COLEFAX GROUP PLC

Annual Report and Accounts 2016

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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COLEFAX & FOWLER LTD

FINANCIAL HIGHLIGHTS

	2016 £'000	2015 £'000	Increase/ (decrease)
Revenue	**76,879**	76,796	0%
Profit from operations	**5,013**	5,037	(0.5%)
Profit before taxation	**5,016**	5,029	0%
Profit attributable to shareholders	**3,461**	3,542	(2%)
Basic earnings per share	**32.2p**	32.2p	0%
Diluted earnings per share	**32.2p**	32.2p	0%
Dividends per share	**4.60p**	4.40p	5%
Equity	**26,318**	23,757	11%
Operating cash flow	**7,195**	8,741	(18%)
Cash and cash equivalents	**10,085**	6,861	47%

CHAIRMAN'S STATEMENT

Financial Results

The Group's pre-tax profit for the year to 30th April 2016 was in line with last year at £5.02 million (2015: £5.03 million) on flat sales of £76.88 million (2015: £76.80 million). Earnings per share were unchanged at 32.2p (2015: 32.2p). The Group ended the year with net cash of £10.1 million (2015: £6.9 million).

The Board has decided to propose an increased final dividend of 2.40p per share, a rise of 4% (2015: 2.30p) making a total for the year of 4.60p (2015: 4.40p), an increase of 5%. The final dividend will be paid on 10th October 2016 to shareholders on the register at the close of business on 9th September 2016.

This year's results reflect a year which became progressively more challenging in all of our major markets. Group profits for the first six months were up 13% at £3.27 million but for the second six months profits were down by 19% at £1.75 million. Different factors have affected different markets notably the forthcoming election in the US, higher stamp duty in the UK and weak consumer confidence in Europe. In our core Fabric Division sales were flat in reported terms but decreased by 3% on a constant currency basis and as a result profits reduced from £5.01 million to £4.53 million. The Decorating Division delivered an improved performance with operating profits of £221,000 compared to an operating loss of £139,000 last year and this largely offset the profit decline in the Fabric Division.

Despite flat sales the Group continued to generate strong cash flows reflecting tight control of working capital. Cash increased by £3.2 million to £10.1 million after dividend payments of £0.48 million and share buybacks of £0.32 million.

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 £66.40 million (2015: £66.30 million) and reduced by 3% on a constant currency basis. Operating profit declined by 9.5% to £4.53 million (2015: £5.01 million) reflecting a generally challenging sales environment.

Sales in the US, which represent 58% of the Fabric Division's turnover increased by 3% in reported terms but decreased by 3% on a constant currency basis. There was a marked difference between the first and second half of the year with first half sales down by 1% and second half sales down by 5%. We attribute this slowdown to concern about the forthcoming Presidential election in November which has made consumers cautious at the luxury end of the market. In the current financial year we are planning to open our own showrooms in Boston and Atlanta. Previously we sold through agents and this will give us direct control over sales in these territories.

Sales in the UK, which represent 19% of the Fabric Division's turnover were flat during the year. We attribute this to the ongoing impact of a significant increase in stamp duty on the high end housing market. Our sales typically lag activity in the high end housing market. We believe that the impact of a slowdown in high end housing transactions has been partly offset by an increase in refurbishment activity on existing homes but our customers tend to spend more when they move house.

Sales in Continental Europe, which represent 20% of the Fabric Division's turnover, decreased by 8% in Sterling terms but by 4% in constant currency. As usual the performance by country was very mixed and there was no overall sign of a strong recovery despite significant monetary easing by the European Central Bank. In France which is our largest market the economy remained difficult and sales were down by 8% in constant currency. Sales in Germany, our second largest market, were down by 10% in constant currency but in Italy, our third largest market, sales increased by 9%. In our smaller markets the picture was more encouraging but overall trading conditions were challenging.

CHAIRMAN'S STATEMENT

Sales in the Rest of the World increased by 4% to £2.03 million (2015 £1.95 million). The Middle East, Australia, Russia and China are our largest markets but are still a relatively small part of overall sales and represent an opportunity if current market conditions improve.

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture which are included within the Product Division and account for 3% of Group turnover increased by 7% to £2.62 million (2015: £2.45 million). Operating profit was £263,000 compared to £171,000 helped by a contract order at the start of the year. This business has relatively fixed labour costs and is therefore sensitive to small fluctuations in sales. The majority of sales are in the UK centred on London and as with the Fabric Division market conditions were relatively difficult during the year. Only 13% of Kingcome sales are currently generated overseas and export sales represent a growth opportunity.

Interior Decorating Division

Decorating sales, which account for 10% of Group turnover, decreased by 2% to £7.86 million (2015: £8.03 million) but operating profits were £221,000 compared to an operating loss of £139,000 for the prior year. The improvement reflects a change in mix between decorating work and low margin antique sales where trading conditions have been very challenging. As previously reported, this autumn after over 80 years based at 39 Brook Street in Mayfair, the Decorating Division will be moving to new premises at 89-91 Pimlico Road. The move represents a significant change for the Decorating Division to an area which is synonymous with high end decorating in London and we are optimistic about the benefits of the new location. As part of the move we will significantly reduce the scale of our antiques operation which has experienced increasingly tough trading conditions in recent years. The decorating business serves a diverse international client base and had a healthy level of deposits at the end of the year.

Prospects

Since the year end the Referendum vote has created a great deal of uncertainty in both the UK and Europe, which is clearly not good for trading prospects. At this stage it is too early to judge the extent to which our business will be affected. In our major market, the US, we are experiencing more difficult trading conditions which we attribute to concern about the November Presidential election.

With almost 75% of Group sales made in overseas markets the devaluation in Sterling represents a growth opportunity. However, for the current year and a portion of next year we hedged our US Dollar exposure and therefore will not benefit from the post Brexit weakness of Sterling. Despite the ongoing uncertainty we will continue to invest in our business with confidence and have a significant year of capital expenditure with new US showrooms in Atlanta and Boston and our new Decorating Division showroom and offices in London.

Our results reflect the talent, hard work and loyalty of all our staff throughout the Group and I would like to thank them for their contribution to our performance and for their commitment to the continued success of the Group.

David Green.

David B. Green
Chairman
25th July 2016

STRATEGIC REPORT

Strategy and Business Model

The strategy and business model of the Group has not changed significantly since last year although Brexit is likely to lead to an increased focus on overseas markets due to the devaluation of Sterling. The core business of Colefax Group Plc is the design and distribution of luxury furnishing fabrics and wallpapers. The Group does not manufacture any fabrics and wallpapers and they are sourced from over 100 different suppliers primarily in Italy, France, Belgium, the UK and India. This broad supplier base enables the Group to respond rapidly to changing market tastes and avoids the complexity and capital intensive nature of manufacturing.

