Colefax Group plc

Annual Report and Accounts 2013

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

	2013 £'000	2012 £'000	Increase/ (decrease)
Revenue	**70,619**	70,399	–
Profit from operations	**3,547**	3,151	13%
Profit before taxation	**3,547**	3,148	13%
Profit attributable to shareholders	**2,334**	2,195	6%
Basic earnings per share	**18.2p**	15.8p	15%
Diluted earnings per share	**18.2p**	15.8p	15%
Dividends per share	**4.00p**	3.85p	4%
Equity	**24,283**	26,254	(8%)
Operating cash flow	**6,035**	7,115	(15%)
Cash and cash equivalents	**7,630**	8,519	(10%)

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2013 increased by 13% to £3.55 million (2012 – £3.15 million) on flat sales of £70.62 million (2012 – £70.40 million). Earnings per share increased by 15% to 18.2p (2012 – 15.8p). The Group ended the year with net cash of £7.63 million (2012 – £8.52 million).

On 13th September 2012 the Group returned £4 million of surplus cash to shareholders by way of a Tender Offer to purchase for cancellation 1.6 million shares at a price of £2.50 per share. The shares cancelled represented 11.5% of the Group's issued share capital at the start of the year.

The Board has decided to propose an increase in the final dividend of 5% to 2.10p per share (2012 – 2.00p) making a total for the year of 4.00p, an increase of 4% (2012 – 3.85p). The final dividend will be paid on 10th October 2013 to shareholders on the register at the close of business on 13th September 2013.

The increase in the Group's profit was mainly due to improved profitability in the Fabric Division although overall sales remained flat. Sales increased by 6% in the US but this increase was offset by a sales decline of 9% in the UK and 4% in Europe. The Decorating Division was affected by delays to several key projects and as a result profits were well below expectations.

Product Division

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

Sales in the Fabric Division, which represent 87% of Group turnover, were flat at £61.13 million (2012 – £61.27 million). Profit from operations increased by 7% to £3.41 million (2012 – £3.18 million) mainly due to an increase in margin resulting from a stronger US Dollar which averaged $1.57 compared to $1.60 last year.

Sales in the US, which represent 54% of the Fabric Division's turnover, increased by 6% on a constant currency basis. The US market continued to recover throughout the year reflecting a significant improvement in the housing market and growth in the general economy. Sales in the US are still 21% below the peak achieved in 2008 and we believe that there is considerable scope for further recovery. We are continuing to invest in our sales network and later this year we are planning to move to a new showroom in our Washington DC territory.

Sales in the UK, which represent 19% of the Fabric Division's turnover, decreased by 9% during the year reflecting challenging market conditions. The strength of the high end housing market in London has not been sufficient to offset difficult trading in the wider UK market and we believe that trading conditions will remain subdued until there is a sustained improvement in the housing market.

Sales in Continental Europe, which represent 24% of the Fabric Division's turnover, were down 4% on a constant currency basis. This performance was better than we expected at the start of the year especially in our largest market, France, where sales increased by 1%. In Italy, trading conditions were extremely difficult and sales declined by 10%. Sales in Germany were flat and this country has now overtaken Italy as our second largest market in Europe. Overall we expect trading conditions in Europe to remain challenging for at least another year and we are particularly concerned about France where there are signs that the economy is weakening.

Sales in the rest of the world, which represent just 3% of the Fabric Division's turnover, decreased by 8% mainly due to one large contract order in the prior year. Our largest markets in the rest of the world are China, Russia and the Middle East and we will continue to focus on these territories to grow sales from a low base.

CHAIRMAN'S STATEMENT

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which account for 3% of Group turnover, were flat at £2.28 million (2012 – £2.28 million). Operating profit was £79,000 compared to £63,000 last year. Market conditions for high end furniture have been extremely difficult and we expect this to continue in the current year. Furniture is the Group's only manufacturing activity and profits are very sensitive to small fluctuations in sales.

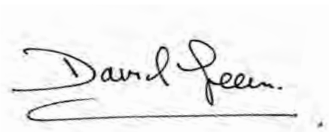
Interior Decorating Division

Decorating sales, which account for 10% of Group turnover, increased by 5% to £7.21 million (2012 – £6.85 million). The division made a small operating profit of £54,000 compared to a loss of £87,000 last year. At the start of the year we were expecting a significant improvement in decorating profits and this year's disappointing result was largely due to delays to building work outside of our control. However, as a result of these delays the division has started the current year with a very healthy level of deposits.

Prospects

Trading conditions in our main market, the US, have continued to improve and we are optimistic about growth prospects. However trading in the UK and Europe remains difficult and we have budgeted for a further sales decline in the current year. We hope that these markets will bottom out this year and we will then see a return to growth. As a result we will continue to invest in our portfolio of brands in anticipation of more favourable market conditions. The Group has a strong balance sheet with cash of £7.6 million and is well placed to benefit from any recovery in trading conditions.

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



David B. Green
Chairman
23rd July 2013

REVIEW OF OPERATIONS AND FINANCE

Key Performance Indicators	**2013**	2012
Constant Currency Sales Growth	**0.5%**	(9.0%)
Gross Profit Margin	**55.4%**	55.1%
Operating Profit Margin	**5.0%**	4.5%
Basic Earnings Per Share	**18.2p**	15.8p
Operating Cash Flow	**£6.0m**	£7.1m
Stock Turn (Days)	**230**	207
Cost of Equity Capital	**8.0%**	6.6%

Sales Growth
Group sales were up 0.3% at £70.62 million (2012 – £70.40 million) and up by 0.5% on a constant currency basis. Sales growth is the key driver of any business and so the lack of growth this year is disappointing and reflects generally difficult trading conditions in most of our major markets except the US. These conditions were not unexpected and the Group made a conscious decision to focus on cash flow rather than chasing sales by significantly increasing investment in new product.

In our core Fabric Division sales decreased by 0.2% to £61.13 million (2012 – £61.27 million) and by 0.1% on a constant currency basis with a £2.4 million sales increase in the US almost exactly offset by a £1.2 million decline in the UK, a £1.3 million decline in Europe and a £0.1 million decline in the Rest of the World. All of these trends were largely expected at the start of the year.

The US is our most important market accounting for 54% of Fabric Division sales and remains the focus of the Group's investment. The steady recovery in sales continued during the year with an increase of 6.0% following a 3.8% increase last year. The main driver of the current growth seems to be a significant pick up in housing transactions and prices. This is a cause for optimism because typically we lag any changes in the housing market. Following the financial crisis in 2008 our sales in the US fell by more than any other major country with decreases of 18.1% in 2008–09 and 20.3% in 2009–10 and sales are still over 20% below the pre-crisis peak of $64.7 million.

