank overdrafts, bank loans, foreign currency derivatives and various items such as trade and other receivables and trade and other payables that arise directly from its operations.

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

Interest Rate Risk

The Group has a seasonal cash flow that moves between net cash and net debt in the course of each year. The Group is exposed to cash flow interest rate risk on floating rate deposits and bank overdrafts.

Liquidity Risk

The Group's objective is to maintain an appropriate balance between continuity of funding and flexibility through the use of multi-currency overdrafts and bank loans. The Group has various borrowing facilities available to it amounting to £7.5 million (2008 – £7.3 million). The undrawn committed facilities available at 30th April 2009 in respect of which all conditions had been met at that date total £7.5 million (2008 – £7.3 million). Group borrowing facilities are reviewed annually with HSBC.

The Group's trade and short term creditors all fall due within 60 days. At 30th April 2009 the Group's trade payables were £4.4 million (2008 – £5.0 million) and trade receivables were £9.8 million (2008 – £8.8 million) giving a ratio of 2.2. This, together with the Group's unused borrowing facility constitutes a very low liquidity risk.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

19. **Financial Instruments** *continued*

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Credit risk also arises from cash and cash equivalents and deposits with banks. For banks, only independently rated parties with minimum rating "A" are accepted.

The Group's credit risk is spread over a large number of customers and historically the Group's bad debt experience has been extremely low.

Foreign Currency Risk

Due to the international nature of its operations, the Group faces currency exposures in respect of exchange rate fluctuations against sterling. The most significant of these is the US where revenue in US dollars represents 41% of Group revenue.

The majority of the US subsidiary's revenue is sourced by imports from the UK and Europe. This revenue is invoiced in US dollars. The Group minimises the currency translation exchange risk by the use of forward contracts. The fair value of these contracts at 30th April 2009 is detailed below.

The Group's exposure to movements in the US dollar is estimated at approximately £60,000 per one cent movement in the dollar. The Group has a natural hedge between Euro costs and Euro revenues but this is dependent on maintaining Euro revenue at current levels.

About 28% of the revenue of the Group is to customers in countries other than the UK and US. Most of this revenue is invoiced in the currencies of the countries involved. The Group does not hedge currency exposures on this revenue using forward contracts as any exchange rate risk is considered to be insignificant due to the offsetting effect of imports.

The Group has continued its policy of not hedging 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 income statement translation exposures.

The balance sheets of overseas operations are translated into sterling at the closing rates of exchange for the year and any exchange difference is dealt with as a movement in the foreign exchange reserve. The income statements of overseas business are translated at an average rate of exchange.

Derivatives

The Group uses currency derivatives to forward-buy and sell foreign currency in order to hedge future transactions and cash flows. The Group is party to forward contracts denominated in US dollars to eliminate transactional currency exposures on future expected revenue in the US.

At 30th April 2009 the Group had 11 outstanding forward contracts to sell US$0.5 million each with a maturity date ranging from 20th May 2009 to 20th January 2011.

In addition the Group is in a forward contract arrangement to sell $0.5 million a month, for twelve months commencing on 20th May 2009, at rates between 1.61 and 1.5225. The contract is geared such that, if the exchange rate on the date of each monthly contract is below 1.5225, then the amount to be sold is doubled to $1 million at 1.5225.

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

	2009	2008
	£'000	£'000
Fair value of forward foreign currency contracts	**(514)**	(13)

Capital Disclosures

The directors consider the Group's capital to consist of its share capital and reserves.

The Group's objective when maintaining capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

To the extent that the Group consider it has surplus capital it has been Group policy to return this to shareholders through share buy backs.

Other Financial Instruments

The book amount for trade and other receivables, cash and cash equivalents, bank overdrafts, and trade and other payables with an expected life of 12 months or less, is considered to reflect its fair value.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2009

19. Financial instruments *continued*

Company	Loans and receivables 2009 £'000	Loans and receivables 2008 £'000	Total 2009 £'000	Total 2008 £'000
Financial assets				
Trade and other receivables	**3,316**	2,831	**3,316**	2,831
Net cash and cash equivalents	**–**	358	**–**	358
Total	**3,316**	3,189	**3,316**	3,189

	Other financial liabilities 2009 £'000	Other financial liabilities 2008 £'000	Total 2009 £'000	Total 2008 £'000
Financial liabilities				
Trade and short term creditors	**998**	–	**998**	–
Total	**998**	–	**998**	–

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

The Company faces interest rate risk on its bank overdraft and liquidity risk on managing cash flows from its subsidiary undertakings. The Company participates in a Group wide multi-currency overdraft facility of £6.5 million (2008 – £6.5 million) which is available to the UK companies in the Group.

