Colefax Group plc

Annual Report and Accounts 2011

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

FINANCIAL HIGHLIGHTS

	2011 £'000	2010 £'000	Increase
Revenue from continuing operations	**77,722**	69,188*	12%
Profit from continuing operations	**6,448**	4,387	47%
Profit before taxation from continuing operations	**6,521**	4,388	49%
Profit attributable to shareholders	**4,573**	2,376	92%
Basic earnings per share from continuing operations	**33.0p**	21.6p	53%
Diluted earnings per share from continuing operations	**32.8p**	21.2p	55%
Dividends per share	**3.85p**	3.10p	24%
Equity	**25,460**	23,055	10%
Operating cash flow	**7,759**	5,429	43%
Cash and cash equivalents	**6,298**	5,472	15%

* Restated

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit from continuing operations for the year to 30th April 2011 increased by 49% to £6.52 million (2010 – £4.39 million) on sales up 12% at £77.72 million (2010 – £69.19 million). Earnings per share from continuing operations increased by 53% to 33.0p (2010 – 21.6p) and the Group ended the year with net cash of £6.30 million (2010 – £5.47 million).

During the year, the Group purchased for cancellation 655,000 shares at an average price of £2.81 per share, representing 4.5% of the Group's issued share capital at the start of the year.

The Board has decided to increase the final dividend by 29% to 2.00p per share (2010 – 1.55p), making a total for the year of 3.85p (2010 – 3.10p), an increase of 24%. The final dividend will be paid on 11th October 2011 to shareholders on the register at the close of business on 16th September 2011.

This year's results have benefited from a very strong performance from the Decorating Division which should be seen as exceptional. In the Product Division a good recovery in the UK helped offset a disappointing year in the US. The principal challenge at the moment is dealing with some very significant increases in the cost of raw materials which are having a negative impact on the Group's margin. Currently raw material prices are showing no signs of returning to more historic levels.

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 79% of Group sales from continuing operations, increased by 9% to £61.20 million (2010 – £56.00 million). Profit from operations increased by 41% to £4.23 million (2010 – £3.01 million).

Sales in the US, which represent 49% of the Fabric Division's sales, increased by 10% on a constant currency basis. This sales increase must be seen as disappointing when compared with the dramatic fall in sales of the previous year. We completed the refurbishment of our New York showroom in May 2011 and this should increase sales in our most important US territory. We are in the process of relocating our warehouse and operations to a new location in Manhattan which will be completed by the end of August 2011. The move brings together the design studio and operations for the first time in one location and establishes a long term base for the Group in Manhattan.

UK sales, which represent 21% of the Fabric Division's sales, increased by 10% during the year. There was a stronger recovery in the first half of the year but current trading conditions are weaker and showing signs of further weakening over the next 12 months.

Sales in Continental Europe, which represent 27% of the Fabric Division's sales, increased by 6% on a constant currency basis with most of the increase in the first half of the year. Many European countries are cautious about the next 12 months and with the current problems in the Eurozone I am not optimistic that we can expect to see continued growth in this area.

Sales in the rest of the world, which represent just 3% of the Fabric Division's sales, were up by 4% in the year. There are a number of opportunities to grow some of these markets such as Russia and China although they currently remain a small part of total sales.

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 3% of Group sales from continuing operations, decreased by 4% to £2.44 million (2010 – £2.55 million). Profit from operations was £211,000 (2010 – £280,000) which represents a reasonable performance for the year given the challenging trading conditions. The majority of furniture sales are made in the UK and it is this area of the Group's activities which is most at risk from a downturn in the market.

CHAIRMAN'S STATEMENT

Interior Decorating Division
Interior decorating sales, which account for 18% of Group sales from continuing operations, increased by 32% to £14.08 million (2010 – £10.63 million). This represents an exceptional performance and resulted in a profit from operations of £2.01 million (2010 – £1.10 million). During the year, we completed a number of significant projects for a single client which contributed to the near doubling of profits in this division. We are unlikely to produce this level of results again and they must be seen as a one off.

Prospects
Trading in the second half of the year was weaker than expected and it is still very difficult to accurately forecast how the Group will perform in the next financial year given the current economic climate. I still feel that full recovery from the recession is a long way off. The recovery in our largest market the US is slower than we would have hoped and sales are still well below pre-recession levels. The UK market recovered well last year but we are now starting to see signs of weakness. These factors combined with the Decorating Division returning to more normal levels of activity will mean that our results for the coming year are likely to be lower than this year.

The Group has a strong balance sheet and we are confident that we are well placed to take advantage of any improvements in our markets but until then we will work on cost controls and take a cautious view of the future.

This year's results reflect the talent and commitment of our staff throughout the Group and I would like to thank them for their continued hard work and loyalty.

David B. Green
Chairman
21st July 2011

REVIEW OF OPERATIONS AND FINANCE

Key Performance Indicators (continuing operations)	**2011**	2010
Constant Currency Sales Growth	**11.8%**	(9.9)%
Gross Profit Margin	**55.1%**	54.8%
Operating Profit Margin	**8.3%**	6.3%
Basic Earnings Per Share	**33.0p**	21.6p
Operating Cash Flow	**£7.8m**	£5.4m
Stock Turn (Days)	**214**	220
Cost of Equity Capital	**11.5%**	14.7%

Sales Growth

Group sales from continuing operations increased by 12.3% to £77.7 million (2010 – £69.2 million) and by 11.8% on a constant currency basis. This compares to a 9.9% constant currency decrease in 2010. A significant part of the increase was due to an exceptional performance from the Decorating Division where sales increased by £3.5 million to £14.1 million (2010 – £10.6 million).

In our core Fabric Division sales increased by 9.3% or £5.2 million. The increases by territory were £3.3 million in the US, £1.2 million in the UK, £0.6 million in Europe and £0.1 million in the Rest of the World. The US is by far our most important market accounting for 49% of Fabric Division sales. This market continued to recover last year but against very weak comparatives and sales for 2011 were still 28% below the record sales of $64.7 million achieved in the year to 30th April 2008. The pace of recovery in the US remains disappointing but not wholly unexpected given the very weak housing market and modest growth in the wider economy. For the current year we are budgeting growth of 10% in the US which will still leave sales 21% below the 2008 peak.

In contrast to the US the UK market has recovered to its 2008 sales level although we are cautious about sales prospects for the current year due to signs of weakness in the UK economy. We believe the impact of spending cuts and tax increases are only just starting to take effect and activity levels in the housing market remain low. On a positive note the luxury end of the market does appear stronger than the market generally.

In Europe, Germany is by far the strongest economy but it is only our third largest European market due to factors associated with taste and attitudes to decorating expenditure. Our most important market is France where sales grew by 9% last year. In Italy, which is our second largest market, sales declined by 2% on a constant currency basis. Overall we have budgeted only modest growth in Europe for the current year reflecting the ongoing sovereign debt problems in the Eurozone and a slower pace of recovery in the general economy.

Gross Profit Margin

The Group's gross profit margin on continuing operations increased by 0.3% from 54.8% to 55.1%. Although not apparent from these figures gross profit margins in the core Fabric Division are under considerable pressure due to ongoing and unprecedented increases in the cost of raw materials. These increases started around September 2010 but take time to feed into the income statement due to the significant inventory levels held by the Group. All categories of raw materials have been affected but in particular silk, linen and cotton. We have tried to mitigate these increases through negotiation with suppliers and with our annual price increase in January but have not been able to pass on the full impact of the increases. As a result we are budgeting for gross margins to fall by between 0.5% and 1% in the current year. Although we believe that the price of luxury fabrics is relatively inelastic the increases that we have seen are so significant that some impact on volumes is inevitable.

In addition to supplier price increases the strength of the US dollar is critical to the Group's gross profit margin. This is due to the fact that 49% of Fabric Division sales are invoiced in US dollars but most of the goods sold are sourced in Euros or Sterling. Every one cent change in the US dollar against Sterling impacts Group profits by approximately £75,000. For this reason the Group uses forward contracts and options to hedge some of its cash flow exposure to the US dollar. Unrecognised gains or losses on contracts are recorded in equity and only transferred to cost of goods sold in the income statement when realised.