In the UK, which is our second largest individual market, sales declined by a larger than expected 9.0% following a decrease of 1.0% last year but a 9.9% increase the year before that. The decline in sales this year was greater than we expected at the start of the year and reflects difficult economic conditions and a highly competitive trading environment but also the mix of product launched during the year which was not all targeted at the UK market. During the last quarter of the year UK sales declined by 2.8% compared to 9.0% for the full year and so whilst we expect trading to remain challenging there are signs that the UK market is bottoming out.

Sales in Europe declined by 4.5% on a constant currency basis. This follows a 3.0% decline last year. Trading conditions in Europe have remained difficult and we expect this to continue for the medium term as governments across Europe continue to implement austerity measures. We are budgeting a further 3% decline in sales next year mainly because we expect difficult trading in France which is our largest market in Europe and Italy which is our third largest market.

Gross Profit Margin
The Group's gross profit margin increased by 0.3% to 55.4%. The increase was mainly due to a slightly stronger US dollar during the year which averaged $1.57 compared to $1.60 last year. The US dollar exchange rate has a major impact on Group profits because 54% of Fabric Division sales are made in the US and invoiced in US dollars but the majority of goods sold are sourced in Euros or Sterling. Every one cent change in the US dollar against Sterling impacts Group profits by approximately £80,000 and this is likely to increase as a result of continued sales growth in the US.

The Group uses forward contracts and options to hedge its exposure to the US dollar. At the 30th April 2013 the Group had unrealised gains on forward contracts and options of £28,000 net of deferred tax (2012 – £203,000).

REVIEW OF OPERATIONS AND FINANCE

Gross profit margins are largely unaffected by the Euro exchange rate because the Group has a natural hedge between Euro sales and purchases. The average and closing US dollar and Euro rates were as follows:

	2013	2012	% change
US dollar average	**1.57**	1.60	1.9%
US dollar closing	**1.56**	1.62	3.7%
Euro average	**1.22**	1.17	(4.3%)
Euro closing	**1.18**	1.23	(5.4%)

Operating Profit Margin
Group operating profit increased by 12.6% to £3.55 million (2012 – £3.15 million) representing an operating profit margin of 5.0% (2012 – 4.5%). The slight improvement in operating margin is mainly due to the 0.3% increase in gross margin resulting from a stronger US dollar together with tight control of operating costs during the year. The Group still aspires to an operating margin of 10% and we believe that this is achievable in the medium term but it does require meaningful sales growth. For the last two years we have experienced sales declines in the UK and Europe and steady but unexciting sales growth in the US. This is partly due to a conservative approach to new product investment with an emphasis on cash flow. Overall the industry has continued to launch far more product than customers want or can cope with. In the short term this is good news for manufacturers but ultimately it means lower returns on new product investment and ever decreasing product life cycles.

An important financial characteristic of the Group is that Fabric Division operating profits are highly operationally geared due to relatively high gross profit margins combined with relatively fixed salary and premises costs. Profits in the Decorating Division are more volatile due to the irregular timing of contracts and as a result this can cause unexpected annual fluctuations in Group profits. This year decorating profits were significantly lower than expected due to delays in several major projects.

Taxation
The Group tax charge increased significantly this year from 30.3% to 34.2% mainly due to the proportion of profit generated overseas and subjected to tax at much higher rates than in the UK. In the US corporate tax rates are approximately 40% due to the combination of federal, state and city taxes and in France corporate tax rates are 33%. In contrast the UK corporation tax rate averaged 23.9% for the year and will reduce to 21% from April 2014 and 20% from April 2015. At the start of the year we were expecting a Group tax charge of 30% and the variance is mainly due to much lower than expected Decorating Division profits which are taxable in the UK and higher US profits.

During the year the Group received a net repayment of overseas tax of £130,000 compared to an overseas tax charge of £659,000 in the income statement. The repayment was due to 100% first year capital allowances relating to expenditure on the US office and warehouse move in the prior year. These allowances have now been fully utilised and there is a corresponding deferred tax liability in respect of the accelerated capital allowances of £1.05 million. This is the main reason for the reduction in the deferred tax asset in the Group statement of financial position from £1.06 million to £499,000.

Basic Earnings Per Share
Basic earnings per share increased by 15.2% to 18.2p (2012 – 15.8p). This compares to a 6.3% increase in profits after tax and the difference is due to a 7.7% reduction in the weighted average number of shares in issue during the year. On 13th September 2012 the Group completed a Tender Offer to purchase and cancel 1.6 million shares equating to 11.5% of the Group's issued share capital. Next year there will be a further reduction in the weighted average number of shares in issue of 4.2%.

Cost of Equity Capital
The Group's cost of equity capital measured in terms of earnings per share as a percentage of the closing share price of 227.5p is 8.0%, up from 6.6% in 2012. The change reflects a 15.2% increase in earnings per share compared to a 5.2% reduction in the Group share price. Despite returning £4 million of surplus cash to shareholders the Group ended the year with cash of £7.63 million and the Board remains committed to utilising surplus cash for share buybacks provided they enhance shareholder value. Resolutions approved at the AGM on 11th September 2012 granted authority to make annual purchases of up to 15% of the issued share capital of the company up to a maximum of 4,774,004 over five years. Following the Tender Offer the maximum number of shares that can still be purchased under this authority is 3,392,276. At this point the shareholding of David Green, Chairman and Chief Executive, would reach 50%, the maximum permitted level under Rule 9 of the Takeover Code.

REVIEW OF OPERATIONS AND FINANCE

Dividends
The Board has proposed a 5.0% increase in the final dividend to 2.10p (2012 – 2.00p) making a total for the year of 4.00p (2012 – 3.85p). The total cost of the dividend is £490,000 which represents dividend cover of 4.8 times earnings (2012 – 4.4 times). Following a flat dividend last year the Board aims to follow a progressive dividend policy going forward. Although the level of dividend cover is reasonably high 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's operating cash flow was £6.04 million (2012 – £7.12 million) compared to profit before tax of £3.55 million. The difference is largely due to the fact that the Group has a high depreciation charge of £2.04 million although it should also be noted that the Group has relatively high recurring capital expenditure. There was a net decrease in working capital during the year of £452,000 but there were some significant changes in stock, debtors and creditors which make up this figure. Stock increased by £880,000 largely due to the timing of new collection launches around the year end. Creditors increased by £2.52 million of which approximately half related to an increase in client decorating deposits. Debtors increased by £1.19 million of which over £600,000 related to a corresponding increase in decorating deposits paid to suppliers. Maintaining tight control of working capital is one of the Group's core financial objectives and is fundamental to cash flow in an industry which requires large amounts of working capital.