The Group sells its fabrics and wallpapers through a 'portfolio' of luxury brands. The rationale behind the portfolio is that each brand has a particular look and price point and caters to a particular segment of the market. The brands have different strengths in different markets and product categories which enables the Group to maximise sales through its worldwide distribution network. The Group is interested in acquiring additional fabric and wallpaper brands provided they complement the existing portfolio but there are also good opportunities for organic growth within the Group's existing portfolio. The market remains highly competitive with an oversupply of new product and this creates challenges in the form of shorter product life cycles and lower returns on new product investment.

The Group's fabric and wallpapers are sold in over 50 countries worldwide although the US market accounts for 58% of sales and the UK market 19% of sales. The next largest individual country is France which accounts for 6% of Fabric Division sales. The Group sells primarily to interior designers and retail fabric and wallpaper shops (the 'trade') and apart from two retail outlets in London accounting for just over 1% of Group sales there is no direct retail activity. The Group adopts different sales approaches according to the size and potential of individual markets. In major geographical markets the Group mainly employs its own sales staff to sell direct to trade customers. In medium sized markets the Group sells through agents who receive a sales commission and in smaller or complex markets the Group uses exclusive distributors.

The strategic rationale behind the Group's portfolio of brands is that they each have separate design studios but share a common operational platform in terms of marketing, sales, warehousing, IT systems and accounting. This minimises costs and maximises efficiency whilst at the same time keeping the identity of each brand distinct and separate in the market.

The Group has five fabric and wallpaper brands all sold at the premium end of the market. Colefax and Fowler is a renowned luxury English brand and is complemented by another English brand Jane Churchill which is targeted at a lower price point than Colefax and Fowler. Larsen is a highly innovative contemporary US brand and Manuel Canovas is an iconic luxury French brand. Cowtan and Tout is a very high end luxury US brand sold exclusively in the US market.

The Group's current strategy is to maximise sales and operating profit from its existing portfolio of brands primarily through an annual cycle of new product investment. This is the key driver of sales growth and the market reaction to new product is one of the key business risks. Typically each brand introduces a major new collection annually supplemented by additional product launches at certain times. Business risk is reduced by targeting different brands at different markets and ensuring that each brand remains clearly differentiated with minimal product overlap.

In addition to the Group's core fabric and wallpaper brands (the Fabric Division) the Group owns a UK based luxury sofa manufacturer Kingcome Sofas. Production takes place at a freehold factory in Devon which employs 33 staff and this is the Group's only manufacturing activity. It is a relatively small part of the Group accounting for 3.4% of sales. Although a distinct activity the furniture company is grouped with the fabric and wallpaper brands to make up the Product Division.

The Group owns an ultra luxury interior design business trading as Sibyl Colefax and John Fowler Limited. Founded in 1933 this activity is the original business from which the rest of the Group evolved and is referred to as the Decorating Division. Currently it accounts for approximately 10% of Group sales. The business undertakes interior design and decoration projects primarily for high end residential customers. All projects are fully estimated and funded by customer deposits. There are four Design Directors and three Associate Directors each with their own portfolio of clients. The business is international with a broad geographical spread and the high end client base means it is quite resilient to normal economic cycles. However, the project based nature of this activity means that there can be quite significant fluctuations in profits from year to year. The Decorating Division also encompasses

STRATEGIC REPORT

a decorative antiques business which has experienced increasingly challenging trading conditions in recent years. In the current year the Decorating business is moving location from 39 Brook Street in Mayfair to new premises at 89-91 Pimlico Road. As part of this move the size of the antiques business will be significantly scaled back.

Key Performance Indicators
Given the size and nature of the Group's activities the Key Performance Indicators are all financial in nature:

	2016	2015
Constant Currency Sales Growth	**-2.2%**	-0.5%
Gross Profit Margin	**56.3%**	54.7%
Operating Profit Margin	**6.5%**	6.6%
Earnings Per Share	**32.2p**	32.2p
Operating Cash Flow	**£7.2m**	£8.7m

Sales Growth
Group sales were effectively flat in reported terms at £76.88 million (2015: £76.80 million) and down by 2.2% on a constant currency basis. The Group only needs modest sales growth to grow profits because it has a fairly fixed operating cost base but growing sales requires a healthy high end housing market.

In the core Fabric Division sales decreased by 3% on a constant currency basis compared to a 4.1% constant currency increase last year. Sales in the US were down 3.0%, the UK was flat and sales in Europe were down 3.7%. In the US which is our most important market the decline was bigger in the second half of the year with a decrease of 5.1% against tough prior year comparatives. We attribute most of the decline to concern about the forthcoming Presidential election which we believe is disproportionately affecting luxury spending.

In the Decorating Division sales were down by 2.2%, but profitability improved due to a decline in the proportion of low margin antique sales which fell by 15%. Although it was not the case this year, historically sales can vary significantly in the Decorating Division due to the timing of major projects. Customer deposits at the year end were up by 21%.

Gross Profit Margin
The overall gross profit margin increased from 54.7% to 56.3% mainly reflecting the strength of the US Dollar which averaged 1.50 during the year compared to $1.59 in the prior year. The US Dollar exchange rate has a significant impact on the Group's gross profit margin due to the fact that 58% of Fabric Division sales are made in the US and invoiced in US Dollars but most of the goods sold are sourced in Sterling or Euros. A one cent movement in the average rate for the year against Sterling impacts gross profit by approximately £95,000. The critical importance of the US Dollar rate means that the Group hedges a proportion of its budgeted exposure to protect against dollar weakness. The collapse in Sterling following the Brexit vote in June means that the Group is likely to miss out on very significant upside for the remainder 2016-17 and a portion of 2017-18.

The Group does not have any significant exposure to the Euro to Sterling exchange rate as there is a natural hedge between Euro costs and revenues.

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

	2016	2015	% change
US dollar average	**1.50**	1.59	5.7%
US dollar closing	**1.47**	1.54	4.5%
Euro average	**1.36**	1.30	-4.6%
Euro closing	**1.27**	1.37	7.3%

Operating Profit Margin
Group operating profit decreased by 0.5% to £5.01 million (2015: £5.04 million) representing an operating profit margin of 6.5% (2015: 6.6%) with a decline in the Fabric Division largely offset by an improvement in the Decorating Division. In the Fabric Division the operating profit margin was 6.8% compared to 7.5% for the prior year mainly reflecting the 3% decline in constant currency sales. Fabric Division profits are particularly sensitive to small fluctuations in sales due to a relatively fixed cost base comprising mainly staff and premises costs.

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Earnings Per Share
Earnings per share were unchanged at 32.2p (2015: 32.2p). Although consistent with broadly flat operating profits this conceals a 1.4% rise in the effective tax rate to 31% offset by a 2.1% decline in the weighted average number of shares in issue during the year. The increase in the tax rate reflects a higher proportion of profits made in the US as a result of the stronger US Dollar. The reduction in weighted average shares in issue reflects share buybacks in the current and prior year.