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

	2011	2010	% change
US dollar average	**1.57**	1.61	(2.5%)
US dollar closing	**1.67**	1.53	9.2%
Euro average	**1.17**	1.13	3.5%
Euro closing	**1.12**	1.15	(2.6%)

REVIEW OF OPERATIONS AND FINANCE

Operating Profit Margin

Group profit from continuing operations increased by 47% to £6.5 million (2010 – £4.4 million) representing an operating profit margin of 8.3% (2010 – 6.3%). This significant increase illustrates the positive effect of the Group's operational gearing caused by relatively high gross profit margins and relatively fixed overheads in the form of salaries and premises costs.

The Group has set a long term operating margin target of 10%. The 8.3% achieved in 2011 is the highest operating margin achieved in the last five years and is mainly due to the improved strength of the US dollar. It will be difficult for the Group to achieve its target without a continued strong dollar and further recovery in the US. In the Fabric Division the gradual improvement in market conditions has meant a significant increase in the amount of product being launched by competitors. One consequence of this is shorter product life cycles and an ongoing challenge is to strike the right balance between new product investment and operating cash flow.

On 17th September 2010 the Group disposed of its Manuel Canovas beachwear activity based in Paris. This represented a significant simplification of our operations in France and will allow us to focus exclusively on fabric sales. For the period up to the date of disposal beachwear made a loss after tax of £111,000 and this is reported separately in the income statement.

Last year we stated that we believed the luxury sector would perform better than lower levels of the market and this continues to be relevant for the current year. We have a strong balance sheet and a diverse portfolio of brands which will enable us to exploit growth opportunities in specific geographical markets.

Taxation

The Group tax charge on continuing operations was lower than expected at 27.1% (2010 – 28.6%) and is primarily explained by the split of profits between our US and UK activities and in particular the exceptional performance of the UK based Decorating Division. Total corporate tax rates in the US which comprise federal, state and city taxes are approximately 40% compared to 27.8% in the UK. The Group tax charge also benefited from a tax credit in France of £170,000 and a further credit of £51,000 relating to losses not previously recognised.

This year the Group will start to benefit fully from the 2% reduction in the UK corporation tax rate to 26% from April 2011 and then further 1% reductions from April 2012, 2013 and 2014. As a result we expect our overall Group tax charge to remain under 30%. The Group statement of financial position includes a significant deferred tax asset of £1.4 million (2010 – £1.6 million) mostly relating to timing differences in the US.

Basic Earnings Per Share

Basic earnings per share from continuing operations increased by 53% to 33.0p (2010 – 21.6p). This compares to a 47% increase in profit from continuing operations and the difference is due to a lower tax charge of 27.1% compared to 28.6% last year and also to share buybacks during the year which reduced the weighted average number of shares in issue by 1%.

During the year the Group purchased for cancellation a total of 655,000 shares at an average price of 281p representing 4.5% of the issued share capital at the start of the year.

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 closing share price of 286p is 11.5%, down from 14.7% in 2010 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 £6.3 million. The Group holding company has significant distributable reserves of £6.6 million to cover further share buybacks but any purchases will continue to depend on cash generation and market conditions.

At our AGM on 13th September 2011, the Group will seek approval to buy back up to 15% of the issued share capital of the company or 2.1 million shares. The shareholding of David Green, Chairman and Chief Executive is currently 32.4% 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 any person or persons acting in concert with a combined shareholding of 30% or more are required to make an offer for the entire issued share capital of the company. A General Meeting to seek approval of the waiver will be held on 13th September 2011 after our Annual General Meeting.

REVIEW OF OPERATIONS AND FINANCE

Dividends
The Board has proposed a 29% increase in the final dividend to 2.00p (2010 – 1.55p) making a total for the year of 3.85p (2010 – 3.10p) which is an increase of 24%. The total cost of the dividend is £540,000 which represents dividend cover of 8.5 times earnings (2010 – 5.3 times). This is a high level of cover but it is partly due to the exceptional performance from the Decorating Division. Whilst committed to a progressive dividend policy whereby the dividend will be increased every year irrespective of fluctuations in earnings 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 a strong operating cash flow of £7.8 million compared to £5.4 million last year. The net increase in working capital was just £455,000 comprising an increase in inventories of £566,000, a decrease in receivables of £316,000 and a decrease in payables of £205,000. The movement in working capital in 2011 has been affected by the disposal of the Canovas beachwear business in France. This has reduced debtors by £1.3 million, inventory by £560,000 and payables by £1.1 million.

Inventory levels are likely to increase significantly next year due to increased investment in new product together with some significant price increases from suppliers. Maintaining a tight control over working capital remains a critical objective for the Group.

Tax payments during the year were £1.6 million compared to £636,000 last year. The timing of tax payments lags changes in operating profit by approximately six months so the increase in tax payments partly relates to the recovery in operating profits between 2009 and 2010.

Capital expenditure during the year was high at £2.9 million compared to annual depreciation of £2.0 million. The main reason was the expansion and refurbishment of our New York showroom which will have operational as well as sales benefits. This year Group capital expenditure will also be high due to the relocation of our US operations from 111 Eighth Avenue, New York to 205 Hudson Street, New York. This move will deliver operational synergies and a modest rent reduction but more importantly secure the long term future of our US operations in Manhattan.

Cash generation before dividends and share buybacks was £3.3 million (2010 – £3.2 million) and compares to profit after tax of £4.6 million (2010 – £2.4 million). Dividend payments were £486,000 (2010 – £412,000) and share buybacks were £1.8 million (2010 – £137,000). As a result the Group has ended the year with net cash of £6.3 million. Together with a bank overdraft facility of £3.0 million the Group has £9.3 million of cash resources at its disposal.

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

R. M. Barker

Rob Barker
Group Finance Director

DIRECTORS, BANKERS AND ADVISERS

Directors

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

Secretary and Registered Office

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Nominated Advisers and Stockbrokers

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Auditors

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London W1U 7EU

Solicitors

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10 Queen Street Place
London EC4R 1BE

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Bristol BS99 6ZY

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2011.

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, decorating 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.

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 and to grant rights to subscribe for or to convert any security into 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.

In addition, Resolution Number 6 would also authorise the Directors to allot equity securities in connection with a rights issue 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, on rights issues and other issues to existing shareholders in proportion to their existing holdings and also allows issues or sales other than to existing shareholders 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 £210,750 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 21st July 2011. 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 £4,573,000 (2010 – £2,376,000). An interim dividend of 1.85p (2010 – 1.55p) per share was paid to shareholders on 4th April 2011. The Directors recommend the payment of a final dividend of 2.00p (2010 – 1.55p) per share to be paid on 11th October 2011 to shareholders on the register at the close of business on 16th September 2011. The total dividend is 3.85p (2010 – 3.10p) per share and the total of the interim and proposed final dividend is £540,000 (2010 – £448,000).

Principal Risks and Uncertainties
The Directors have identified a number of financial risks facing the Group and these are explained in note 20 to the financial statements, *"Financial Instruments"*.

The Group has a broad geographical spread of revenue and is not wholly dependent upon any one market. The most significant business risk is the US market which accounts for 38% of the Group's revenue. This risk is mitigated by a broad customer base, with no reliance on any one customer, and a large product range across five individual fabric brands.

The Group has detailed disaster recovery plans in place to ensure business continuity and also has business interruption insurance policies to mitigate any financial losses arising from unforeseen events.

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.

DIRECTORS' REPORT

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.

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 2011, the Group had an average of 33 days purchases outstanding to trade creditors (2010 – 38 days). The parent company has no trade creditors.

Charitable Donations
During the year the Group made various charitable donations totalling £15,026 (2010 – £17,825).

Events after the Reporting Date
No significant events have occurred since 30th April 2011 at the date of approval of these financial statements.

Freehold Property
The Group's freehold property was last valued on 28th April 2011 on an open market value basis by qualified valuers from Drew Pearce, an independent firm of chartered surveyors. The valuation was carried out in accordance with guidance issued by the Royal Institution of Chartered Surveyors. The market value determined under this basis was £850,000.