Capital expenditure during the year was broadly in line with depreciation at £2.18 million. The main non-recurring capital expenditure during the year related to a new trade showroom in Munich. For the current year we expect capital expenditure to continue in line with depreciation.

Net corporation tax payments during the year were only £480,000 compared to a charge of £1.21 million in the income statement. As mentioned above the difference is due to the impact of 100% capital allowances in the US on prior year capital expenditure. This is only a timing difference and it should be noted that tax cash flows in future years will be higher as a result.

Cash generation before dividends and share buybacks was £3.43 million (2012 – £3.14 million) and compares to profit after tax of £2.33 million (2012 – £2.20 million). Dividend payments were £478,000 (2012 – £534,000) and share buybacks were £4.00 million (2012 – £342,000). The Group has ended the year with net cash of £7.63 million. Together with an HSBC bank overdraft facility of £3.00 million the Group has £10.63 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.

Rob Barker
Group Finance Director

DIRECTORS, BANKERS AND ADVISERS

Directors

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

Secretary and Registered Office

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

Registered in England No. 1870320

Nominated Advisers and Stockbrokers

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London EC2Y 5ET

Auditors

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55 Baker Street
London W1U 7EU

Solicitors

SJ Berwin
10 Queen Street Place
London EC4R 1BE

Bankers

HSBC Bank plc
31 Holborn
London EC1N 2HR

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452 Fifth Avenue
New York
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U.S.A.

JP Morgan Chase Bank
270 Park Avenue
41st Floor
New York
NY 10017
U.S.A.

Registrars and Transfer Office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZY

DIRECTORS' REPORT

The Directors submit their report and Group financial statements for the year ended 30th April 2013.

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 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.

Purchase of Own Shares
The Board is committed to a strategy of utilising surplus cash for share buybacks provided they enhance shareholder value through their effect on earnings per share, net assets per share and return on capital employed. On 13th September 2012 the Company completed a Tender Offer to purchase and cancel 1,600,000 ordinary shares, representing 11.5% of the issued share capital at the start of the year. The shares, which had a nominal value of 10 pence each, were repurchased for an aggregate consideration of £4,000,000, or 250 pence per share.

Results and Dividends
The Group's profit after tax was £2,334,000 (2012 – £2,195,000). An interim dividend of 1.90p (2012 – 1.85p) per share was paid to shareholders on 10th April 2013. The Directors recommend the payment of a final dividend of 2.10p (2012 – 2.00p) per share to be paid on 10th October 2013 to shareholders on the register at the close of business on 13th September 2013. The proposed final dividend has not been accrued for because the dividend was declared after the year end and is yet to be approved at the Annual General Meeting. The total dividend for the year is 4.00p (2012 – 3.85p) per share and the total of the interim and proposed final dividend is £490,000 (2012 – £502,000).

Principal Risks and Uncertainties
The Directors have identified a number of financial risks facing the Group and these are explained in note 19 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 46% 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.

DIRECTORS' REPORT

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

The Group believes in a 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 2013, the Group had an average of 31 days purchases outstanding to trade creditors (2012 – 31 days). The parent company has no trade creditors.

Charitable Donations
During the year the Group made various charitable donations totalling £23,000 (2012 – £14,000).

Events after the Reporting Date
No significant events have occurred since 30th April 2013 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 £172,000 at 30th April 2013 (2012 – £175,000).

Directors
The Directors listed on page 7 have held office throughout the year to 30th April 2013.

In accordance with Article 14.1 of the Company's Articles of Association, A. K. P. Smith will retire by rotation at the Annual General Meeting. Resolution 5 proposes his re-election as Director. A. K. P. Smith 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.

Directors' Remuneration

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	**2013 Total £'000**	2012 Total £'000
Executive Directors:						
D. B. Green	625	31	41	–	**697**	547
R. M. Barker	200	10	9	20	**239**	174
W. Nicholls	178	5	21	–	**204**	200
K. Hall	265	13	–	18	**296**	272
Non-executive Directors:						
A. K. P. Smith	24	–	–	–	**24**	23
	1,292	59	71	38	**1,460**	1,216

DIRECTORS' REPORT

Substantial Shareholdings
Interests amounting to 3% or more in the issued share capital of the Company were as follows as at 23rd July 2013:

	Number of shares	%
D. B. Green	**4,458,862**	36.2
Discretionary Unit Fund Managers	**2,768,870**	22.5
Schroder plc	**2,129,927**	17.3
Hunter Hall Investment Management	**456,479**	3.7

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	
	2013	2012
D. B. Green	**4,458,862**	4,558,862
R. M. Barker	**255,700**	268,700
W. Nicholls	**148,776**	226,354
K. Hall	**201,500**	201,500
A. K. P. Smith	**45,000**	45,000

No Director has interests in the shares of any subsidiary company. On 13th September 2012, the following Directors and their connected persons sold shares through a Tender Offer process: D. B. Green (100,000), R. M. Barker (13,000) and W. Nicholls (77,578).

Share Options
There are no options outstanding in respect of the Colefax Group plc Employee Share Ownership Plan Trust.

The market price of the Company's shares at 30th April 2013 was 227.5p. The range of market prices during the financial year was between 222.5p and 252.5p.

Corporate Governance
Although it is not a requirement of AIM listed companies, the Group seeks within the practical confines of a smaller company to act in compliance with the principles of good governance and the code of best practice as set out in the 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
23rd July 2013

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 and company 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 2013 which comprise the group income statement and statement of comprehensive income, the group and company statement of financial position, 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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 IFRSs as adopted by the European Union and as applied in accordance with provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following 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
23rd July 2013

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 2013

	Notes	**2013 £'000**	2012 £'000
Revenue	3	**70,619**	70,399
Cost of sales		**31,518**	31,595
Gross profit		**39,101**	38,804
Operating expenses	5	**35,554**	35,653
Profit from operations	6	**3,547**	3,151
Finance income		**1**	–
Finance expense		**(1)**	(3)
	8	**–**	(3)
Profit before taxation		**3,547**	3,148
Tax expense			
– UK		**(554)**	(691)
– Overseas		**(659)**	(262)
	9	**(1,213)**	(953)
Profit for the year attributable to equity holders of the parent		**2,334**	2,195
Basic earnings per share	11	**18.2p**	15.8p
Diluted earnings per share	11	**18.2p**	15.8p

The notes on pages 20 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th April 2013

	Notes	**2013 £'000**	2012 £'000
Profit for the year		**2,334**	2,195
Other comprehensive income/(expense):			
Exchange differences on translation of foreign operations		**517**	(62)
Cash flow hedges:			
Losses recognised directly in equity		**(50)**	(120)
Transferred to profit and loss for the year		**(181)**	(400)
Tax on components of other comprehensive income	18	**(77)**	57
Total other comprehensive income/(expense)		**209**	(525)
Total comprehensive income for the year attributable to equity holders of the parent		**2,543**	1,670