The Board remains committed to a policy of returning surplus cash to shareholders by way of share buybacks provided it enhances shareholder value. Following resolutions passed at the AGM held on 11 September 2012 the Group has authority to make annual purchases up to a maximum of 4,774,004 shares over five years. After the year end on 13 May 2016 the Group purchased and cancelled a further 514,000 shares at a cost of £2.48 million reducing the number of shares in issue to 10,243,000. The maximum number of shares that can still be purchased under this authority is 1,325,276 or 12.9% of the issued share capital.

Operating Cash Flow
The Group's operating cash flow was down by 18% at £7.19 million (2015: £8.74 million) compared to profit before tax of £5.01 million. The decline follows an exceptionally strong year for operating cash flow in the prior year. Inventory increased by a modest £127,000 in line with flat sales. Debtors decreased by £704,000 and creditors reduced by £582,000. Overall there was a working capital increase of just £5,000 compared to a net decrease of £1.68 million in the prior year. Depreciation amounted to £2.19 million (2015: £2.03 million) compared to net capital expenditure of £2.25 million (2015: £2.18 million). For the current year the Group will have an exceptionally high level of capital expenditure due to three major showroom projects comprising new US showrooms in Atlanta and Boston and a new Decorating Division showroom in London.

Principal Risks and Uncertainties
The Group has put in place controls to identify, monitor and manage the principal risks and uncertainties faced by the Group. Risks are ranked according to their potential financial impact and probability and a Group Risk Assessment Report is presented bi-annually to the Audit Committee. The Group's Executive Directors provide input into the risk assessment process where relevant.

The principal risks can be summarized into business risks, financial risks and operational risks.

Business risks
The main internal business risk relates to the market reaction to new product investment. The risk is mitigated by employing talented and experienced design studio staff together with tight budgetary controls over new product investment and regular feedback and financial analysis.

The main external business risk is a downturn in the high end housing market. The business is not immune to economic cycles and in particular it tends to lag changes in the strength of the housing market. Both the number of high end transactions and the level of price inflation are important. The main control for responding to changes in the housing market is the amount of new product investment.

Financial risks
There are two major financial risks facing the Group. The first is the US Dollar exchange rate against Sterling. This can have a material impact on profitability because every one cent movement in the exchange rate impacts Group profits by approximately £95,000. The Group seeks to hedge against fluctuations in the US Dollar exchange rate by taking out forward contracts to sell US dollars at rates close to or better than the annual budgeted rate.

The second major financial risk relates to obsolete inventory. Each fabric brand consists of hundreds of individual fabric and wallpaper options and as a result the largest component of the balance sheet is finished goods stock amounting to approximately £12.4 million. There are substantial fluctuations in inventory levels during the year relating to the timing of new product launches. Obsolete stock arises due to surpluses resulting from supplier minimum orders, risks associated with new product introduction and product discontinuations. Some obsolete inventory is an inevitable feature of the business but the Board seeks to mitigate the risk of obsolete inventory through tight purchasing controls and budgetary controls over new product investment.

STRATEGIC REPORT

Operational risks
There are two main operational risks. The first relates to the loss or failure of the Group's IT system in the UK or the US. The nature of the Fabric Division business is that it involves large numbers of stock items, large numbers of customers and a high volume of transactions. As a result the Group is highly dependent on its IT systems and the main way that the Group mitigates this risk is through real-time backup procedures in the UK and the US. In addition the Group has full business interruption insurance.

The second main operational risk relates to loss or damage to the Group's warehouse and operations facilities in the US and the UK including loss or damage to inventory. The risk is spread by having three warehouse buildings in the UK and one in the US. The main way that the Group mitigates this risk is by having alarm systems and disaster recovery plans as well as full inventory insurance and business interruption insurance.

The above report was approved by the Directors on 25 July 2015 and signed on its behalf by

R. M. Barker

R. M. Barker BSc ACA
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
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Nominated Advisers and Stockbrokers

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120 London Wall
London EC2Y 5ET

Auditors

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55 Baker Street
London W1U 7EU

Solicitors

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London EC4R 1BE

Bankers

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NY 10017
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Registrars and Transfer Office

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

DIRECTORS' REPORT

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 Strategic Report on pages 4 to 7.

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 on proportion to their existing holdings and also allows issues of 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 and return on capital employed. During the year, the Company repurchased 70,500 shares at an average price of 457.5p.

Results and Dividends
The Group's profit after tax was £3,461,000 (2015 – £3,542,000). An interim dividend of 2.20p (2015 – 2.10p) per share was paid to shareholders on 11 April 2016. The Directors recommend the payment of a final dividend of 2.40p (2015 – 2.30p) per share to be paid on 10 October 2016 to shareholders on the register at the close of business on 9 September 2016. 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 4.60p (2015 – 4.40p) per share and the total of the interim and proposed final dividend is £492,000 (2015 – £474,000).

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

The Group believes in 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.

DIRECTORS' REPORT

Events after the Reporting Date
On 13 May 2016, the Company repurchased 514,000 shares at an average price of 480p.

No other significant events have occurred since 30th April 2016 at the date of these financial statements.

Financial Risk Management
Detail of the use of financial instruments and financial risk management are contained in note 20 to the 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 a historical cost basis was £167,000 at 30th April 2016 (2015 – £169,000).

Directors
The Directors listed on page 8 have held office throughout the year to 30th April 2016.

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

Non-Executive Directors
A.K.P Smith was appointed as non-executive Director in February 1994.

Directors' Remuneration

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	**2016 Total £'000**	2015 Total £'000
Executive Directors:						
D. B. Green	656	–	49	–	**705**	717
R. M. Barker	209	–	2	18	**229**	239
W. Nicholls	187	10	25	–	**222**	215
K. Hall	292	–	–	17	**309**	312
Non-executive Directors:						
A. K. P. Smith	19	–	–	–	**19**	28
	1,363	10	76	35	**1,484**	1,511

Substantial Shareholdings

	Number of shares	%
D. B. Green	3,148,681	30.7
Rights and Issues Investment Trust	2,050,000	20.0
Schroder plc	1,938,224	18.9
Hunter Hall Investment Management	456,479	4.5
Discretionary Unit Fund Managers	455,000	4.4

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

	Ordinary shares of 10p each	
	2016	2015
D. B. Green	**3,148,681**	3,648,681
R. M. Barker	**218,102**	224,187
W. Nicholls	**97,350**	100,000
K. Hall	**161,100**	183,365
A. K. P. Smith	**45,000**	45,000

DIRECTORS' REPORT

No Director has interests in the shares of any subsidiary company.

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 2016 was 477.5p. The range of market prices during the financial year was between 412.5p and 502.5p.

Corporate Governance
As the Company is listed on the Alternative Investment Market it is not formally required to comply with the UK Corporate Governance Code. However, the Board seeks to apply the principles of good corporate governance wherever practical given the confines of a smaller company. 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
25th July 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Directors' responsibilities
The directors are responsible for preparing the annual report and 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 2016 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 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 Financial Reporting Council'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 2016 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 strategic report and 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.