The net book value of the Group's freehold property, on an historical cost basis, was £178,000 at 30th April 2011 (2010 – £180,000).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2011.

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

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.

Directors' Remuneration

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	**2011 Total £'000**	2010 Total £'000
Executive Directors:						
D. B. Green	478	59	37	–	**574**	730
R. M. Barker	208	19	11	19	**257**	248
W. Nicholls	126	–	19	–	**145**	246
K. Hall	253	18	–	17	**288**	272
Non-executive Directors:						
A. K. P. Smith	29	–	–	–	**29**	32
	1,094	96	67	36	**1,293**	1,528

DIRECTORS' REPORT

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 21st July 2011:

	Number of shares	%
D. B. Green	**4,558,862**	32.4
Discretionary Unit Fund Managers	**2,910,000**	20.7
Schroder plc	**2,144,927**	15.3
Hunter Hall Investment Management	**1,636,500**	11.6

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

	Ordinary shares of 10p each	
	2011	2010
D. B. Green	**4,558,862**	4,592,862
R. M. Barker	**284,000**	295,000
W. Nicholls	**226,354**	260,354
K. Hall	**132,000**	150,000
A. K. P. Smith	**45,000**	45,000

D. B. Green's shareholding included 402,400 (2010 – 402,400) ordinary shares in which his interest was non-beneficial. No Director has interests in the shares of any subsidiary company. On 5th August 2010 K. Hall acquired 50,000 shares through the exercise of ESOP share options and, following the exercise of these options, sold 18,000 shares at a price of 170p per share. Also, on 9th February 2011, the following Directors sold shares at a price of 292.5p per share: D. B. Green (34,000), W. Nicholls (34,000), R. M. Barker (11,000) and K. Hall (50,000).

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 2010	Exercised during the year	**At 30th April 2011**	Date of Grant	Exercisable from	Expiry date
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 2011 was 286.0p. The range of market prices during the financial year was between 143.0p and 305.0p.

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 UK Corporate Governance Code. 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 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
21st July 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Directors' responsibilities
The directors are responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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. 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.

Website publication
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company'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 2011 which comprise the group and company statement of financial position, the group income statement and statement of comprehensive income, the group and company statement of cash flows, the group and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections Chapter 3 of Part 16 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 auditors' 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 and express an opinion on 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
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 matters where the Companies Act 2006 requires us 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 explanations we require for our audit.

Scott Mcnaughton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
21st July 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP INCOME STATEMENT

For the year ended 30th April 2011

	Notes	**2011** **£'000**	Restated 2010 £'000
Continuing operations:			
Revenue	3	**77,722**	69,188
Cost of sales		**34,929**	31,287
Gross profit		**42,793**	37,901
Operating expenses	5	**36,345**	33,514
Profit from operations	6	**6,448**	4,387
Finance income		**74**	11
Finance expense		**(1)**	(10)
	8	**73**	1
Profit before taxation		**6,521**	4,388
Tax expense			
– UK		**(1,329)**	(1,236)
– Overseas		**(436)**	(19)
	9	**(1,765)**	(1,255)
Profit from continuing operations		**4,756**	3,133
Trading loss on discontinued operations, net of tax		**(111)**	(357)
Loss on disposal, net of tax		**(72)**	(400)
Loss on discontinued operations, net of tax	10	**(183)**	(757)
Profit for the year attributable to equity holders of the parent		**4,573**	2,376
Basic earnings per share	12	**31.8p**	16.4p
Diluted earnings per share	12	**31.5p**	16.1p
Continuing operations:			
Basic earnings per share	12	**33.0p**	21.6p
Diluted earnings per share	12	**32.8p**	21.2p

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th April 2011

	Notes	**2011** **£'000**	2010 £'000
Profit for the year		**4,573**	2,376
Other comprehensive income:			
Currency translation differences on foreign currency net investments		**(610)**	(412)
Cash flow hedges:			
Gains recognised directly in equity		**1,012**	596
Transferred to profit and loss for the year		**(235)**	(71)
Tax on components of other comprehensive income	19	**50**	(49)
Total other comprehensive income		**217**	64
Total comprehensive income for the year attributable to equity holders of the parent		**4,790**	2,440

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF FINANCIAL POSITION

At 30th April 2011

	Notes	2011 £'000	2010 £'000
Non-current assets:			
Property, plant and equipment	13	**5,909**	5,309
Deferred tax asset	19	**1,372**	1,639
		7,281	6,948
Current assets:			
Inventories and work in progress	15	**12,283**	11,886
Trade and other receivables	16	**12,640**	12,380
Cash and cash equivalents	17	**7,132**	5,897
		32,055	30,163
Current liabilities:			
Trade and other payables		**13,042**	12,598
Current corporation tax		**388**	532
Provisions		**205**	606
	18	**13,635**	13,736
Net current assets		**18,420**	16,427
Total assets less current liabilities		**25,701**	23,375
Non-current liabilities:			
Pension liability	25	**241**	320
Net assets		**25,460**	23,055
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,405**	1,470
Share premium account	22	**11,148**	11,148
Capital redemption reserve	22	**1,469**	1,404
ESOP share reserve	22	**(96)**	(18)
Share based payment reserve	22	**94**	196
Foreign exchange reserve	22	**1,383**	1,741
Cash flow hedge reserve	22	**583**	8
Retained earnings	22	**9,474**	7,106
Total equity		**25,460**	23,055

The financial statements were approved by the board of directors and authorised for issue on 21st July 2011.

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

The notes on pages 20 to 40 form part of these Consolidated financial statements.

Company No. 1870320

COMPANY STATEMENT OF FINANCIAL POSITION

At 30th April 2011

	Notes	2011 £'000	2010 £'000
Non-current assets:			
Investments	14	**27,629**	27,593
Current assets:			
Trade and other receivables	16	**6,113**	781
Cash and cash equivalents	17	**–**	1,155
		6,113	1,936
Current liabilities:			
Trade and other payables	18	**2,283**	3
Net current assets		**3,830**	1,933
Net assets		**31,459**	29,526
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,405**	1,470
Share premium account	22	**11,148**	11,148
Merger reserve	22	**10,762**	10,762
Capital redemption reserve	22	**1,469**	1,404
Share based payment reserve	22	**94**	196
Retained earnings	22	**6,581**	4,546
Total equity		**31,459**	29,526

The financial statements were approved by the board of directors and authorised for issue on 21st July 2011.

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

The notes on pages 20 to 40 form part of these Consolidated financial statements.

Company No. 1870320

GROUP STATEMENT OF CASH FLOWS

For the year ended 30th April 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Profit before taxation – continuing operations		**6,521**	4,388
Loss before taxation – discontinued operations	10	**(278)**	(1,147)
Finance income		**(74)**	(11)
Finance expense		**1**	10
Depreciation	13	**2,044**	1,883
Cash flows from operations before changes in working capital		**8,214**	5,123
(Increase)/decrease in inventories and work in progress		**(566)**	1,193
Decrease/(increase) in trade and other receivables		**316**	(848)
Decrease in trade and other payables		**(205)**	(39)
Cash generated from operations		**7,759**	5,429
Taxation paid			
UK corporation tax paid		**(1,280)**	(530)
Overseas tax paid		**(279)**	(106)
		(1,559)	(636)
Net cash inflow from operating activities		**6,200**	4,793
Investing activities			
Payments to acquire property, plant and equipment	13	**(2,885)**	(1,716)
Receipts from sales of property, plant and equipment		**29**	106
Interest received		**74**	11
Purchase of ESOP shares		**(95)**	–
Net cash outflow from investing		**(2,877)**	(1,599)
Financing activities			
Purchase of own shares		**(1,840)**	(137)
Interest paid		**(1)**	(10)
Equity dividends paid		**(486)**	(412)
Net cash outflow from financing		**(2,327)**	(559)
Net increase in cash and cash equivalents		**996**	2,635
Cash and cash equivalents at beginning of year		**5,472**	3,078
Exchange losses on cash and cash equivalents		**(170)**	(241)
Cash and cash equivalents at end of year	17	**6,298**	5,472

The notes on pages 20 to 40 form part of these Consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30th April 2011