The notes on pages 20 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF FINANCIAL POSITION

At 30th April 2013

	Notes	2013 £'000	2012 £'000
Non-current assets:			
Property, plant and equipment	12	**7,699**	7,319
Deferred tax asset	18	**499**	1,062
		8,198	8,381
Current assets:			
Inventories and work in progress	14	**13,176**	12,215
Trade and other receivables	15	**9,995**	8,894
Cash and cash equivalents	16	**7,630**	8,519
		30,801	29,628
Current liabilities:			
Trade and other payables		**13,785**	11,064
Current corporation tax		**666**	438
	17	**14,451**	11,502
Net current assets		**16,350**	18,126
Total assets less current liabilities		**24,548**	26,507
Non-current liabilities:			
Pension liability	24	**265**	253
Net assets		**24,283**	26,254
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	20	**1,231**	1,391
Share premium account	21	**11,148**	11,148
Capital redemption reserve	21	**1,643**	1,483
ESOP share reserve	21	**(113)**	(96)
Share based payment reserve	21	**–**	19
Foreign exchange reserve	21	**1,622**	1,238
Cash flow hedge reserve	21	**28**	203
Retained earnings	21	**8,724**	10,868
Total equity		**24,283**	26,254

The financial statements were approved by the board of directors and authorised for issue on 23rd July 2013.

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

The notes on pages 20 to 39 form part of these Consolidated financial statements.

Company No. 1870320

COMPANY STATEMENT OF FINANCIAL POSITION

At 30th April 2013

	Notes	**2013** **£'000**	2012 £'000
Non-current assets:			
Investments	13	**27,593**	27,629
Current assets:			
Trade and other receivables	15	**2,558**	6,186
		2,558	6,186
Current liabilities:			
Trade and other payables	17	**1,898**	2,149
Net current assets		**660**	4,037
Net assets		**28,253**	31,666
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	20	**1,231**	1,391
Share premium account	21	**11,148**	11,148
Merger reserve	21	**10,762**	10,762
Capital redemption reserve	21	**1,643**	1,483
Share based payment reserve	21	**–**	19
Retained earnings	21	**3,469**	6,863
Total equity		**28,253**	31,666

The financial statements were approved by the board of directors and authorised for issue on 23rd July 2013.

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

The notes on pages 20 to 39 form part of these Consolidated financial statements.

Company No. 1870320

GROUP STATEMENT OF CASH FLOWS
For the year ended 30th April 2013

	Notes	2013 £'000	2012 £'000
Operating activities			
Profit before taxation		**3,547**	3,148
Finance income		**(1)**	–
Finance expense		**1**	3
Depreciation	12	**2,036**	1,991
Cash flows from operations before changes in working capital		**5,583**	5,142
(Increase)/decrease in inventories and work in progress		**(880)**	115
(Increase)/decrease in trade and other receivables		**(1,189)**	3,213
Increase/(decrease) in trade and other payables		**2,521**	(1,355)
Cash generated from operations		**6,035**	7,115
Taxation paid			
UK corporation tax paid		**(610)**	(919)
Overseas tax received		**130**	383
		(480)	(536)
Net cash inflow from operating activities		**5,555**	6,579
Investing activities			
Payments to acquire property, plant and equipment	12	**(2,178)**	(3,460)
Receipts from sales of property, plant and equipment		**56**	20
Interest received		**1**	–
Net cash outflow from investing		**(2,121)**	(3,440)
Financing activities			
Purchase of own shares	20	**(4,000)**	(342)
Interest paid		**(1)**	(3)
Equity dividends paid	10	**(478)**	(534)
Net cash outflow from financing		**(4,479)**	(879)
Net (decrease)/increase in cash and cash equivalents		**(1,045)**	2,260
Cash and cash equivalents at beginning of year		**8,519**	6,298
Exchange gains/(losses) on cash and cash equivalents		**156**	(39)
Cash and cash equivalents at end of year	16	**7,630**	8,519

The notes on pages 20 to 39 form part of these Consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30th April 2013

	Notes	2013 £'000	2012 £'000
Operating activities			
Profit before taxation		**1,258**	1,150
Finance income		**(174)**	(187)
Finance expense		**1**	3
Cash flows from operations before changes in working capital		**1,085**	966
Decrease/(increase) in trade and other receivables		**829**	(2,445)
Increase/(decrease) in trade and other payables		**15**	(16)
Cash generated from operations		**1,929**	(1,495)
Taxation paid			
UK corporation tax paid		**(610)**	(919)
Net cash inflow/(outflow) from operating activities		**1,319**	(2,414)
Investing activities			
Interest received		**174**	187
Dividends received from subsidiaries		**3,252**	3,224
Net cash inflow from investing		**3,426**	3,411
Financing activities			
Purchase of own shares	20	**(4,000)**	(342)
Interest paid		**(1)**	(3)
Equity dividends paid	10	**(478)**	(534)
Net cash outflow from financing		**(4,479)**	(879)
Net increase in cash and cash equivalents		**266**	118
Cash and cash equivalents at beginning of year		**(2,149)**	(2,267)
Cash and cash equivalents at end of year	16	**(1,883)**	(2,149)

The notes on pages 20 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30th April 2013

	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 2012	1,391	11,148	1,483	(96)	19	1,238	203	10,868	26,254
Profit for the year	–	–	–	–	–	–	–	2,334	2,334
Foreign exchange	–	–	–	–	–	517	–	–	517
Cash flow hedges:									
Losses	–	–	–	–	–	–	(50)	–	(50)
Transfers	–	–	–	–	–	–	(181)	–	(181)
Tax on other comprehensive income	–	–	–	–	–	(133)	56	–	(77)
Share buybacks	(160)	–	160	–	–	–	–	(4,000)	(4,000)
Share options lapsed	–	–	–	(17)	(19)	–	–	–	(36)
Dividends paid	–	–	–	–	–	–	–	(478)	(478)
At 30th April 2013	**1,231**	**11,148**	**1,643**	**(113)**	**–**	**1,622**	**28**	**8,724**	**24,283**
At 1st May 2011	1,405	11,148	1,469	(96)	94	1,383	583	9,474	25,460
Profit for the year	–	–	–	–	–	–	–	2,195	2,195
Foreign exchange	–	–	–	–	–	(62)	–	–	(62)
Cash flow hedges:									
Losses	–	–	–	–	–	–	(120)	–	(120)
Transfers	–	–	–	–	–	–	(400)	–	(400)
Tax on other comprehensive income	–	–	–	–	–	(83)	140	–	57
Share buybacks	(14)	–	14	–	–	–	–	(342)	(342)
Share options exercised	–	–	–	–	(75)	–	–	75	–
Dividends paid	–	–	–	–	–	–	–	(534)	(534)
At 30th April 2012	1,391	11,148	1,483	(96)	19	1,238	203	10,868	26,254