The Company's financial liabilities at 30th April 2009 comprise its bank overdraft which is repayable on demand.

20. Share Capital

	Authorised 2009	Authorised 2008	Allotted, called up and fully paid 2009	Allotted, called up and fully paid 2008
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,481,000**	£1,536,000
Number of shares	**33,000,000**	33,000,000	**14,810,000**	15,360,000

	Allotted, called up and fully paid 2009 Number	2009 £	2008 Number	2008 £
Ordinary shares of 10p each				
At beginning of year	**15,360,000**	**1,536,000**	15,653,932	1,565,393
Employee share options exercised	**–**	**–**	10,000	1,000
Purchase of own shares for cancellation	**(550,000)**	**(55,000)**	(303,932)	(30,393)
At end of year	**14,810,000**	**1,481,000**	15,360,000	1,536,000

The remaining 15,000 options in the Company's Executive Share Option Scheme, granted and outstanding at 30th April 2008, lapsed during the year and the scheme closed.

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 13 on pages 28 and 29.

During the year the Company purchased 550,000 ordinary shares in the market for cancellation, for a consideration of £894,531, representing approximately 3.6% of the issued share capital.

NOTES TO THE ACCOUNTS

At 30th April 2009

21. **Reserves**

	Share Premium Account £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	ESOP Share Reserve £'000	Share Based Payment Reserve £'000	Foreign Exchange Reserve £'000	Cash Flow Hedge Reserve £'000	Retained Earnings £'000
Group:								
At 1st May 2008	11,148	–	1,338	(20)	664	124	–	4,439
Share buybacks	–	–	55	–	–	–	–	(895)
Share option lapsed	–	–	–	(10)	(21)	–	–	31
Share options exercised	–	–	–	–	(168)	–	–	168
Foreign currency translation	–	–	–	–	–	1,931	–	–
Unrealised losses on cash flow hedges	–	–	–	–	–	–	(370)	–
Profit retained	–	–	–	–	–	–	–	1,830
Dividends paid	–	–	–	–	–	–	–	(592)
At 30th April 2009	**11,148**	**–**	**1,393**	**(30)**	**475**	**2,055**	**(370)**	**4,981**
Company:								
At 1st May 2008	11,148	10,762	1,338	(20)	664	–	–	5,954
Share buybacks	–	–	55	–	–	–	–	(895)
Share option lapsed	–	–	–	(10)	(21)	–	–	31
Share options exercised	–	–	–	–	(168)	–	–	168
Profit retained	–	–	–	–	–	–	–	164
Dividends paid	–	–	–	–	–	–	–	(592)
Other movements	–	–	–	30	–	–	–	–
At 30th April 2009	**11,148**	**10,762**	**1,393**	**–**	**475**	**–**	**–**	**4,830**
Group:								
At 1st May 2007	11,141	–	1,308	(157)	508	(539)	–	1,443
Share buybacks	–	–	30	–	–	–	–	(465)
ESOP shares granted	–	–	–	137	156	–	–	–
Share option exercised	7	–	–	–	–	–	–	–
Foreign currency translation	–	–	–	–	–	663	–	–
Profit retained	–	–	–	–	–	–	–	4,065
Dividends paid	–	–	–	–	–	–	–	(604)
At 30th April 2008	11,148	–	1,338	(20)	664	124	–	4,439
Company:								
At 1st May 2007	11,141	10,762	1,308	(157)	508	–	–	3,596
Share buybacks	–	–	30	–	–	–	–	(465)
ESOP shares granted	–	–	–	137	156	–	–	–
Share option exercised	7	–	–	–	–	–	–	–
Profit retained	–	–	–	–	–	–	–	3,427
Dividends paid	–	–	–	–	–	–	–	(604)
At 30th April 2008	11,148	10,762	1,338	(20)	664	–	–	5,954

The cumulative amount of goodwill written off on all acquisitions to date is £23,062,000 (2008 – £23,062,000).