Anthony Perkins (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
25th July 2016

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 2016

	Notes	2016 £'000	2015 £'000
Revenue	3	**76,879**	76,796
Cost of sales		**33,587**	34,760
Gross profit		**43,292**	42,036
Operating expenses	5	**38,279**	36,999
Profit from operations	6	**5,013**	5,037
Finance income	8	**3**	4
Finance expense	8	**–**	(12)
Profit before taxation		**5,016**	5,029
Tax expense			
– UK		**(502)**	(651)
– Overseas		**(1,053)**	(836)
	9	**(1,555)**	(1,487)
Profit for the year attributable to equity holders of the parent		**3,461**	3,542
Basic earnings per share	11	**32.2p**	32.2p
Diluted earnings per share	11	**32.2p**	32.2p

The notes on pages 21 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th April 2016

	Notes	2016 £'000	2015 £'000
Profit for the year		**3,461**	3,542
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		**642**	299
Remeasurement of defined benefit pension scheme		**(100)**	–
Tax relating to items that will not be reclassfied to profit and loss	19	**(106)**	(302)
		436	(3)
Items that will not or may be reclassified to profit and loss:			
Cash flow hedges:			
Losses recognised directly in equity		**(805)**	(103)
Transferred to profit and loss for the year		**144**	160
Tax relating to items that will or may be reclassified to profit and loss	19	**132**	(11)
		(529)	46
Total other comprehensive (expense)/income		**(93)**	43
Total comprehensive income for the year attributable to equity holders of the parent		**3,368**	3,585

The notes on pages 21 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF FINANCIAL POSITION

At 30th April 2016

	Notes	**2016** **£'000**	2015 £'000
Non-current assets:			
Property, plant and equipment	12	**7,551**	7,257
Deferred tax asset	19	**35**	285
		7,586	7,542
Current assets:			
Inventories and work in progress	14	**12,518**	12,296
Trade and other receivables	15	**9,179**	9,681
Cash and cash equivalents	16	**10,085**	6,861
		31,782	28,838
Current liabilities:			
Trade and other payables		**11,258**	10,812
Current corporation tax		**163**	230
	17	**11,421**	11,042
Net current assets		**20,361**	17,796
Total assets less current liabilities		**27,947**	25,338
Non-current liabilities:			
Deferred rent	18	**1,459**	1,433
Pension liability	24	**170**	148
Net assets		**26,318**	23,757
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,076**	1,083
Share premium account	22	**11,148**	11,148
Capital redemption reserve	22	**1,798**	1,791
ESOP share reserve	22	**(113)**	(113)
Foreign exchange reserve	22	**1,559**	1,062
Cash flow hedge reserve	22	**(483)**	46
Retained earnings	22	**11,333**	8,740
Total equity		**26,318**	23,757

The financial statements were approved by the Board of Directors and authorised for issue on 25th July 2016.

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

The notes on pages 21 to 39 form part of these Consolidated financial statements.

Company No. 1870320

COMPANY STATEMENT OF FINANCIAL POSITION

At 30th April 2016

	Notes	2016 £'000	2015 £'000
Non-current assets:			
Investments	13	**27,093**	27,093
Current assets:			
Trade and other receivables	15	**4,267**	3,550
		4,267	3,550
Current liabilities:			
Trade and other payables	17	**1,499**	2,963
Net current assets		**2,768**	587
Net assets		**29,861**	27,680
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	21	**1,076**	1,083
Share premium account	22	**11,148**	11,148
Merger reserve	22	**10,762**	10,762
Capital redemption reserve	22	**1,798**	1,791
Retained earnings	22	**5,077**	2,896
Total equity		**29,861**	27,680

The financial statements were approved by the board of directors and authorised for issue on 25th July 2016.

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

The notes on pages 21 to 39 form part of these Consolidated financial statements.

Company No. 1870320

GROUP STATEMENT OF CASH FLOWS

For the year ended 30th April 2016

	Notes	2016 £'000	2015 £'000
Operating activities			
Profit before taxation		**5,016**	5,029
Finance income		**(3)**	(4)
Finance expense		**–**	12
Depreciation	12	**2,187**	2,028
Cash flows from operations before changes in working capital		**7,200**	7,065
(Increase)/decrease in inventories and work in progress		**(127)**	1,409
Decrease in trade and other receivables		**704**	655
Decrease in trade and other payables		**(582)**	(388)
Cash generated from operations		**7,195**	8,741
Taxation paid			
UK corporation tax paid		**(556)**	(765)
Overseas tax paid		**(781)**	(894)
		(1,337)	(1,659)
Net cash inflow from operating activities		**5,858**	7,082
Investing activities			
Payments to acquire property, plant and equipment	12	**(2,278)**	(2,213)
Receipts from sales of property, plant and equipment		**24**	32
Interest received		**2**	4
Net cash outflow from investing		**(2,252)**	(2,177)
Financing activities			
Purchase of own shares		**(324)**	(1,567)
Interest paid		**(1)**	(10)
Equity dividends paid	10	**(483)**	(472)
Net cash outflow from financing		**(808)**	(2,049)
Net increase in cash and cash equivalents		**2,798**	2,856
Cash and cash equivalents at beginning of year		**6,861**	4,057
Exchange gains/(losses) on cash and cash equivalents		**426**	(52)
Cash and cash equivalents at end of year	16	**10,085**	6,861

The notes on pages 21 to 39 form part of these Consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 30th April 2016

	Notes	2016 £'000	2015 £'000
Operating activities			
Profit before taxation		**3,136**	1,195
Dividend income for the year		**(3,000)**	(1,095)
Finance income		**(152)**	(146)
Finance expense		**–**	10
Cash flows from operations before changes in working capital		**(16)**	(36)
Decrease in trade and other receivables		**693**	1,958
Increase/decrease in trade and other payables		**801**	(5)
Cash generated from operations		**1,478**	1,917
Taxation paid			
UK corporation tax paid		**(556)**	(765)
Net cash inflow from operating activities		**922**	1,152
Investing activities			
Interest received		**150**	146
Dividends received from subsidiaries		**2,000**	1,095
Net cash inflow from investing		**2,150**	1,241
Financing activities			
Purchase of own shares		**(324)**	(1,567)
Interest paid		**(1)**	(8)
Equity dividends paid	10	**(483)**	(472)
Net cash outflow from financing		**(808)**	(2,047)
Net increase in cash and cash equivalents		**2,264**	346
Cash and cash equivalents at beginning of year		**(2,941)**	(3,287)
Cash and cash equivalents at end of year	16	**(677)**	(2,941)

The notes on pages 21 to 39 form part of these Consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2016