	Notes	**2011 £'000**	2010 £'000
Operating activities			
Profit before taxation		**4,449**	117
Finance income		**(242)**	(195)
Finance expense		**1**	2
Cash flows from operations before changes in working capital		**4,208**	(76)
(Increase)/decrease in trade and other receivables		**(4,159)**	3,147
Increase/(decrease) in trade and other payables		**14**	(1)
Cash generated from operations		**63**	3,070
Taxation paid			
UK corporation tax paid		**(1,306)**	(560)
Net cash (outflow)/inflow from operating activities		**(1,243)**	2,510
Investing activities			
Interest received		**242**	195
Purchase of ESOP shares		**(95)**	–
Net cash inflow from investing		**147**	195
Financing activities			
Purchase of own shares		**(1,840)**	(137)
Interest paid		**–**	(3)
Equity dividends paid		**(486)**	(412)
Net cash outflow from financing		**(2,326)**	(552)
Net (decrease)/increase in cash and cash equivalents		**(3,422)**	2,153
Cash and cash equivalents at beginning of year		**1,155**	(998)
Cash and cash equivalents at end of year	17	**(2,267)**	1,155

The notes on pages 20 to 40 form part of these Consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2011

	Share capital £'000	Share premium account £'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	Total equity £'000
At 1st May 2010	1,470	11,148	1,404	(18)	196	1,741	8	7,106	23,055
Profit for the year	–	–	–	–	–	–	–	4,573	4,573
Foreign exchange	–	–	–	–	–	(610)	–	–	(610)
Cash flow hedges:									
Gains	–	–	–	–	–	–	1,012	–	1,012
Transfers	–	–	–	–	–	–	(235)	–	(235)
Tax on other comprehensive income	–	–	–	–	–	252	(202)	–	50
Share buybacks	(65)	–	65	–	–	–	–	(1,840)	(1,840)
ESOP shares granted	–	–	–	17	19	–	–	–	36
Share options exercised	–	–	–	–	(121)	–	–	121	–
Dividends paid	–	–	–	–	–	–	–	(486)	(486)
Purchase of ESOP shares	–	–	–	(95)	–	–	–	–	(95)
At 30th April 2011	**1,405**	**11,148**	**1,469**	**(96)**	**94**	**1,383**	**583**	**9,474**	**25,460**
At 1st May 2009	1,481	11,148	1,393	(30)	475	2,055	(370)	4,981	21,133
Profit for the year	–	–	–	–	–	–	–	2,376	2,376
Foreign exchange	–	–	–	–	–	(412)	–	–	(412)
Cash flow hedges:									
Gains	–	–	–	–	–	–	596	–	596
Transfers	–	–	–	–	–	–	(71)	–	(71)
Tax on other comprehensive income	–	–	–	–	–	98	(147)	–	(49)
Share buybacks	(11)	–	11	–	–	–	–	(137)	(137)
ESOP shares granted	–	–	–	16	15	–	–	–	31
Share options exercised	–	–	–	–	(294)	–	–	294	–
Dividends paid	–	–	–	–	–	–	–	(412)	(412)
Other movements	–	–	–	(4)	–	–	–	4	–
At 30th April 2010	1,470	11,148	1,404	(18)	196	1,741	8	7,106	23,055

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2011

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1st May 2010	1,470	11,148	10,762	1,404	196	4,546	29,526
Profit for the year	–	–	–	–	–	4,240	4,240
Share buybacks	(65)	–	–	65	–	(1,840)	(1,840)
ESOP shares granted	–	–	–	–	19	–	19
Share options exercised	–	–	–	–	(121)	121	–
Dividends paid	–	–	–	–	–	(486)	(486)
At 30th April 2011	**1,405**	**11,148**	**10,762**	**1,469**	**94**	**6,581**	**31,459**
At 1st May 2009	1,481	11,148	10,762	1,393	475	4,830	30,089
Profit for the year	–	–	–	–	–	(32)	(32)
Share buybacks	(11)	–	–	11	–	(137)	(137)
ESOP shares granted	–	–	–	–	15	–	15
Share options exercised	–	–	–	–	(294)	294	–
Dividends paid	–	–	–	–	–	(412)	(412)
Other movements	–	–	–	–	–	3	3
At 30th April 2010	1,470	11,148	10,762	1,404	196	4,546	29,526

The notes on pages 20 to 40 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

1. Accounting policies

General Information
Colefax Group Plc is a public limited company incorporated and domiciled 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, decorating and furnishing for private individuals and commercial firms.

Basis of Preparation
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.

Revenue has been restated in 2010 to reclassify sampling and freight income, as discussed in note 3. The reclassification does not result in a change to the previously published statement of financial position or related notes.

The Group Income Statement has been prepared on the basis of continuing operations. The trading loss of the beachwear division, and the costs associated with its sale, have been disclosed separately.

Changes in Accounting Policies
The following standards and interpretations, issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position for the current reporting period:

– *IFRS 3 (Revised) – Business combinations* (effective from 1st July 2009). IFRS 3 (Revised) has been endorsed for use in the EU.

– *IAS 27, Consolidated and Separate Financial Statements – amendment* (effective from 1st July 2009). IAS 27 has been endorsed for use in the EU.

– *IFRIC17 – Distributions of non-cash assets to owners* (effective for accounting periods beginning on or after 1st July 2009). IFRIC17 has been endorsed for use in the EU.

– *IFRIC 18 – Transfer of Assets from Customers* (effective for transfers of assets beginning on or after 1st July 2009). IFRIC18 has been endorsed for use in the EU.

– *IAS39 (amended) – Financial Instruments: Reclassification of Financial Assets: Effective Date and Transition* (effective for accounting periods beginning on or after 1st July 2009). IAS39 (amended) has been endorsed for use in the EU.

– *IAS39 (amended) – Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (effective for accounting periods beginning on or after 1st July 2009) IAS39 (amended) has been endorsed for use in the EU.

– *IAS39 (amended) and IFRIC 9 (amended)* – Embedded Derivatives (effective for accounting periods beginning on or after 30th June 2009). IAS39 (amended) has been endorsed for use in the EU.

– *IFRS 2, Group Cash-settled Share-based Payment Transactions – amendment* (effective for accounting periods beginning on or after 1st January 2010). This amendment has been endorsed for use in the EU.

– *Improvements to IFRS issued in 2009*. These affect disclosure only.

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these are not effective for the current year. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods:

– *Revised IAS24 'Related Party Disclosures'* (effective for accounting periods beginning on or after 1st January 2011). This revision has been endorsed for use in the EU. This revision will only impact disclosure and have no effect on the net assets or result of the Group.

– *Amendment to IAS32 'Classification of Rights Issues'* (effective for accounting periods beginning on or after 1st February 2010). This amendment has been endorsed for use in the EU.

– *IFRIC19, 'Extinguishing Financial Liabilities with Equity Instruments'* (effective for accounting periods beginning on or after 1st July 2010). This interpretation has been endorsed for use in the EU.

– *Amendment to IFRIC14, 'Prepayments of a Minimum Funding Requirement'* (effective for accounting periods beginning on or after 1st January 2011). This amendment has been endorsed for use in the EU.

– *IFRS9 'Financial Instruments'* (effective for accounting periods beginning on or after 1st January 2013). This standard has not yet been endorsed for use in the EU.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

1. **Accounting policies** *continued*

– *Amendment to IFRS 7 'Disclosures – Transfers of Financial Assets'* (effective for accounting periods beginning on or after 1st July 2011). This amendment has not yet been endorsed for use in the EU.

– *Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets* (effective for periods beginning on or after 1st January 2012). This amendment has not yet been endorsed for use in the EU.

– *Amendments to IAS 1: Presentation of Items of Other Comprehensive Income* (effective for periods beginning on or after 1st July 2012). This amendment has not yet been endorsed for use in the EU.

– *IFRS 10: Consolidated Financial Statements* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *IFRS 11: Joint Arrangements* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *IFRS 12: Disclosure of Interests in Other Entities* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *IFRS 13: Fair Value Measurement* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *IAS 27: Separate Financial Statements* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *IAS 19: Employee Benefits* (effective for periods beginning on or after 1st January 2013). This amendment has not yet been endorsed for use in the EU.