Retained earnings includes £291,000 (2008 – £139,000), stated after deferred taxation of £194,000 (2008 – £93,000), in respect of the pension scheme liability of a Group defined benefit pension scheme.

NOTES TO THE ACCOUNTS

At 30th April 2009

21. Reserves *continued*

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption	Amounts transferred from share capital on redemption of issued shares.
ESOP share	Weighted average cost of own shares held by the ESOP trust.
Share based payment	Difference between cost and fair value of ESOP options granted.
Merger	Premium on shares issued to fund acquisitions prior to 1999, which is for used for write-off of goodwill on consolidation.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Foreign exchange	Unrealised cumulative net gains and losses arising on the retranslation of the opening net assets and loans of overseas subsidiary undertakings.
Cash flow hedge	Unrealised gains and losses, net of deferred tax, arising on the revaluation of forward exchange contracts and options at the balance sheet date.

22. Group Reconciliation of Movements in Equity

	2009 £'000	2008 £'000
Total recognised income relating to the year	**3,391**	4,728
Dividends paid	**(592)**	(604)
Repurchase of shares	**(895)**	(465)
Share options lapsed	**–**	8
ESOP shares granted	**–**	293
Net increase in equity	**1,904**	3,960
Equity at 1st May	**19,229**	15,269
Equity funds at 30th April	**21,133**	19,229

23. Share Based Payment

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

	2009 Weighted average exercise price	**2009 Number**	2008 Weighted average exercise price	2008 Number
Outstanding at 1st May	**£1 total**	**760,000**	£1 total	600,000
Granted during the year	**£1 total**	**–**	£1 total	210,000
Exercised during the year	**£1 total**	**(150,000)**	£1 total	(50,000)
Lapsed during the year	**£1 total**	**(15,000)**	£1 total	–
Outstanding at 30th April	**£1 total**	**595,000**	£1 total	760,000

All of the options outstanding at the end of the year had vested and were exercisable (2008 – all).

The weighted average share price (at date of exercise) of options exercised during the year was 92.5p (2008 – 224.5p).

No options were granted during the year. The weighted average fair value of each option granted during 2008 was 164.0p. 15,000 options lapsed during the year (2008 – nil) and the weighted average share price of each option which lapsed was 94.5p.

Share based payment charge

No options were granted in the year and therefore no share based payment charge arises. In calculating the share based payment charge for the previous year, the market value of the shares at the date of grant was used as an approximation of the fair value of the share options issued. This charge has been discounted at a rate of 15% to take into account the fact that the shares under option cannot be sold within three years of the date of grant.

NOTES TO THE ACCOUNTS
At 30th April 2009

		2009	2008
		£'000	£'000
23. **Share Based Payment** *continued*	The share-based remuneration expense (note 6) comprises:		
	Employee share option scheme	**–**	293

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

24. Commitments Under Operating Leases

At 30th April 2009 the Group had total commitments under non-cancellable operating leases as follows:

	2009		2008	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**4,038**	**43**	2,839	54
Between one and five years	**14,024**	**55**	9,925	76
Over five years	**4,651**	**–**	4,148	–
	22,713	**98**	16,912	130

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

The disclosures for the prior year have been updated to reflect the total, rather than the annual, commitments of the Group.

25. Pension Commitments

Group companies previously operated a defined contribution pension scheme which was closed in December 2006 and therefore no pension cost charge has been recorded in the current year (2008 – £nil).

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 £212,769 (2008 – £268,716).

The Group's US subsidiary Cowtan & Tout operates a funded 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 2009 using the projected unit credit method. As the scheme is closed to new members and all benefits have been frozen, assumptions concerning inflation and the rate of increase of salaries, pensions and deferred pensions are not applicable. The rate used to discount scheme liabilities was 5% (2008, 2007 – 5%). The market value of investments at 30th April 2009 was £609,924 (2008 – £634,874, 2007 – £674,042), all of which have an expected long term rate of return of 5% (2008, 2007 – 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 2009 was £1,094,806 (2008 – £867,341, 2007 – £877,056), resulting in an unfunded actuarial accrued liability of £484,882 (2008 – £232,467, 2007 – £203,014). An accrual of £485,000 (2008 – £232,000, 2007 – £203,000) covering the unfunded actuarial accrued liability is included in the Group balance sheet together with a related deferred tax asset of £194,000 (2008 – £93,000, 2007 – £83,000).