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 30th April 2013

	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 2012	1,391	11,148	10,762	1,483	19	6,863	31,666
Profit for the year	–	–	–	–	–	1,084	1,084
Share buybacks	(160)	–	–	160	–	(4,000)	(4,000)
Share options lapsed	–	–	–	–	(19)	–	(19)
Dividends paid	–	–	–	–	–	(478)	(478)
At 30th April 2013	**1,231**	**11,148**	**10,762**	**1,643**	**–**	**3,469**	**28,253**
At 1st May 2011	1,405	11,148	10,762	1,469	94	6,581	31,459
Profit for the year	–	–	–	–	–	1,083	1,083
Share buybacks	(14)	–	–	14	–	(342)	(342)
Share options exercised	–	–	–	–	(75)	75	–
Dividends paid	–	–	–	–	–	(534)	(534)
At 30th April 2012	1,391	11,148	10,762	1,483	19	6,863	31,666

The notes on pages 20 to 39 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

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.

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:

– *Amendment to IFRS 7 'Disclosures – Transfers of Financial Assets'* (effective for accounting periods beginning on or after 1st July 2011). This amendment has been endorsed for use in the EU.

– *Amendment to IAS 12 'Deferred Tax: Recovery of Underlying Assets'* (effective for accounting periods beginning on or after 1st January 2012). This amendment has been endorsed for use in the EU.

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:

– *Amendment to IAS1 'Presentation of Items of Other Comprehensive Income'* (effective for accounting periods beginning on or after 1st July 2012). This amendment has been endorsed for use in the EU.

– *IFRS 10 'Consolidated Financial Statements'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2014).

– *IFRS 11 'Joint Arrangements'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2014).

– *IFRS 12 'Disclosure of Interests in Other Entities'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2014).

– *IFRS 13 'Fair Value Measurement'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU.

– *IAS 27 'Separate Financial Statements'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2014).

– *IAS 28 'Investments in Associates and Joint Ventures'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2014).

– *IAS 19 'Employee Benefits'* (effective for accounting periods beginning on or after 1st January 2013). This interpretation has been endorsed for use in the EU.

– *Amendment to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'* (effective for accounting periods beginning on or after 1st January 2013). This amendment has been endorsed for use in the EU.

– *Annual Improvements to IFRSs (2009-2011 Cycle)* – Minor amendments to various accounting standards, effective for periods beginning on or after 1st January 2013 onwards. These amendments have been endorsed for use in the EU.

– *Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'* (effective for accounting periods beginning on or after 1st January 2013). This amendment has been endorsed for use in the EU.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

1. **Accounting policies** *continued*

– *Amendment to IAS 32 'Offsetting Financial Assets and Financial Liabilities'* (effective for accounting periods beginning on or after 1st January 2014). This amendment has been endorsed for use in the EU.

– *Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'* (effective for accounting periods beginning on or after 1st January 2014). This amendment has not yet been endorsed for use in the EU.

– *IFRS 9 'Financial Instruments'* (effective for accounting periods beginning on or after 1st January 2015). This amendment has not yet 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 £1,084,000 (2012 – £1,083,000). 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. Where projects are ongoing at the year end, revenue is recognised on a stage of completion basis, when the Group has a right to consideration for those services.

Property, Plant and Equipment

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

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

Freehold buildings	50 years
Leasehold 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

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

1. **Accounting policies** *continued*

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 scheme was closed to new members on 31st December 1997.

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 2013

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.

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 uncollectable, 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.

Forward Foreign Currency Contracts

The Group uses forward foreign currency contracts to hedge its risk associated with foreign currency fluctuations. Such forward foreign currency contracts are stated at fair value which is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

It is the Group's policy not to hold forward foreign currency contracts 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 foreign currency contracts as a cash flow hedge. The effective part of the 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

The Group operates an equity-settled share based payment scheme for directors and employees. 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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

1. Accounting policies *continued*

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

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

Segmental Reporting
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.

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 24. 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 19, the Board use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

For forward foreign currency contracts, assumptions are based on quoted market rates adjusted for specific features of the contract. Details of the assumptions used are provided in note 19.

Share Based Payments
The Group operates an equity-settled share based remuneration scheme for directors and employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of the share options is estimated on the date of the grant based on certain assumptions. Those assumptions are described in note 22.

3. Revenue

	2013 £'000	2012 £'000
Revenue arises from:		
Sale of goods	**69,366**	69,412
Provision of services	**1,253**	987
	70,619	70,399

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

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	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Revenue:						
Total revenue	**63,538**	63,672	**7,210**	6,854	**70,748**	70,526
Inter-segment revenue	**(129)**	(127)	**–**	–	**(129)**	(127)
Revenue from external customers	**63,409**	63,545	**7,210**	6,854	**70,619**	70,399
Segment result:						
Profit/(loss) from operations	**3,493**	3,238	**54**	(87)	**3,547**	3,151
Finance income	**1**	–	**–**	–	**1**	–
Finance expense	**(1)**	(3)	**–**	–	**(1)**	(3)
Profit/(loss) before taxation	**3,493**	3,235	**54**	(87)	**3,547**	3,148
Tax expense	**1,195**	837	**18**	116	**1,213**	953
Profit for the year attributable to equity holders of the parent	**2,298**	2,398	**36**	(203)	**2,334**	2,195
Total assets	**33,451**	32,117	**5,548**	5,892	**38,999**	38,009
Total liabilities	**11,568**	9,937	**3,148**	1,818	**14,716**	11,755
Net assets	**21,883**	22,180	**2,400**	4,074	**24,283**	26,254
Capital expenditure	**2,068**	3,432	**110**	28	**2,178**	3,460
Depreciation	**1,940**	1,899	**96**	92	**2,036**	1,991

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	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
United Kingdom	**17,874**	19,396	**2,033**	1,839
United States	**32,673**	30,151	**4,815**	5,442
Europe	**16,416**	17,091	**1,350**	1,100
Rest of World	**3,656**	3,761	**–**	–
	70,619	70,399	**8,198**	8,381

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

		2013 £'000	2012 £'000
5. **Operating expenses**	Distribution and marketing costs	**23,452**	23,906
	Administrative costs	**12,102**	11,747
	Total operating expenses	**35,554**	35,653

		2013 £'000	2012 £'000
6. **Profit from operations**	This has been arrived at after charging/(crediting):		
	Audit services – group	**38**	32
	Audit services – subsidiaries	**110**	107
	Non-audit services – taxation	**141**	82
	Non-audit services – corporate finance	**15**	15
	Non-audit services – pensions	**8**	10
	Depreciation of owned property, plant and equipment	**2,036**	1,991
	Operating lease rentals – land and buildings	**4,004**	4,200
	Operating lease rentals – plant and machinery	**64**	55
	Profit on the disposal of property, plant and equipment	**(49)**	(1)
	Exchange gains	**(190)**	(461)
	Pension costs (see note 24)	**335**	293

		2013 £'000	2012 £'000
7. **Staff costs**	Staff costs, including Executive Directors, were as follows:		
	Wages and salaries	**13,502**	13,178
	Social security costs	**1,718**	1,683
	Pension costs	**335**	293
		15,555	15,154

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

	No.	No.
Distribution and marketing	**282**	282
Administration	**58**	62
	340	344

The holding Company had no employees during the year (2012 – nil).