– *Improvements to IFRSs (2010)* – Minor amendments to various accounting standards. These amendments have been endorsed for use in the EU.

– *Improvements to IFRSs (2011)* – Minor amendments to various accounting standards. These amendments have been endorsed for use in the EU.

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.

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 £4,240,000 (2010 – loss of £32,000). Total comprehensive income relating to the year for the Company consists of the 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 statement of financial position 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 statement of financial position are stated at cost less any provision for impairment.

Revenue Recognition

Revenue, which excludes value added taxes, represents the amounts receivable from customers for goods and services supplied including disbursements. Sales of goods are recognised when goods are delivered and title has passed. Revenue for services is recognised in the period in which they are rendered.

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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

1. **Accounting policies** *continued*

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 improvements	over the shorter of the life of the lease or the 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 initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition, with the majority of inventories 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 and slow moving stocks.

Work in Progress
Work in progress is valued at cost less progress payments received and receivable. Cost includes all direct expenditure on material and external services 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 statement of financial position.

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 date of the statement of financial position.

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 the income statement, except when they relate to items credited or debited directly to other comprehensive income or equity, in which case the tax is also recognised directly in other comprehensive income or 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 statement of financial position 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 in accordance with IAS 19 'Employee Benefits'.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2011

1. Accounting policies *continued*

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 date of the statement of financial position 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 date of the statement of financial position. 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 statements of cash flow, 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.

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 are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

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 statement of financial position. 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 shares 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.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2011

1. Accounting policies *continued*

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
For internal management purposes the Group reports by 'product division' and 'decorating division'.

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 the date of each statement of financial position 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.

Trade Receivables
The Group reviews its trade receivables to provide assurance that their carrying value is reduced by an appropriate allowance for irrecoverable amounts. Factors which are considered as part of that review include the age of the receivable and the creditworthiness of the customer.

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 statement of financial position.

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 20, 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 20.

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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

		2011 £'000	Restated 2010 £'000
3. **Revenue**	Revenue arises from:		
	Sale of goods	**76,574**	67,988
	Provision of services	**1,148**	1,200
		77,722	69,188

Revenue includes £1,986,000 (2010 – £1,808,000) of sampling and freight income which was previously reported within cost of sales and operating expenses. Profit from operations is not affected by this change.

4. **Segmental analysis**

The Board of Colefax Group plc manages the operations of the Group as two divisions:

Product division – This division is involved in the design and distribution of furnishing fabrics, wallpapers, upholstered furniture and related products;

Decorating division – This division is involved in interior and architectural design and decoration, primarily for private individuals.

The reportable segments are distinct business units each run by a separate management team. The financial performance of each division is reported separately to the Board and forms the basis of strategic decision making.

	Product division		Decorating division		Total	
Business segments	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Continuing operations						
Revenue:						
Total revenue	**63,823**	58,733	**14,080**	10,633	**77,903**	69,366
Inter-segment revenue	**(181)**	(178)	**–**	–	**(181)**	(178)
Revenue from external customers	**63,642**	58,555	**14,080**	10,633	**77,722**	69,188
Segment result:						
Profit from operations	**4,438**	3,286	**2,010**	1,101	**6,448**	4,387
Finance income	**74**	11	**–**	–	**74**	11
Finance expense	**(1)**	(10)	**–**	–	**(1)**	(10)
Profit before taxation	**4,511**	3,287	**2,010**	1,101	**6,521**	4,388
Tax expense	**1,183**	944	**582**	311	**1,765**	1,255
Profit from continuing operations	**3,328**	2,343	**1,428**	790	**4,756**	3,133
Loss on discontinued operations, net of tax					**(183)**	(757)
Profit for the year attributable to equity holders of the parent					**4,573**	2,376
Total assets	**32,894**	32,718	**6,442**	4,393	**39,336**	37,111
Total liabilities	**11,360**	11,699	**2,516**	2,357	**13,876**	14,056
Net assets	**21,534**	21,019	**3,926**	2,036	**25,460**	23,055
Capital expenditure	**2,779**	1,632	**106**	84	**2,885**	1,716
Depreciation	**1,951**	1,670	**93**	213	**2,044**	1,883

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

No one single external customer contributes to a significant proportion of the Group's revenues.

	External revenue by location of customers		Non-current assets by location of assets	
Geographical segments	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
United Kingdom	**22,374**	21,689	**2,104**	2,001
United States	**29,845**	27,566	**3,872**	3,768
Europe	**17,485**	16,501	**1,305**	1,179
Rest of World	**8,018**	3,432	**–**	–
	77,722	69,188	**7,281**	6,948

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

		2011 £'000	Restated 2010 £'000
5. **Operating expenses**	Distribution and marketing costs	**23,724**	22,372
	Administrative costs	**12,621**	11,142
	Total operating expenses	**36,345**	33,514

		2011 £'000	2010 £'000
6. **Profit from operations**	This has been arrived at after charging/(crediting):		
	Audit services – group	**36**	25
	Audit services – subsidiaries	**107**	108
	Non-audit services – taxation	**113**	89
	Non-audit services – corporate finance	**15**	15
	Non-audit services – pensions	**9**	7
	Depreciation of owned property, plant and equipment	**2,044**	1,883
	Operating lease rentals – land and buildings	**3,942**	3,933
	Operating lease rentals – plant and machinery	**54**	60
	Profit on the disposal of property, plant and equipment	**(6)**	(6)
	Exchange gains	**(274)**	(190)
	Pension costs (see note 25)	**252**	291
	Share-based payment (see note 23)	**36**	31
	Redundancy and reorganisation costs	**287**	369

		2011 £'000	2010 £'000
7. **Staff costs**	Staff costs, including Executive Directors, were as follows:		
	Wages and salaries	**13,034**	13,431
	Social security costs	**1,647**	1,866
	Pension costs	**252**	291
		14,933	15,588

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

	No.	No.
Distribution and marketing	**287**	295
Administration	**63**	64
	350	359

The holding Company had no employees during the year (2010 – nil).

	2011 £'000	2010 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,257**	1,496
Pension contributions	**36**	32
Gain on exercise of share options	**85**	354
	1,378	1,882
Emoluments of the highest paid director:		
Emoluments	**574**	730

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 2011

7. **Staff costs** *continued*

Two directors participated in Group defined contribution pension schemes in 2011 (2010 – two). No directors participated in Group defined benefit pension schemes in 2011 (2010 – nil).

One (2010 – two) director exercised options in the year. No options were granted to directors in the year (2010 – nil) and therefore, of the share based payment charge for the year (see note 23), £nil relates to share based payments to directors (2010 – £nil).

8. **Finance income and expense**

	2011 £'000	2010 £'000
Finance expense:		
Bank loans and overdrafts repayable within five years	**(1)**	(10)
Finance income:		
Bank and other interest receivable	**74**	11
	73	1

9. **Taxation on continuing operations**

	2011 £'000	2010 £'000
(a) Analysis of charge for the year		
UK corporation tax		
UK corporation tax on profits of the year	**1,430**	1,153
Adjustments in respect of previous years	**(24)**	(8)
	1,406	1,145
Overseas tax		
Overseas tax on profits of the year	**141**	192
Adjustments in respect of previous years	**(28)**	(153)
	113	39
Total current tax	**1,519**	1,184
Deferred tax		
Origination and reversal of timing differences	**246**	71
Total income tax expense	**1,765**	1,255

(b) Factors affecting the tax charge for the year
The tax assessed for the year is lower (2010 – higher) than the standard rate of corporation tax in the UK.

The differences are explained below.

	2011 £'000	2010 £'000
Profit before taxation	**6,521**	4,388
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 27.8% (2010 – 28%)	**1,813**	1,229
Effect of:		
Disallowed expenses and non-taxable income	**42**	212
Adjustments in respect of prior period (current tax)	**(52)**	(161)
Adjustments in respect of prior period (deferred tax)	**(2)**	(15)
Prior year losses now recognised	**(51)**	–
Rate differences	**185**	168
French tax credit received	**(170)**	(196)
French minimum tax	**–**	18
Total tax expense	**1,765**	1,255

On 1st April 2011, the UK corporation tax rate reduced from 28% to 26% and as a result a hybrid rate of 27.8% has been used to calculate the Group's UK corporation tax charge.