A total of £145,950 (2008 – £16,962) in actuarial losses and a total of £13,753 (2008 – £10,093) in finance charges were recognised in Group operating expenses in the year.

NOTES TO THE ACCOUNTS
At 30th April 2009

25. **Pension Commitments** *continued*

The fair value of the assets in the scheme and the expected rate of return at 30th April 2009 were:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Cash and cash equivalents	**25**	14	21	25	762
Fixed income	**311**	335	334	395	–
Equities	**274**	286	319	349	–
Total market value of assets	**610**	635	674	769	762
Present value of scheme liabilities	**(1,095)**	(867)	(877)	(996)	(951)
Deficit in scheme	**(485)**	(232)	(203)	(227)	(189)
Related deferred tax asset	**194**	93	83	93	77
Net pension liability	**(291)**	(139)	(120)	(134)	(112)

	2009 £'000	2008 £'000
Movement in deficit during the year:		
Deficit in scheme at 1st May 2008	**(232)**	(203)
Cash contributions	**4**	–
Finance charge	**(14)**	(10)
Actuarial gains and losses	**(146)**	(17)
Currency translation differences	**(97)**	(2)
Deficit in scheme at 30th April 2009	**(485)**	(232)

	2009 £'000	**% scheme assets/ liabilities**	2008 £'000	% scheme assets/ liabilities	2007 £'000	% scheme assets/ liabilities	2006 £'000	% scheme assets/ liabilities	2005 £'000	% scheme assets/ liabilities
History of experience gains and losses:										
Actual return less expected return on pension scheme assets	**(173)**	**(27.2%)**	(6)	(1.0%)	19	(2.5%)	3	(0.5%)	(32)	4.2%
Experience losses arising on the pension scheme liabilities	**27**	**3.1%**	(11)	1.3%	(7)	0.7%	(20)	2.0%	(4)	0.4%
Actuarial loss	**(146)**	**(16.8%)**	(17)	(2.0%)	12	(1.2%)	(17)	1.7%	(36)	3.7%

26. **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 2009, the value of subsidiary overdrafts covered by the guarantee amounted to £2,269 (2008 – £1,442,957).

27. **Related party Transactions**

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

	2009 £'000	2008 £'000
Interest charged on long term loans to Colefax and Fowler Holdings Limited	**544**	558

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

	2009 £'000	2008 £'000
Colefax and Fowler Holdings Limited	**7,650**	7,706
Colefax and Fowler Limited	**2,614**	2,720
Sibyl Colefax and John Fowler Limited	**527**	8
Kingcome Sofas Limited	**95**	47
	10,886	10,481

FIVE YEAR REVIEW

	2009 IFRS £'000	2008 IFRS £'000	2007 IFRS £'000	2006 UK GAAP £'000	2005 UK GAAP £'000
Revenue	**75,562**	78,181	71,013	68,361	64,455
Profit from operations	**2,656**	6,081	5,842	4,419	3,427
Profit before taxation	**2,649**	5,942	5,806	4,094	3,147
Profit attributable to shareholders	**1,830**	4,065	3,899	2,824	2,209
Basic earnings per share	**12.9p**	27.5p	24.8p	17.4p	13.1p
Diluted earnings per share	**12.4p**	26.1p	23.9p	16.8p	13.0p
Dividends per share	**2.88p**	4.20p	4.00p	3.75p	3.50p
Equity	**21,133**	19,229	15,269	15,506	12,426
Operating cash flow	**5,176**	6,956	8,034	7,556	4,786
Net funds/(debt)	**3,078**	2,419	363	(300)	(4,051)

NOTICE OF MEETING

Notice is hereby given that the 2009 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 15th September 2009 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 2009, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 1.33p 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 W. Nicholls, 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 £493,667 (being one third of the issued 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 £74,050.