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	ESOP share reserve £'000	Foreign exchange reserve £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1st May 2015	1,083	11,148	1,791	(113)	1,062	46	8,740	23,757
Profit for the year	–	–	–	–	–	–	3,461	3,461
Foreign exchange	–	–	–	–	642	–	–	642
Remeasurement of defined benefit pension scheme	–	–	–	–	–	–	(100)	(100)
Cash flow hedges:								
Losses	–	–	–	–	–	(805)	–	(805)
Transfers	–	–	–	–	–	144	–	144
Tax on other comprehensive income	–	–	–	–	(145)	132	39	26
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**497**	**(529)**	**3,400**	**3,368**
Share buybacks	(7)	–	7	–	–	–	(324)	(324)
Dividends paid	–	–	–	–	–	–	(483)	(483)
At 30th April 2016	**1,076**	**11,148**	**1,798**	**(113)**	**1,559**	**(483)**	**11,333**	**26,318**
At 1st May 2014	1,125	11,148	1,749	(113)	1,065	–	7,237	22,211
Profit for the year	–	–	–	–	–	–	3,542	3,542
Foreign exchange	–	–	–	–	299	–	–	299
Cash flow hedges:								
Losses	–	–	–	–	–	(103)	–	(103)
Transfers	–	–	–	–	–	160	–	160
Tax on other comprehensive income	–	–	–	–	(302)	(11)	–	(313)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(3)**	**46**	**3,542**	**3,585**
Share buybacks	(42)	–	42	–	–	–	(1,567)	(1,567)
Dividends paid	–	–	–	–	–	–	(472)	(472)
At 30th April 2015	1,083	11,148	1,791	(113)	1,062	46	8,740	23,757

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30th April 2016

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
At 1st May 2015	1,083	11,148	10,762	1,791	2,896	27,680
Profit and total comprehensive income for the year	–	–	–	–	2,988	2,988
Share buybacks	(7)	–	–	7	(324)	(324)
Dividends paid	–	–	–	–	(483)	(483)
At 30th April 2016	**1,076**	**11,148**	**10,762**	**1,798**	**5,077**	**29,861**
At 1st May 2014	1,125	11,148	10,762	1,749	3,877	28,661
Profit and total comprehensive income for the year	–	–	–	–	1,058	1,058
Share buybacks	(42)	–	–	42	(1,567)	(1,567)
Dividends paid	–	–	–	–	(472)	(472)
At 30th April 2015	1,083	11,148	10,762	1,791	2,896	27,680

The notes on pages 21 to 39 form part of these Consolidated financial statements.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2016

1. Accounting policies

General Information
Colefax Group Plc is a public limited company incorporated and domiciled in the United Kingdom and listed on the Alternative Investment Market. 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 8. 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:

– *Annual Improvements to IFRSs (2010-2012 Cycle)* – Minor amendments to various accounting standards, effective for periods beginning on or after 1st July 2014. These amendments have been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st February 2015).

– *Annual Improvements to IFRSs (2011-2013 Cycle)* – Minor amendments to various accounting standards, effective for periods beginning on or after 1st July 2014. These amendments have been endorsed for use in the EU (the mandatory effective date for the EU-endorsed version is 1st January 2015).

– *Amendment to IAS 19 'Defined Benefit Plans: Employee Contributions'* (effective for accounting periods beginning on or after 1st July 2014). This amendment clarifies the accounting requirements for contributions to defined benefit plans. This amendment has been endorsed for use in the EU (the mandatory effective data for the EU-endorsed version is 1st February 2015.

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:

– *IFRS 15 'Revenue from Contracts with Customers'* (effective for accounting periods beginning on or after 1st January 2018). This standard is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This amendment has not yet been endorsed for use in the EU.

– *Amendment to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'* (effective for accounting periods beginning on or after 1st January 2016). This amendment requires the acquirer of an interest in a joint operation to apply the key principles for accounting for business combinations in IFRS 3. This amendment was endorsed for use in the EU on 28 November 2015.

– *Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'* (effective for accounting periods beginning on or after 1st January 2016). These amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. These amendments were endorsed for use in the EU on 7 December 2015.

NOTES TO THE ACCOUNTS
For the year ended 30th April 2016

1. **Accounting policies** *continued*

– *Amendment to IAS 27 'Equity Method in Separate Financial Statements'* (effective for accounting periods beginning on or after 1st January 2016). The amendment introduces an option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. These amendments were endorsed for use in the EU on 27th December 2015.

– *Annual Improvements to IFRSs (2012-2014 Cycle)* – Minor amendments to various accounting standards, effective for periods beginning on or after 1st January 2016. These amendments were endorsed for use in the EU on 20th December 2015.

– *Amendment to IAS 1 'Disclosure Initiative'* (effective for accounting periods beginning on or after 1st January 2016). This amendment is designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. These amendments were endorsed for use in the EU on 23rd December 2015.

– *Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception'* (effective for accounting periods beginning on or after 1st January 2016). These amendments introduce clarifications to the requirements when accounting for investment entities. These amendments have not yet been endorsed for use in the EU.

– *IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1st January 2018)*. This standard replaces IAS 39 F*inancial Instruments: Recognition and Measurement* in its entirety, using a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The recognition and de-recognition requirements for financial assets and financial liabilities are unchanged from IAS 39. The new hedge accounting model is more principles-based, less complex and allows entities to apply hedge accounting more broadly to manage profit and loss mismatches, and as a result reduce 'artificial' hedge ineffectiveness that can arise under IAS 39. This standard has not yet been endorsed for use in the EU.

– *IFRS 16 'Leases' (effective for accounting periods beginning on or after 1st January 2019)*. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The IFRS eliminates the classification of leases as either operating or finance as required by IAS 17, and instead introduces a single lessee accounting model. This standard has not yet been endorsed for use in the EU.

– *Amendments to IAS 12 'Income taxes' (effective for accounting periods beginning on or after 1st January 2017)*. This amendment clarifies the accounting for transactions where a parent loses control of a subsidiary by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method. This amendment has not yet been endorsed for use in the EU.

– *Amendments to IAS 7 'Statement of Cash Flows' (effective for accounting period beginning on or after 1st January 2017)*. The amendments are intended to improve the information provided to uses of financial statements about changes in liabilities arising from an entity's financing activities. 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 Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the Company to use its power to affect those variable returns. 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 within the financial statements of Company was £2,988,000 (2015 – £1,058,000). Total comprehensive income relating to the year for the Company consists of the profit for the year only.

Business combinations 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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

1. **Accounting policies** *continued*

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, principally interior design and decorating 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 property	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

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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

1. **Accounting policies** *continued*

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 and Incentives
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. Lease incentives and inducements are recognised in current and non-current liabilities as appropriate and released 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 actuarial gains and losses in scheme liabilities and the movements on the valuation of scheme assets are recognised in the Statement of comprehensive income.

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 translation 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.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

1. Accounting policies *continued*

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.

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 current and deferred tax expenses and balances in the period in which such determination is made.