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 26%. There is no indication that these rates are likely to change in the near future.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

10. Discontinued operations

On 17th September 2010 the sale of the Manuel Canovas Beachwear Division, to management, was completed.

The trading result of the discontinued operation up to the date of sale, as well as the associated loss on disposal, is as follows:

	2011 £'000	2010 £'000
Revenue	**336**	2,001
Cost of sales	**297**	776
Gross profit	**39**	1,225
Operating expenses	**208**	1,766
Loss before taxation	**(169)**	(541)
Taxation	**58**	184
Loss on discontinued operations	**(111)**	(357)
Loss on disposal, net of tax	**(72)**	(400)
Loss on discontinued operations, net of tax	**(183)**	(757)
Basic loss per share (note 12)	**(1.3p)**	(5.2p)
Diluted loss per share (note 12)	**(1.3p)**	(5.1p)

The loss on disposal comprises the following:	**2011 £'000**	2010 £'000
Loss on sale of business	**109**	485
Onerous lease costs	**–**	121
Taxation	**(37)**	(206)
	72	400

Included in the Group statement of cash flows are cash inflows of £444,000 (2010 – £431,000 outflows) in operating activities, £nil (2010 – £nil) in investing activities and £nil (2010 – £nil) in financing activities which relate to discontinued operations.

11. Dividends

	2011 £'000	2010 £'000
Final (paid) of 1.55p (2009 – 1.33p) on 12th October 2010	**224**	188
Interim (paid) of 1.85p (2010 – 1.55p) on 4th April 2011	**262**	224
	486	412
Final dividend proposed for the year of 2.00p (2010 – 1.55p)	**278**	224

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

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

12. Earnings per share

Basic earnings/(loss) per share has been calculated using the following data:

	2011	2010
	£'000	£'000
Profit after tax from continuing operations	**4,756**	3,133
Loss after tax on discontinued operations	**(183)**	(757)
Total	**4,573**	2,376
	No.	No.
Weighted average number of ordinary shares in issue	**14,396,731**	14,520,877

Shares owned by the Colefax Group plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings/(loss) per share has been calculated using the following data:

	2011	2010
	£'000	£'000
Profit after tax from continuing operations	**4,756**	3,133
Loss after tax on discontinued operations	**(183)**	(757)
Total	**4,573**	2,376
	No.	No.
Weighted average number of ordinary shares in issue	**14,396,731**	14,520,877
Dilutive effect of shares under option	**115,000**	235,000
	14,511,731	14,755,877

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

13. Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Furniture, fixtures and equipment £'000	Motor vehicles £'000	Screens and originations £'000	Total £'000
Group						
Cost:						
At 1st May 2010	231	7,519	5,865	517	5,667	19,799
Exchange adjustment	–	(517)	(217)	1	(436)	(1,169)
Additions	–	932	946	101	906	2,885
Disposals	–	–	(354)	(100)	(682)	(1,136)
At 30th April 2011	**231**	**7,934**	**6,240**	**519**	**5,455**	**20,379**
Depreciation:						
At 1st May 2010	51	5,877	4,254	329	3,979	14,490
Exchange adjustment	–	(407)	(225)	1	(320)	(951)
Charge for the year	2	590	453	97	902	2,044
Disposals	–	–	(332)	(99)	(682)	(1,113)
At 30th April 2011	**53**	**6,060**	**4,150**	**328**	**3,879**	**14,470**
Net Book Value:						
At 30th April 2011	**178**	**1,874**	**2,090**	**191**	**1,576**	**5,909**
At 1st May 2010	180	1,642	1,611	188	1,688	5,309
At 1st May 2009	231	7,981	5,880	463	8,416	22,971
Exchange adjustment	–	(186)	(146)	(1)	(367)	(700)
Additions	–	18	867	78	753	1,716
Disposals	–	(294)	(736)	(23)	(3,135)	(4,188)
At 30th April 2010	231	7,519	5,865	517	5,667	19,799
Depreciation:						
At 1st May 2009	48	5,825	4,599	255	6,526	17,253
Exchange adjustment	–	(137)	(116)	(1)	(304)	(558)
Charge for the year	3	483	408	97	892	1,883
Disposals	–	(294)	(637)	(22)	(3,135)	(4,088)
At 30th April 2010	51	5,877	4,254	329	3,979	14,490
Net Book Value:						
At 30th April 2010	180	1,642	1,611	188	1,688	5,309
At 1st May 2009	183	2,156	1,281	208	1,890	5,718

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

14. Investments

	Shares £'000	Loans £'000	Total £'000
Company:			
At 1st May 2010	19,943	7,650	27,593
Share options granted to subsidiary employees	36	–	36
At 30th April 2011	**19,979**	**7,650**	**27,629**
At 1st May 2009	19,912	7,650	27,562
Share options granted to subsidiary employees	31	–	31
At 30th April 2010	19,943	7,650	27,593

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 and Wallpapers
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 2011, the ESOP Trust owned 160,000 (2010 – 262,422) ordinary shares of 10p in the Company at cost, with a market value of £457,600 (2010 – £384,448). Dividends on these shares have been waived.

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

115,000 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
100,000	1	£1 total	30.04.08	30.04.08	29.04.18
15,000	2	£1 total	28.04.11	28.04.11	27.04.21

15. Inventories and work in progress

	Group	
	2011 £'000	2010 £'000
Finished goods for resale	**12,217**	11,724
Work in progress	**420**	1,126
Less: progress payments received and receivable	**(354)**	(964)
	12,283	11,886

The cost of inventories recognised as an expense and included in cost of sales amounted to £20,858,000 (2010 – £19,490,000).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

		Group		Company	
		2011	2010	**2011**	2010
		£'000	£'000	**£'000**	£'000
16. **Trade and other receivables**	Amounts owed by subsidiary undertakings	**–**	–	**5,105**	270
	Trade receivables	**9,357**	9,673	**–**	–
	Other receivables	**1,238**	1,499	**439**	156
	Forward contracts	**787**	11	**–**	–
	Prepayments and accrued income	**1,258**	1,197	**569**	355
		12,640	12,380	**6,113**	781

As at 30th April 2011 the Group had trade receivables of £5,060,000 (2010 – £4,490,000) which were past due but not individually impaired. The ageing of these receivables is as follows:

	2011	2010
	£'000	£'000
Up to 3 months past due	**4,205**	3,971
3 to 6 months past due	**853**	500
6 to 12 months past due	**2**	19
	5,060	4,490

At 30th April 2011 there is one customer who accounts for £2,495,000 of the trade receivables which are past due. The Directors have considered the recoverability of this debt and do not consider that it is individually impaired.

As at 30th April 2011 the Group had trade receivables of £687,000 (2010 – £539,000) which were past due and individually impaired. The ageing of these receivables is as follows:

	2011	2010
	£'000	£'000
Up to 3 months past due	**109**	129
3 to 6 months past due	**88**	111
6 to 12 months past due	**467**	48
Over 12 months past due	**23**	251
	687	539

Movements in the Group provision for impairment of trade receivables is as follows:

	2011	2010
	£'000	£'000
At beginning of year	**539**	448
Provided during the year	**705**	219
Receivables written off as uncollectable	**(23)**	(65)
Unused amounts reversed	**(64)**	(54)
Exchange differences	**5**	(9)
At end of year	**1,162**	539

The Group's trade receivables are denominated in the following currencies:

	2011	2010
	£'000	£'000
Sterling	**5,518**	4,422
Euro	**2,357**	3,445
US Dollar	**1,177**	1,524
Other	**305**	282
	9,357	9,673

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

17. Cash and cash equivalents

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

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Cash at bank and in hand	**7,132**	5,897	**–**	1,155
Bank overdrafts	**(834)**	(425)	**(2,267)**	–
	6,298	5,472	**(2,267)**	1,155

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.