NOTICE OF MEETING

8. THAT the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(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 2,221,500 (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 2009

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 13th September 2009 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 13th September 2009 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, speak 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. If you require additional forms, please contact Computershare Investor Services on 0870 702 0003.
3. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him.
4. 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, other such instrument or any CREST Proxy Instruction (as described in paragraph below) will not preclude a shareholder from attending and voting at the meeting in person.
5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
   (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
   (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.
   (iii) Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives. See www.icsa.org.uk for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i), above.
6. Further details of the resolutions proposed at this Annual General Meeting can be found in the Directors' Report on pages 8 to 10. 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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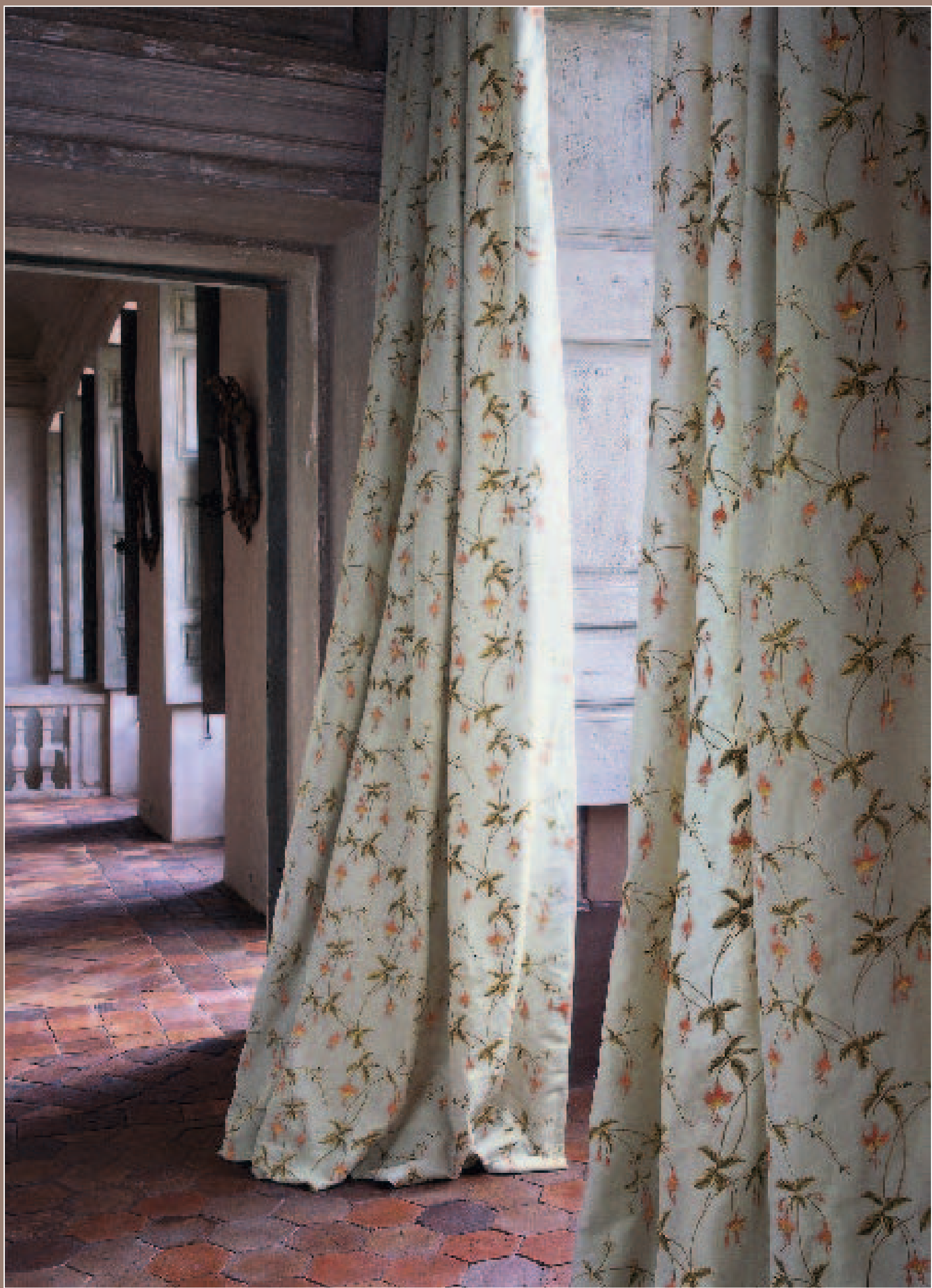

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