	2013 £'000	2012 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,422**	1,179
Pension contributions	**38**	37
Gain on exercise of share options	**–**	242
	1,460	1,458
Emoluments of the highest paid director:		
Emoluments	**697**	547

No directors exercised share options during the year (2012 – one).

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 2013

7. Staff costs *continued*

Two directors participated in Group defined contribution pension schemes in 2013 (2012 – two). No directors participated in Group defined benefit pension schemes in 2013 (2012 – nil).

No directors (2012 – one) exercised options in the year and no options were granted to directors in the year (2012 – nil).

8. Finance income and expense

	2013 £'000	2012 £'000
Finance expense:		
Bank loans and overdrafts repayable within five years	**(1)**	(3)
Finance income:		
Bank and other interest receivable	**1**	–
	–	(3)

9. Taxation on continuing operations

(a) Analysis of charge for the year

	2013 £'000	2012 £'000
UK corporation tax		
UK corporation tax on profits of the year	**535**	599
Adjustments in respect of previous years	**(16)**	6
	519	605
Overseas tax		
Overseas tax on profits of the year	**247**	72
Adjustments in respect of previous years	**(71)**	(109)
	176	(37)
Total current tax	**695**	568
Deferred tax		
Origination and reversal of temporary differences	**518**	385
Total income tax expense	**1,213**	953

(b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2012 – higher) than the standard rate of corporation tax in the UK.

The differences are explained below.

	2013 £'000	2012 £'000
Profit before taxation	**3,547**	3,148
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 23.9% (2012 – 25.8%)	**848**	812
Effect of:		
Disallowed expenses and non-taxable income	**95**	49
Adjustments in respect of prior period (current tax)	**(87)**	(103)
Adjustments in respect of prior period (deferred tax)	**26**	(12)
Rate differences	**331**	207
Total tax expense	**1,213**	953

On 1st April 2013, the UK corporation tax rate reduced from 24% to 23% and as a result a hybrid rate of 23.9% (2012 – 25.8%) 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 23.9%.

The Autumn statement 2012 announced the reduction in the main rate of UK corporation tax effective from 1st April 2014 to 21%. A further reduction of 1% to 20% from 1st April 2015 was announced in Budget 2013. These changes have not been substantively enacted at the balance sheet date and consequently are not included in these financial statements.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

		2013 £'000	2012 £'000
10. **Dividends**	Final (paid) of 2.00p (2011 – 2.00p) on 9th October 2012	**245**	277
	Interim (paid) of 1.90p (2012 – 1.85p) on 10th April 2013	**233**	257
		478	534
	Final dividend proposed for the year of 2.10p (2012 – 2.00p)	**257**	277

The proposed final dividend has not been accrued for because the dividend was declared after the year end and is yet to be approved at the Annual General Meeting.

11. **Earnings per share**

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £2,334,000 (2012 – £2,195,000) and on 12,846,164 (2012 – 13,918,662) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £2,334,000 (2012 – £2,195,000) and on 12,846,164 (2012 – 13,933,662) being the weighted average number of shares in issue during the year, calculated as follows:

	2013	2012
Basic weighted average number of shares	**12,846,164**	13,918,662
Dilutive effect of shares under option	–	15,000
	12,846,164	13,933,662

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

12. 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 2012	231	7,840	5,521	456	4,136	18,184
Exchange adjustment	–	260	172	–	166	598
Additions	–	505	407	232	1,034	2,178
Disposals	–	(1,289)	(235)	(222)	(92)	(1,838)
At 30th April 2013	**231**	**7,316**	**5,865**	**466**	**5,244**	**19,122**
Depreciation:						
At 1st May 2012	56	4,575	3,385	346	2,503	10,865
Exchange adjustment	–	132	116	–	105	353
Charge for the year	3	575	505	86	867	2,036
Disposals	–	(1,289)	(234)	(216)	(92)	(1,831)
At 30th April 2013	**59**	**3,993**	**3,772**	**216**	**3,383**	**11,423**
Net Book Value:						
At 30th April 2013	**172**	**3,323**	**2,093**	**250**	**1,861**	**7,699**
At 1st May 2012	175	3,265	2,136	110	1,633	7,319
At 1st May 2011	231	7,934	6,240	519	5,455	20,379
Exchange adjustment	–	160	(70)	(4)	154	240
Additions	–	1,933	632	20	875	3,460
Disposals	–	(2,187)	(1,281)	(79)	(2,348)	(5,895)
At 30th April 2012	231	7,840	5,521	456	4,136	18,184
Depreciation:						
At 1st May 2011	53	6,060	4,150	328	3,879	14,470
Exchange adjustment	–	147	17	(3)	119	280
Charge for the year	3	555	498	82	853	1,991
Disposals	–	(2,187)	(1,280)	(61)	(2,348)	(5,876)
At 30th April 2012	56	4,575	3,385	346	2,503	10,865
Net Book Value:						
At 30th April 2012	175	3,265	2,136	110	1,633	7,319
At 1st May 2011	178	1,874	2,090	191	1,576	5,909

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

13. Investments

	Shares £'000	Loans £'000	Total £'000
Company:			
At 1st May 2012	19,979	7,650	27,629
Share options lapsed	(36)	–	(36)
At 30th April 2013	**19,943**	**7,650**	**27,593**
At 30th April 2012	19,979	7,650	27,629

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 2013, the ESOP Trust owned 60,000 (2012 – 60,000) ordinary shares of 10p in the Company at cost, with a market value of £136,500 (2012 – £144,000). Dividends on these shares have been waived.

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

There were no shares under option in the ESOP at the date of the statement of financial position.