Financial Instruments
As described in note 20, the Board use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

For 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 20.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

			2016 £'000	2015 £'000
3.	**Revenue**	Revenue arises from:		
		Sale of goods	**75,764**	76,219
		Provision of services	**1,115**	577
			76,879	76,796

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	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Revenue:						
Total revenue	**69,135**	68,885	**7,858**	8,033	**76,993**	76,918
Inter-segment revenue	**(114)**	(122)	**–**	–	**(114)**	(122)
Revenue from external customers	**69,021**	68,763	**7,858**	8,033	**76,879**	76,796
Segment result:						
Profit from operations	**4,792**	5,176	**221**	(139)	**5,013**	5,037
Finance income	**2**	4	**1**	–	**3**	4
Finance expense	**–**	(11)	**–**	(1)	**–**	(12)
Profit before taxation	**4,794**	5,169	**222**	(140)	**5,016**	5,029
Tax expense/(credit)	**1,496**	1,508	**59**	(21)	**1,555**	1,487
Profit for the year attributable to equity holders of the parent	**3,298**	3,661	**163**	(119)	**3,461**	3,542
Total assets	**35,013**	32,815	**4,355**	3,565	**39,368**	36,380
Total liabilities	**10,729**	10,907	**2,321**	1,716	**13,050**	12,623
Net assets	**24,284**	21,908	**2,034**	1,849	**26,318**	23,757
Capital expenditure	**2,191**	2,202	**87**	11	**2,278**	2,213
Depreciation	**2,093**	1,939	**94**	89	**2,187**	2,028

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	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
United Kingdom	**20,221**	20,152	**1,875**	1,675
United States	**39,168**	37,557	**4,665**	4,676
Europe	**14,076**	15,640	**1,046**	1,191
Rest of World	**3,414**	3,447	**–**	–
	76,879	76,796	**7,586**	7,542

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

		2016 £'000	2015 £'000
5. **Operating expenses**	Distribution and marketing costs	**25,971**	25,194
	Administrative costs	**12,308**	11,805
	Total operating expenses	**38,279**	36,999

		2016 £'000	2015 £'000
6. **Profit from operations**	This has been arrived at after charging/(crediting):		
	Audit services – group	**42**	44
	Audit services – subsidiaries	**113**	110
	Non-audit services – taxation	**89**	74
	Non-audit services – pensions	**8**	7
	Depreciation of owned property, plant and equipment	**2,187**	2,028
	Operating lease rentals – land and buildings	**4,493**	4,030
	Operating lease rentals – plant and machinery	**76**	78
	Loss/(profit) on the disposal of property, plant and equipment	**65**	(20)
	Exchange losses/(gains)	**328**	(341)
	Pension costs (see note 24)	**379**	399

		2016 £'000	2015 £'000
7. **Staff costs**	Staff costs, including Executive Directors, were as follows:		
	Wages and salaries	**14,124**	13,881
	Social security costs	**1,712**	1,680
	Pension costs	**379**	399
		16,215	15,960

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

	No.	No.
Distribution and marketing	**297**	283
Administration	**52**	63
	349	346

The holding Company had no employees during the year (2015 – nil).

	2016 £'000	2015 £'000
Directors' (key management personnel) remuneration was as follows:		
Emoluments	**1,449**	1,473
Pension contributions	**35**	38
Employers social security costs on directors' emoluments	**168**	166
	1,652	1,677
Emoluments of the highest paid director:		
Emoluments	**705**	717

A full analysis of Directors' remuneration is provided on page 10 in the Directors' Report.

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.

Two directors participated in Group defined contribution pension schemes in 2016 (2015 – two). No directors participated in Group defined benefit pension schemes in 2016 (2015 – nil).

No directors (2015 – nil) exercised options in the year and no options were granted to directors in the year (2015 – nil).

NOTES TO THE ACCOUNTS
For the year ended 30th April 2016

8. Finance income and expense

	2016 £'000	2015 £'000
Finance expense:		
Bank loans and overdrafts repayable within five years	**–**	(12)
Finance income:		
Bank and other interest receivable	**3**	4
	3	(8)

9. Tax expense

	2016 £'000	2015 £'000
(a) Analysis of charge for the year		
UK corporation tax		
UK corporation tax on profits of the year	**453**	613
Adjustments in respect of previous years	**4**	3
	457	616
Overseas tax		
Overseas tax on profits of the year	**773**	915
Adjustments in respect of previous years	**43**	(58)
	816	857
Total current tax	**1,273**	1,473
Deferred tax		
Origination and reversal of temporary differences (note 19)		
UK	**44**	35
Overseas	**238**	(21)
	282	14
Total income tax expense	**1,555**	1,487

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

The differences are explained below.

	2016 £'000	2015 £'000
Profit before taxation	**5,016**	5,029
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015 – 20.9%)	**1,003**	1,051
Effect of:		
Disallowed expenses and non-taxable income	**24**	32
Adjustments in respect of prior period (current tax)	**47**	(55)
Adjustments in respect of prior period (deferred tax)	**(4)**	(6)
Tax on overseas intragroup dividends	**–**	35
Rate differences	**485**	430
Total tax expense	**1,555**	1,487

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

		2016 £'000	2015 £'000
10. **Dividends**	Final (paid) of 2.30p (2014 – 2.20p) on 9th October 2015	**248**	246
	Interim (paid) of 2.20p (2015 – 2.10) on 10th April 2016	**235**	226
		483	472
	Final dividend proposed for the year of 2.40p (2015 – 2.30p)	**257**	248

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 £3,461,000 (2015 – £3,542,000) and on 10,750,549 (2015 – 10,984,807) 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 £3,461,000 (2015 – £3,542,000) and on 10,750,549 (2015 – 10,984,807) being the weighted average number of shares in issue during the year.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

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 2015	234	7,586	5,588	374	7,134	20,916
Exchange adjustment	–	297	223	–	342	862
Additions	1	211	359	87	1,620	2,278
Disposals	–	–	(362)	(76)	(106)	(544)
At 30th April 2016	**235**	**8,094**	**5,808**	**385**	**8,990**	**23,512**
Depreciation:						
At 1st May 2015	65	4,411	3,942	223	5,018	13,659
Exchange adjustment	–	166	159	–	245	570
Charge for the year	3	524	434	93	1,133	2,187
Disposals	–	–	(273)	(76)	(106)	(455)
At 30th April 2016	**68**	**5,101**	**4,262**	**240**	**6,290**	**15,961**
Net Book Value:						
At 30th April 2016	**167**	**2,993**	**1,546**	**145**	**2,700**	**7,551**
At 1st May 2015	169	3,175	1,646	151	2,116	7,257
At 1st May 2014	231	6,468	5,760	417	5,717	18,593
Exchange adjustment	–	429	48	–	541	1,018
Additions	3	691	400	48	1,071	2,213
Disposals	–	(2)	(620)	(91)	(195)	(908)
At 30th April 2015	234	7,586	5,588	374	7,134	20,916
Depreciation:						
At 1st May 2014	62	3,648	4,002	222	3,849	11,783
Exchange adjustment	–	253	111	–	380	744
Charge for the year	3	512	446	83	984	2,028
Disposals	–	(2)	(617)	(82)	(195)	(896)
At 30th April 2015	65	4,411	3,942	223	5,018	13,659
Net Book Value:						
At 30th April 2015	169	3,175	1,646	151	2,116	7,257
At 1st May 2014	169	2,820	1,758	195	1,868	6,810