18. Current liabilities

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Bank overdraft	**834**	425	**2,267**	–
Trade payables	**4,121**	4,616	**–**	–
Accruals	**3,596**	3,352	**16**	3
Provisions	**205**	606	**–**	–
Payments received on account	**1,209**	1,184	**–**	–
Corporation tax	**388**	532	**–**	–
Other taxes and social security costs	**836**	723	**–**	–
Other payables	**2,446**	2,298	**–**	–
	13,635	13,736	**2,283**	3

The movement in provisions is as follows:

	Group 2011 £'000	Group 2010 £'000
At 1st May	**606**	–
Paid in the year	**(606)**	–
Recognised in the year	**205**	606
At 30th April	**205**	606

A provision of £205,000 in relation to restructuring of an overseas operation has been recognised at the date of the statement of financial position.

At the date of the previous statement of financial position a provision of £606,000 in relation to the disposal of the Manuel Canovas beachwear division was recognised.

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.

19. Deferred taxation

	Group 2011 £'000	Group 2010 £'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on property, plant and equipment	**82**	46
Excess of depreciation over capital allowances on property, plant and equipment	**(127)**	(396)
Short-term timing differences	**(1,209)**	(1,289)
Tax losses	**(118)**	–
	(1,372)	(1,639)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the directors believe it is probable that the assets are recoverable.

	Group 2011 £'000	Group 2010 £'000
This is made up as follows:		
Deferred taxation included in non-current assets	**(1,372)**	(1,639)
Deferred taxation included in non-current liabilities	**–**	–
	(1,372)	(1,639)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

19. Deferred taxation
continued

	Deferred taxation £'000	£'000
Movements in provisions:		
At 1st May	**(1,639)**	(1,590)
Charged to the income statement – continuing operations	**246**	71
Credited to the income statement – discontinued operations	**–**	(206)
(Credited)/charged directly to other comprehensive income	**(50)**	49
Translation adjustment	**71**	37
At 30th April	**(1,372)**	(1,639)

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

	2011 £'000	2010 £'000
Fair value reserves in shareholders' equity:		
Cash flow hedge reserve	**202**	147
Deferred tax on long-term loan foreign currency movements	**(252)**	(98)
	(50)	49

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 date of the statement of financial position. 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.

20. Financial instruments

The financial instruments of the Group as classified in the financial statements as at 30th April 2011 can be analysed under the following IAS 39 categories:

Group	Assets at fair value through profit or loss **2011 £'000**	2010 £'000	Loans and receivables **2011 £'000**	2010 £'000	Total **2011 £'000**	2010 £'000
Financial assets						
Trade and other receivables	**–**	–	**10,595**	11,172	**10,595**	11,172
Cash and cash equivalents	**–**	–	**7,132**	5,879	**7,132**	5,879
Forward contracts	**787**	11	**–**	–	**787**	11
Total	**787**	11	**17,727**	17,051	**18,514**	17,062

	Liabilities at fair value through profit or loss **2011 £'000**	2010 £'000	Other financial liabilities **2011 £'000**	2010 £'000	Total **2011 £'000**	2010 £'000
Financial liabilities						
Trade and other payables	**–**	–	**7,922**	8,574	**7,922**	8,574
Bank overdraft	**–**	–	**834**	425	**834**	425
Total	**–**	–	**8,756**	8,999	**8,756**	8,999

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.

Forward contracts are carried at fair value, measured using level 2 of the fair value hierarchy. The fair value hierarchy has the following levels: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

20. **Financial instruments** *continued*

All other financial assets and liabilities are carried at book value.

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 £3.0 million (2010 – £4.5 million). The undrawn committed facilities available at 30th April 2011 in respect of which all conditions had been met at that date total £3.0 million (2010 – £4.5 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 2011 the Group's trade payables were £4.1 million (2010 – £4.6 million) and trade receivables were £9.4 million (2010 – £9.7 million) giving a ratio of 2.3 (2010 – 2.1). This, together with the Group's unused borrowing facility, constitutes a very low liquidity risk.

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.

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. In the Decorating Division it is not unusual to undertake large projects which can give rise to significant debtor balances from time to time. Risk is reduced by requiring a 50% deposit at the start of the project and a further 25% deposit prior to completion.

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.

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 38% of Group revenue from continuing operations.

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 2011 is detailed below.

The Group's profit is reduced by approximately £75,000 for every one cent deterioration in the US dollar against Sterling. The Group has a natural hedge between Euro costs and Euro revenues but this is dependent on maintaining Euro revenue at current levels.

About 33% of Group revenue from continuing operations 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 statement of financial position 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 statements of financial position 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 2011, the Group was in four forward contract arrangements to sell US dollars. The hedged transactions are expected to occur in 2011/12 and 2012/13.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

20. **Financial instruments** *continued*

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

	2011 £'000	2010 £'000
Fair value of forward foreign currency contracts – asset	**787**	11

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 considers 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.

	Loans and receivables		Total	
Company	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Financial assets				
Trade and other receivables	**5,544**	426	**5,544**	426
Cash and cash equivalents	**–**	1,155	**–**	1,155
Total	**5,544**	1,581	**5,544**	1,581

	Other financial liabilities		Total	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Financial liabilities				
Bank overdrafts	**2,267**	–	**2,267**	–
Total	**2,267**	–	**2,267**	–

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 £3.0 million (2010 – £4.5 million) which is available to the UK companies in the Group.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

		Authorised		Allotted, called up and fully paid	
		2011	2010	**2011**	2010
21. **Share capital**	Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,405,000**	£1,470,500
	Number of shares	**33,000,000**	33,000,000	**14,050,000**	14,705,000

	Allotted, called up and fully paid			
	2011 Number	**2011 £**	2010 Number	2010 £
Ordinary shares of 10p each				
At beginning of year	**14,705,000**	**1,470,500**	14,810,000	1,481,000
Purchase of own shares for cancellation	**(655,000)**	**(65,500)**	(105,000)	(10,500)
At end of year	**14,050,000**	**1,405,000**	14,705,000	1,470,500

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 14 on page 31.

During the year the Company purchased 655,000 ordinary shares in the market for cancellation, for a consideration of £1,839,625, representing approximately 4.5% of the issued share capital at the start of the year.

22. **Reserves**

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 was used for write-off of goodwill on consolidation.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement less distributions made.
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 date of the statement of financial position.

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.

	2011 Weighted average exercise price	**2011 Number**	2010 Weighted average exercise price	2010 Number
Outstanding at 1st May	**£1 total**	**235,000**	£1 total	595,000
Granted during the year	**£1 total**	**15,000**	£1 total	25,000
Exercised during the year	**£1 total**	**(135,000)**	£1 total	(385,000)
Outstanding at 30th April	**£1 total**	**115,000**	£1 total	235,000

All of the options outstanding at the beginning and end of the year had vested and were exercisable. Each tranche of options is exercisable for a total consideration of £1.

The weighted average share price (at date of exercise) of options exercised during the year was 249.9p (2010 – 113.4p).

The weighted average fair value of each option granted during the year was 286.0p (2010 – 146.5p).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

23. Share-based payment *continued*

Share based payment charge

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

	2011 £'000	2010 £'000
The share-based remuneration expense (note 6) comprises:		
Employee share option scheme	**36**	31

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 2011 the Group had total commitments under non-cancellable operating leases as follows:

	2011		2010	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**3,334**	**36**	3,773	54
Between two and five years	**11,318**	**19**	11,243	50
Over five years	**10,606**	**–**	2,669	–
	25,258	**55**	17,685	104

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

25. Pension commitments

Group companies 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 £252,458 (2010 – £290,699).

The Group's US subsidiary Cowtan & Tout operates a funded defined benefit pension scheme. This scheme relates to the acquisition of Jack Lenor Larsen on 1st July 1997. The scheme was closed to new members on 31st December 1997. Existing members' current pension contributions were transferred to a defined contribution scheme and hence all future benefits became fixed on the date the scheme was closed. The most recent actuarial valuation of the fund was on 30th April 2011 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% (2010, 2009 – 5%). The market value of investments at 30th April 2011 was £698,493 (2010 – £741,626, 2009 – £609,924), all of which have an expected long term rate of return of 5% (2010, 2009 – 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 2011 was £939,529 (2010 – £1,061,393, 2009 – £1,094,806), resulting in an unfunded actuarial accrued liability of £241,036 (2010 – £319,767, 2009 – £484,882). An accrual of £241,000 (2010 – £320,000, 2009 – £485,000) covering the unfunded actuarial accrued liability is included in the Group statement of financial position together with a related deferred tax asset of £96,000 (2010 – £128,000, 2009 – £194,000).