14. Inventories and work in progress

	Group **2013 £'000**	Group 2012 £'000
Finished goods for resale	**13,047**	12,148
Work in progress	**787**	299
Less: progress payments received and receivable	**(658)**	(232)
	13,176	12,215

The cost of inventories recognised as an expense and included in cost of sales amounted to £20,682,000 (2012 – £21,432,000).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

15. Trade and other receivables

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Amounts owed by subsidiary undertakings	**–**	–	**1,890**	5,898
Trade receivables	**6,468**	6,188	**–**	–
Other receivables	**2,160**	976	**552**	96
Forward foreign currency contracts	**36**	268	**–**	–
Prepayments and accrued income	**1,331**	1,462	**116**	192
	9,995	8,894	**2,558**	6,186

As at 30th April 2013 the Group had trade receivables of £1,862,000 (2012 – £1,838,000) which were past due but not individually impaired. The ageing of these receivables is as follows:

	2013 £'000	2012 £'000
Up to 3 months past due	**1,709**	1,734
3 to 6 months past due	**85**	77
6 to 12 months past due	**22**	–
Over 12 months past due	**46**	27
	1,862	1,838

As at 30th April 2013 the Group had trade receivables of £422,000 (2012 – £521,000) which were past due and individually impaired. The ageing of these receivables is as follows:

	2013 £'000	2012 £'000
Up to 3 months past due	**98**	75
3 to 6 months past due	**19**	48
6 to 12 months past due	**74**	32
Over 12 months past due	**231**	366
	422	521

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

	2013 £'000	2012 £'000
At beginning of year	**546**	1,162
Provided during the year	**59**	62
Receivables written off as uncollectable	**(143)**	(535)
Unused amounts reversed	**(26)**	(114)
Exchange differences	**11**	(29)
At end of year	**447**	546

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

	2013 £'000	2012 £'000
Sterling	**2,583**	2,773
Euro	**2,157**	1,801
US Dollar	**1,461**	1,347
Other	**267**	267
	6,468	6,188

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

16. Cash and cash equivalents

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

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cash at bank and in hand	**7,630**	8,519	**–**	–
Bank overdrafts	**–**	–	**(1,883)**	(2,149)
	7,630	8,519	**(1,883)**	(2,149)

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.

17. Current liabilities

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Bank overdraft	**–**	–	**1,883**	2,149
Trade payables	**4,156**	3,529	**–**	–
Accruals	**3,264**	2,649	**15**	–
Payments received on account	**2,271**	1,216	**–**	–
Corporation tax	**666**	438	**–**	–
Other taxes and social security costs	**1,110**	722	**–**	–
Other payables	**2,984**	2,948	**–**	–
	14,451	11,502	**1,898**	2,149

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.

18. Deferred taxation

	Group 2013 £'000	Group 2012 £'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on property, plant and equipment	**1,087**	1,081
Excess of depreciation over capital allowances on property, plant and equipment	**(125)**	(149)
Short-term temporary differences	**(1,307)**	(1,250)
Tax losses	**(154)**	(744)
	(499)	(1,062)

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.

This is made up as follows:		
Deferred taxation included in non-current assets	**(499)**	(1,062)
Deferred taxation included in non-current liabilities	**–**	–
	(499)	(1,062)

Movements in the deferred tax provision is as follows:	2013 £'000	2012 £'000
At 1st May	**(1,062)**	(1,372)
Charged to the income statement	**518**	385
Charged/(credited) directly to other comprehensive income	**77**	(57)
Translation adjustment	**(32)**	(18)
At 30th April	**(499)**	(1,062)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

18. Deferred taxation *continued*

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

	2013 £'000	2012 £'000
Fair value reserves in shareholders' equity:		
Cash flow hedge reserve	**(56)**	(140)
Deferred tax on long-term loan foreign currency movements	**133**	83
	77	(57)

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.

19. Financial instruments

The financial instruments of the Group as classified in the financial statements as at 30th April 2013 can be analysed under the following IAS 39 categories:

Group	Assets at fair value through profit or loss 2013 £'000	Assets at fair value through profit or loss 2012 £'000	Loans and receivables 2013 £'000	Loans and receivables 2012 £'000	Total 2013 £'000	Total 2012 £'000
Financial assets						
Trade and other receivables	**–**	–	**8,628**	7,164	**8,628**	7,164
Cash and cash equivalents	**–**	–	**7,630**	8,519	**7,630**	8,519
Forward foreign currency contracts	**36**	268	**–**	–	**36**	268
Total	**36**	268	**16,258**	15,683	**16,294**	15,951

	Liabilities at fair value through profit or loss 2013 £'000	Liabilities at fair value through profit or loss 2012 £'000	Other financial liabilities 2013 £'000	Other financial liabilities 2012 £'000	Total 2013 £'000	Total 2012 £'000
Financial liabilities						
Trade and other payables	**–**	–	**7,420**	6,178	**7,420**	6,178
Total	**–**	–	**7,420**	6,178	**7,420**	6,178

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

Forward foreign currency 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). The fair value of forward foreign currency contracts is based on broker quote, derived from the quoted price of similar investments.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

19. **Financial instruments** *continued*

The main risks arising from the Group's financial instruments are 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.

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 (2012 – £3.0 million). The undrawn committed facilities available at 30th April 2013 in respect of which all conditions had been met at that date total £3.0 million (2013 – £3.0 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 2013 the Group's trade payables were £4.2 million (2012 – £3.5 million) and trade receivables were £6.5 million (2012 – £6.2 million) giving a ratio of 1.5 (2012 – 1.8). 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.

In the Product Division credit risk is spread over a large number of customers and historically 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 46% of Group revenue.

The majority of the US subsidiary's revenue is sourced by imports from the UK and Europe. This revenue is invoiced in US dollars. The Group minimises the currency translation exchange risk by the use of forward foreign currency contracts. The fair value of these contracts at 30th April 2013 is detailed below.

The Group's profit is reduced by approximately £80,000 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 28% of Group revenue 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 foreign currency 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.

Interest Rate Risk

As the Group has net cash of £7.6 million (2012 – £8.5 million) and interest rates are at historically low levels, the Group does not consider interest rate risk to be a significant risk.

Forward Foreign Currency Contracts

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

At 30th April 2013, the Group was in one forward foreign currency contract arrangement to sell US dollars. The hedged transactions are expected to occur in 2013/14.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

19. **Financial instruments** *continued*

The fair value of the Group's forward foreign currency contracts at the date of the statement of financial position is as follows:

	2013 £'000	2012 £'000
Fair value of forward foreign currency contracts – asset	**36**	268

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	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Financial assets				
Trade and other receivables	**2,442**	5,994	**2,442**	5,994
Total	**2,442**	5,994	**2,442**	5,994

	Other financial liabilities		Total	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Financial liabilities				
Bank overdrafts	**1,883**	2,149	**1,883**	2,149
Total	**1,883**	2,149	**1,883**	2,149

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 (2012 – £3.0 million) which is available to the UK companies in the Group.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

20. Share capital

	Authorised 2013	Authorised 2012	Allotted, called up and fully paid 2013	Allotted, called up and fully paid 2012
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,231,000**	£1,391,000
Number of shares	**33,000,000**	33,000,000	**12,310,000**	13,910,000

	Allotted, called up and fully paid			
	2013 Number	**2013 £**	2012 Number	2012 £
Ordinary shares of 10p each				
At beginning of year	**13,910,000**	**1,391,000**	14,050,000	1,405,000
Purchase of own shares for cancellation	**(1,600,000)**	**(160,000)**	(140,000)	(14,000)
At end of year	**12,310,000**	**1,231,000**	13,910,000	1,391,000

Details of share options and shareholdings of Directors are shown in the Directors' Report on pages 8 to 10.