NOTES TO THE ACCOUNTS
For the year ended 30th April 2016

		Shares £'000	Loans £'000	Total £'000
13. **Investments**	Company:			
	At 1st May 2015 and 30th April 2016	**19,443**	**7,650**	**27,093**

The 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
Manuel Canovas Limited*	England and Wales	100%	Dormant
Jane Churchill Limited*	England and Wales	100%	Dormant
Colefax and Fowler Incorporated	USA	100%	Holding Company for Cowtan & Tout 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 2016, the ESOP Trust owned 60,000 (2015 – 60,000) ordinary shares of 10p in the Company at cost, with a market value of £286,500 (2016 – £247,500). 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.

		Group **2016** **£'000**	Group 2015 £'000
14. **Inventories and work in progress**	Finished goods for resale	**12,387**	12,114
	Work in progress	**547**	621
	Less: progress payments received and receivable	**(416)**	(439)
		12,518	12,296

The cost of inventories recognised as an expense and included in cost of sales amounted to £21,142,000 (2015 – £22,465,000).

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

15. Trade and other receivables

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts owed by subsidiary undertakings	**–**	–	**3,774**	2,974
Trade receivables	**6,145**	6,312	**–**	–
Other receivables	**1,486**	1,887	**316**	329
Forward foreign currency contracts	**–**	57	**–**	–
Prepayments and accrued income	**1,548**	1,425	**177**	247
	9,179	9,681	**4,267**	3,550

Trade receivables are considered for impairment based on a number of factors including the age of the receivable and other factors considered to be relevant.

As at 30th April 2016 the Group had trade receivables of £1,559,000 (2015 – £1,567,000) which were past due but not individually impaired. The ageing of these receivables is as follows:

	2016 £'000	2015 £'000
Up to 3 months past due	**1,335**	1,485
3 to 6 months past due	**143**	9
6 to 12 months past due	**23**	48
Over 12 months past due	**58**	25
	1,559	1,567

As at 30th April 2016 the Group had trade receivables of £295,000 (2015 – £290,000) which were past due and individually impaired. The ageing of these receivables is as follows:

	2016 £'000	2015 £'000
Up to 3 months past due	**116**	103
3 to 6 months past due	**51**	43
6 to 12 months past due	**9**	22
Over 12 months past due	**119**	122
	295	290

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

	2016 £'000	2015 £'000
At beginning of year	**310**	278
Provided during the year	**45**	106
Receivables written off as uncollectable	**(20)**	(52)
Unused amounts reversed	**(29)**	(20)
Exchange differences	**9**	(2)
At end of year	**315**	310

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

	2016 £'000	2015 £'000
Sterling	**2,534**	2,643
Euro	**1,453**	1,862
US Dollar	**1,929**	1,577
Other	**229**	230
	6,145	6,312

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

16. Cash and cash equivalents

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

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash at bank and in hand	**10,085**	6,861	**–**	–
Bank overdrafts	**–**	–	**(677)**	(2,941)
	10,085	6,861	**(677)**	(2,941)

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 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts owed to subsidiary undertakings	**–**	–	**807**	–
Bank overdraft	**–**	–	**677**	2,941
Trade payables	**2,962**	3,734	**–**	–
Accruals	**3,368**	3,099	**15**	22
Payments received on account	**1,143**	894	**–**	–
Corporation tax	**163**	230	**–**	–
Other taxes and social security costs	**711**	663	**–**	–
Other payables	**2,470**	2,422	**–**	–
Forward foreign currency contracts	**604**	–	**–**	–
	11,421	11,042	**1,499**	2,963

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. Non-current liabilities

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Deferred rent	**1,459**	1,433	**–**	–

19. Deferred taxation

	Group 2016 £'000	Group 2015 £'000
Deferred taxation has been provided as follows:		
Accelerated capital allowances on property, plant and equipment	**34**	1,077
Excess of depreciation over capital allowances on property, plant and equipment	**(1,266)**	(79)
Short-term temporary differences	**1,197**	(1,283)
	(35)	(285)

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	**(35)**	(285)

Movements in the deferred tax provision is as follows:	2016 £'000	2015 £'000
At 1st May	**(285)**	(590)
Charged to the income statement (note 9)	**282**	14
Charged/(credited) directly to other comprehensive income	**(26)**	313
Translation adjustment	**(6)**	(22)
At 30th April	**(35)**	(285)

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

19. Deferred taxation *continued*

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

	2016 £'000	2015 £'000
Fair value reserves in shareholders' equity:		
Cash flow hedge reserve	**(132)**	11
Deferred tax on long-term loan foreign currency movements	**145**	302
Deferred tax on overseas defined benefit pension scheme movements	**(39)**	–
	(26)	313

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

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

20. Financial instruments

The financial instruments of the Group as classified in the financial statements as at 30th April 2016 can be analysed under the following IAS 39 categories:

	Assets at fair value through profit or loss		Loans and receivables		Total	
Group	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Financial assets						
Trade and other receivables	**–**	–	**7,631**	8,199	**7,631**	8,199
Cash and cash equivalents	**–**	–	**10,085**	6,861	**10,085**	6,861
Forward foreign currency contracts	**–**	57	**–**	–	**–**	57
Total	**–**	57	**17,716**	15,060	**17,716**	15,117

	Liabilities at fair value through profit or loss		Other financial liabilities		Total	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Financial liabilities						
Trade and other payables	**–**	–	**7,271**	8,080	**7,271**	8,080
Forward foreign currency contracts	**604**	–	**–**	–	**604**	–
Total	**604**	–	**7,271**	8,080	**7,875**	8,080

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. All trade and other payables disclosed above fall due for payment within one year.

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 2016

20. **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 (2015 – £3.0 million). The undrawn committed facilities available at 30th April 2016 in respect of which all conditions had been met at that date total £3.0 million (2015 – £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 2016 the Group's trade payables were £3.0 million (2015 – £3.7 million) and trade receivables were £6.1 million (2015 – £6.3 million) giving a ratio of 2.0 (2015 – 1.7). This, together with the Group's cash balances and 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 51% of Group revenue.

The majority of the US subsidiary's revenue from the sale of goods 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 2016 is detailed below.

The Group's profit is reduced by approximately £95,000 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 23% 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 £10.1 million (2015 – £6.9 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 2016, the Group was in multiple forward foreign currency contract arrangements to sell US dollars. The hedged transactions are expected to occur in 2016/17 and 2017/18.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

20. **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:

	2016 **£'000**	2015 £'000
Fair value of forward foreign currency contracts – (liability)/asset	**(604)**	57

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.