A total of £35,771 in actuarial gains (2010 – £41,908) and a total of £14,897 (2010 – £21,444) in finance charges were recognised in Group operating expenses in the year.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

25. **Pension commitments** *continued*

The fair value of the assets in the scheme and the expected rate of return at 30th April 2011 were:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Cash and cash equivalents	**–**	116	25	14	21
Fixed income	**350**	350	311	335	334
Equities	**349**	275	274	286	319
Total market value of assets	**699**	741	610	635	674
Present value of scheme liabilities	**(940)**	(1,061)	(1,095)	(867)	(877)
Deficit in scheme	**(241)**	(320)	(485)	(232)	(203)
Related deferred tax asset	**96**	128	194	93	83
Net pension liability	**(145)**	(192)	(291)	(139)	(120)

Reconciliation of plan assets:

	2011 £'000	2010 £'000
At beginning of year	**741**	610
Exchange loss	**(62)**	(13)
Expected return	**35**	27
Contributions by Group	**35**	122
Benefits paid	**(90)**	(86)
Actuarial gain	**40**	81
At end of year	**699**	741

Reconciliation of plan liabilities:

	2011 £'000	2010 £'000
At beginning of year	**1,061**	1,095
Exchange gain	**(85)**	(35)
Interest cost	**50**	48
Benefits paid	**(90)**	(86)
Actuarial loss	**4**	39
At end of year	**940**	1,061

History of experience gains and losses:

	2011	2010	2009	2008	2007
Actual return less expected return on scheme assets (£'000)	**40**	81	(173)	(6)	19
As a % of plan assets	**5.7%**	10.9%	(28.4%)	(1.0%)	2.5%
Experience (losses)/gains on scheme liabilities (£'000)	**(4)**	(39)	27	(11)	(7)
As a % of plan liabilities	**0.4%**	3.7%	(2.5%)	1.3%	0.7%

26. **Guarantees**

The Company has given an unlimited guarantee to HSBC Bank plc 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 2011, the value of subsidiary overdrafts covered by the guarantee amounted to £nil (2010 – £1,415,125).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2011

27. **Related party transactions**

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

	2011 £'000	2010 £'000
Interest charged on long term loans to Colefax and Fowler Holdings Limited	**171**	190

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

	2011 £'000	2010 £'000
Colefax and Fowler Holdings Limited	**7,651**	7,650
Colefax and Fowler Limited	**2,432**	97
Sibyl Colefax and John Fowler Limited	**358**	166
Kingcome Sofas Limited	**90**	7
Manuel Canovas SAS	**2,224**	–
	12,755	7,920

FIVE YEAR REVIEW

	2011 **£'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Revenue from continuing operations	**77,722**	69,188*	75,076*	77,789*	70,157*
Profit from continuing operations	**6,448**	4,387	2,918	6,859	5,719
Profit before taxation from continuing operations	**6,521**	4,388	2,911	6,720	5,683
Profit attributable to shareholders	**4,573**	2,376	1,830	4,065	3,899
Basic earnings per share from continuing operations	**33.0p**	21.6p	14.1p	31.0p	24.3p
Diluted earnings per share from continuing operations	**32.8p**	21.2p	13.5p	29.4p	23.4p
Dividends per share	**3.85p**	3.10p	2.88p	4.20p	4.00p
Equity	**25,460**	23,055	21,133	19,229	15,269
Operating cash flow	**7,759**	5,429	5,176	6,956	8,034
Cash and cash equivalents	**6,298**	5,472	3,078	2,419	363

* Restated

NOTICE OF MEETING

Notice is hereby given that the 2011 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 13th September 2011 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 2011, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.00p per ordinary share.
3. To re-appoint BDO LLP as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which accounts are laid.
4. To authorise the Directors to determine the remuneration of the auditors.
5. To re-elect K. Hall, who retires by rotation, as a Director.

Special Business

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

6. THAT in place of all existing authorities (save to the extent relied upon prior to the passing of this resolution), the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act"):
   (a) to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum nominal amount of £468,333 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the date falling 15 months following the date of the Annual General Meeting and the end of the next annual general meeting of the Company, save that the Company may before expiry of this authority make an offer or agreement which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after expiry of this authority and the Directors may allot shares, or grant rights to subscribe for or convert any security into shares, in pursuance of that offer or agreement as if this authority had not expired; and
   (b) in addition, to allot equity securities (within the meaning of section 560 of the Act) in connection with a rights issue in favour of holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares (but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in connection with treasury shares, fractional entitlements or any legal or practical problems arising under the laws or regulations of, or the requirements of any regulatory body or stock exchange in, any territory) up to a maximum nominal amount of £468,333 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the date falling 15 months following the date of the Annual General Meeting and the end of the next annual general meeting of the Company, save that the Company may before expiry of this authority make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement as if this authority had not expired.
7. THAT, subject to the passing of resolution 6 above and in place of all existing powers, the Directors be generally and unconditionally authorised pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 6 above as if section 561 of the Act did not apply to any such allotment. This power shall be limited to:
   (a) the allotment of equity securities in connection with an offer of such securities or an invitation to apply to subscribe for such securities (whether by way of rights issue, open offer or otherwise) in favour of holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in connection with treasury shares, fractional

NOTICE OF MEETING

entitlements or legal or practical issues under the laws of any jurisdiction or territory or the regulations or requirements of any regulatory or stock exchange authority in any jurisdiction or territory; and

(b) the allotment (other than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £70,250.

This power shall expire on the earlier of the date falling 15 months following the date of the Annual General Meeting and the conclusion of the next annual general meeting of the Company, but the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired.

This power also applies in relation to a sale of treasury shares, which is an allotment of equity securities by virtue of section 560(3) of the Act as if in the first paragraph of this resolution the words "subject to the passing of resolution 6 above" and "pursuant to the authority granted by resolution 6 above" were omitted.

8. THAT the Company be generally and unconditionally authorised in accordance with Section 701 of the Companies Act (the "Act") to make one or more market purchases (within the meaning of Section 693(4) 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 2,107,500 (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
21st July 2011

Registered Office
39 Brook Street
London W1K 4JE

NOTICE OF MEETING

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend, to speak and, both on a show of hands and on a poll, to vote in his or her stead at the meeting. A proxy need not be a member of the company but must attend the meeting in person. The appointment of a proxy does not preclude a member from attending and voting in person at the meeting should he or she subsequently decide to do so. A form of proxy which may be used is attached.

2. 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 or her.

3. To be valid, a form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received by Computershare Investor Services plc at The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 11.00 a.m. on 11th September 2011.

4. The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6.00 p.m. on 11th September 2011 shall be entitled to attend or vote (whether on a show of hands or on a poll) at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register after 6.00 p.m. on 11th September 2011 (or after 6.00 p.m. on the day which is two days before any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. As at 20th July 2011 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 14,050,000 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the company as at 20th July 2011 were 14,050,000.

6. CREST members who wish to appoint a proxy or proxies for the meeting or any adjournment thereof by utilising the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. Any member attending the meeting has the right to ask questions.

8. If a shareholder has a general query about the Annual General Meeting or wishes to give the Company prior notification of any question he wishes to ask at the Annual General Meeting, he should call our shareholder helpline on 0870 889 3295 if calling within the United Kingdom or +44 870 889 3295 if calling from outside the United Kingdom. The Shareholder Helpline is available from 8.30 a.m. and 5.30 p.m. Monday to Friday (except public holidays). The cost of calls to the helpline vary depending on the service provider. Calls to the helpline from outside the United Kingdom will be charged at applicable international rates. Calls may be recorded and monitored for security and training purposes.

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