Share options over the ESOP shares are shown in note 13 on page 30.

During the year the Company purchased 1,600,000 ordinary shares for cancellation, via a Tender Offer process, for a consideration of £4,000,000, representing approximately 12% of the issued share capital at the start of the year.

21. 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 foreign currency contracts at the date of the statement of financial position.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2013

22. 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.

	2013 Weighted average exercise price	**2013 Number**	2012 Weighted average exercise price	2012 Number
Outstanding at 1st May	**£1 total**	**15,000**	£1 total	115,000
Lapsed during the year	**£1 total**	**(15,000)**	£1 total	–
Exercised during the year	**£1 total**	**–**	£1 total	(100,000)
Outstanding at 30th April	**£1 total**	**–**	£1 total	15,000

There were no options outstanding at the end of the year. The options outstanding at the beginning of the year had vested and were exercisable. Each tranche of options was exercisable for a total consideration of £1.

15,000 options lapsed during the year (2012 – nil) and the weighted average share price of each option which lapsed was 252.5p.

No options were exercised during the year. The weighted average share price (at date of exercise) of options exercised during the previous year was 242.0p.

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

23. Commitments under operating leases

At 30th April 2013 the Group had total commitments under non-cancellable operating leases as follows:

	2013		2012	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**3,554**	**60**	3,563	50
Between two and five years	**10,816**	**60**	10,607	65
Over five years	**7,795**	**–**	8,582	–
	22,165	**120**	22,752	115

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

24. 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 £335,000 (2012 – £293,000).

The Group's US subsidiary Cowtan & Tout Incorporated 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 2013 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 4% (2012, 2011 – 5%). The market value of investments at 30th April 2013 was £761,000 (2012 – £699,000, 2011 – £699,000), all of which have an expected long term rate of return of 6½% (2012, 2011 – 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 2013 was £1,026,000 (2012 – £952,000, 2011 – £940,000), resulting in a net pension liability of £265,000 (2012 – £253,000, 2011 – £241,000). An accrual of £265,000 (2012 – £253,000, 2011 – £241,000) covering the unfunded actuarial accrued liability is included in the Group statement of financial position together with a related deferred tax asset of £106,000 (2012 – £101,000, 2011 – £96,000).

A total of £59,000 in actuarial losses (2012 – £52,000) and a total of £2,000 (2012 – £11,000) in finance charges were recognised in Group operating expenses in the year.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2013

24. **Pension commitments** *continued*

The fair value of the assets in the scheme and the expected rate of return at 30th April 2013 were:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Cash and cash equivalents	**–**	–	–	116	25
Fixed income	**278**	264	350	350	311
Equities	**483**	435	349	275	274
Total market value of assets	**761**	699	699	741	610
Present value of scheme liabilities	**(1,026)**	(952)	(940)	(1,061)	(1,095)
Net pension liability	**(265)**	(253)	(241)	(320)	(485)

Reconciliation of plan assets:

	2013 £'000	2012 £'000
At beginning of year	**699**	699
Exchange gain	**32**	19
Expected return	**45**	35
Contributions by Group	**59**	58
Benefits paid	**(92)**	(89)
Actuarial gain/(loss)	**18**	(23)
At end of year	**761**	699

Reconciliation of plan liabilities:

	2013 £'000	2012 £'000
At beginning of year	**952**	940
Exchange loss	**42**	26
Interest cost	**47**	46
Benefits paid	**(92)**	(89)
Actuarial loss	**77**	29
At end of year	**1,026**	952

History of experience gains and losses:

	2013	2012	2011	2010	2009
Actual return less expected return on scheme assets (£'000)	**18**	(23)	40	81	(173)
As a % of plan assets	**2.3%**	(3.3%)	5.7%	10.9%	(28.4%)
Experience (losses)/gains on scheme liabilities (£'000)	**(77)**	(29)	(4)	(39)	27
As a % of plan liabilities	**7.5%**	3.0%	0.4%	3.7%	(2.5%)

25. **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 2013, the value of subsidiary overdrafts covered by the guarantee amounted to £nil (2012 – £nil).

NOTES TO THE ACCOUNTS
For the year ended 30th April 2013

26. Related party transactions

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

	2013 £'000	2012 £'000
Interest charged on long-term loans to Colefax and Fowler Holdings Limited	**174**	187

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

	2013 £'000	2012 £'000
Colefax and Fowler Holdings Limited	**7,650**	7,651
Colefax and Fowler Limited	**1,866**	4,127
Sibyl Colefax and John Fowler Limited	**–**	1,708
Kingcome Sofas Limited	**24**	62
	9,540	13,548

FIVE YEAR REVIEW

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue from continuing operations	**70,619**	70,399	77,722	69,188*	75,076*
Profit from continuing operations	**3,547**	3,151	6,448	4,387	2,918
Profit before taxation from continuing operations	**3,547**	3,148	6,521	4,388	2,911
Profit attributable to shareholders	**2,334**	2,195	4,573	2,376	1,830
Basic earnings per share from continuing operations	**18.2p**	15.8p	33.0p	21.6p	14.1p
Diluted earnings per share from continuing operations	**18.2p**	15.8p	32.8p	21.2p	13.5p
Dividends per share	**4.00p**	3.85p	3.85p	3.10p	2.88p
Equity	**24,283**	26,254	25,460	23,055	21,133
Operating cash flow	**6,035**	7,115	7,759	5,429	5,176
Cash and cash equivalents	**7,630**	8,519	6,298	5,472	3,078

* Restated

NOTICE OF MEETING

Notice is hereby given that the 2013 Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 10th September 2013 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 2013, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.10p 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 A. K. P. Smith, who retires by rotation, as a Director.

Special Business

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

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 £410,333 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 £410,333 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 £61,550.

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.

By order of the Board
R. M. Barker BSc ACA
Secretary
23rd July 2013

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 6th September 2013.

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 6th September 2013 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 6th September 2013 (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 22nd July 2013 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 12,310,000 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the company as at 22nd July 2013 were 12,310,000.

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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