The financial instruments of the Company as classified in the financial statements at 30th April 2016 can be analysed under the following IAS 39 categories:

	Loans and receivables		Total	
Company	**2016** **£'000**	2015 £'000	**2016** **£'000**	2015 £'000
Financial assets				
Trade and other receivables	**4,090**	3,303	**4,090**	3,303
Total	**4,090**	3,303	**4,090**	3,303

	Other financial liabilities		Total	
	2016 **£'000**	2015 £'000	**2016** **£'000**	2015 £'000
Financial liabilities				
Trade and other payables	**807**	–	**807**	–
Bank overdrafts	**677**	2,941	**677**	2,941
Total	**1,484**	2,941	**1,484**	2,941

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 (2015 – £3.0 million) which is available to the UK companies in the Group.

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

21. Share capital

	Authorised 2016	Authorised 2015	Allotted, called up and fully paid 2016	Allotted, called up and fully paid 2015
Ordinary shares of 10p each	**£3,300,000**	£3,300,000	**£1,075,700**	£1,082,750
Number of shares	**33,000,000**	33,000,000	**10,757,000**	10,827,500

	Allotted, called up and fully paid			
	2016 Number	**2016 £**	2015 Number	2015 £
Ordinary shares of 10p each				
At beginning of year	**10,827,500**	**1,082,750**	11,246,482	1,124,648
Purchase of own shares for cancellation	**(70,500)**	**(7,050)**	(418,982)	(41,898)
At end of year	**10,757,000**	**1,075,700**	10,827,500	1,082,750

Details of share options and shareholdings of Directors are shown in the Directors' Report on pages 9 to 11.

Share options over the ESOP shares are shown in note 13 on page 31.

22. Reserves

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

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital redemption	Amounts transferred from share capital on redemption of issued shares.
ESOP share	Weighted average cost of own shares held by the ESOP trust.
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.

23. Commitments under operating leases

At 30th April 2016 the Group had total commitments under non-cancellable operating leases as follows:

	2016		2015	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**4,717**	**66**	3,841	49
Between two and five years	**14,895**	**64**	12,133	47
Over five years	**13,441**	**–**	8,064	–
	33,053	**130**	24,038	96

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

NOTES TO THE ACCOUNTS

For the year ended 30th April 2016

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 £379,000 (2015 – £399,000).

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 2016 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 3.37% (2015 – 4%, 2014 – 4%). The market value of investments at 30th April 2016 was £851,000 (2015 – £854,000, 2014 – £762,000), all of which have an expected long term rate of return of 5% (2015 – 5%, 2014 – 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 2016 was £1,021,000 (2015 – £1,003,000, 2014 – £879,000), resulting in a net pension liability of £170,000 (2015 – £148,000, 2014 – £117,000). An accrual of £170,000 (2015 – £148,000, 2014 – £117,000) covering the unfunded actuarial accrued liability is included in the Group statement of financial position together with a related deferred tax asset of £68,000 (2015 – £59,000, 2014 – £47,000). The expected group contributions to the scheme for the year ended 30 April 2017 is £92,000.

The fair value of the assets in the scheme and the expected rate of return at 30th April 2016 were:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Cash and cash equivalents	**–**	–	–	–	–
Fixed income	**144**	137	121	278	264
Equities	**707**	717	641	483	435
Total market value of assets	**851**	854	762	761	699
Present value of scheme liabilities	**(1,021)**	(1,002)	(879)	(1,026)	(952)
Net pension liability	**(170)**	(148)	(117)	(265)	(253)

Reconciliation of plan assets:

	2016 £'000	2015 £'000
At beginning of year	**854**	762
Exchange gain	**69**	76
Contributions by Group	**90**	87
Benefits paid	**(98)**	(91)
Actuarial (loss)/gain	**(64)**	20
At end of year	**851**	854

Reconciliation of plan liabilities:

	2016 £'000	2015 £'000
At beginning of year	**1,002**	879
Exchange increase	**48**	88
Interest cost	**33**	34
Benefits paid	**(98)**	(91)
Actuarial increase	**36**	92
At end of year	**1,021**	1,002

NOTES TO THE ACCOUNTS
For the year ended 30th April 2016

24. Pension commitments *continued*

History of experience gains and losses:

	2016	2015	2014	2013	2012
Actuarial return on scheme assets (£'000)	**(63)**	20	55	18	(23)
As a % of plan assets	**-7.5%**	-2.4%	2.3%	2.3%	(3.3%)
Actuarial (increases)/reductions on scheme liabilities (£'000)	**(36)**	(92)	10	(77)	(29)
As a % of plan liabilities	**3.6%**	9.0%	1.1%	7.5%	3.0%

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 2016, the value of subsidiary overdrafts covered by the guarantee amounted to £nil (2015 – £nil).

26. Related party transactions

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

	2016 £'000	2015 £'000
Interest charged on long-term loans to Colefax and Fowler Holdings Limited	**150**	146

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

	2016 £'000	2015 £'000
Colefax and Fowler Holdings Limited	**7,947**	7,796
Colefax and Fowler Limited	**3,471**	2,600
Sibyl Colefax and John Fowler Limited	**(807)**	221
Kingcome Sofas Limited	**6**	7
	10,617	10,624

FIVE YEAR REVIEW

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Revenue from continuing operations	**76,879**	76,796	78,035	70,619	70,399
Profit from continuing operations	**5,013**	5,037	4,922	3,547	3,151
Profit before taxation from continuing operations	**5,016**	5,029	4,885	3,547	3,148
Profit attributable to shareholders	**3,461**	3,542	3,353	2,334	2,195
Basic earnings per share from continuing operations	**32.2p**	32.2p	27.9p	18.2p	15.8p
Diluted earnings per share from continuing operations	**32.2p**	32.2p	27.9p	18.2p	15.8p
Dividends per share	**4.60p**	4.40p	4.20p	4.00p	3.85p
Equity	**26,318**	23,757	22,211	24,283	26,254
Operating cash flow	**7,195**	8,741	4,867	6,035	7,115
Cash and cash equivalents	**10,085**	6,861	4,057	7,630	8,519

NOTICE OF MEETING

Notice is hereby given that the 2016 Annual General Meeting of Colefax Group Plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 15 September 2016 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 2016, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.40p 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 Key Hall, who retires by rotation, as a Director.

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution and 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 £358,568 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 £358,566 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 entitlements or legal or practical issues under the laws of any jurisdiction or territory or the

NOTICE OF MEETING

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 £53,785.

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
25th July 2016

Registered Office
19-23 Grosvenor Hill
London W1K 3QD

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 13th September 2016.

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 13th September 2016 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 13th September 2016 (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 25th July 2016 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 10,243,000 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the company as at 25th July 2016 were 10,243,000.

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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