# COLEFAX GROUP PLC

Annual Report and Accounts 2019

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

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2001

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

# FINANCIAL HIGHLIGHTS

| | **2019 £'000** | 2018 £'000 | Increase/ (decrease) |
|---|---|---|---|
| Revenue | **86,355** | 86,052 | 0% |
| Profit from operations | **5,070** | 4,721 | 8% |
| Profit before taxation | **5,095** | 4,719 | 8% |
| Profit attributable to shareholders | **3,830** | 3,832 | 0% |
| Basic earnings per share | **39.3p** | 38.1p | 3% |
| Diluted earnings per share | **39.3p** | 38.1p | 3% |
| Dividends per share | **5.20p** | 5.00p | 4% |
| Equity | **26,439** | 27,419 | (4)% |
| Operating cash flow | **7,907** | 8,909 | (11)% |
| Cash and cash equivalents | **9,458** | 9,177 | 3% |

# CHAIRMAN'S STATEMENT

**Financial Results**

Group sales for the year to 30 April 2019 increased by 0.4% to £86.36 million (2018 – £86.05 million) but decreased by 1.1% on a constant currency basis. Pre-tax profits increased by 8% to £5.10 million (2018 – £4.72 million) and earnings per share increased by 3.2% to 39.3p (2018 – 38.1p). The Group ended the year with net cash of £9.5 million (2018 – £9.2 million).

The Board is proposing to increase the final dividend by 4% to 2.70p per share (2018 – 2.60p) making a total for the year of 5.20p (2018 – 5.00p), an increase of 4%. This increase is in line with the Group's progressive dividend policy and preferred strategy of returning surplus cash to shareholders via share buybacks. The final dividend, which is subject to shareholder approval at the Group's AGM, will be paid on 10 October 2019 to shareholders on the register at the close of business on 13 September 2019.

In April 2019 the Group returned £4.32 million (2018 – £2.17 million) to shareholders by way of a Tender Offer to purchase 784,560 shares at an average price of £5.50 per share and representing 8% of the issued share capital of the Group.

The 7.4% increase in pre-tax profit was achieved in a challenging trading environment particularly in the second half of the year. Sales in our core Fabric Division declined by 1.7% on a constant currency basis but the Group benefitted from a stronger US Dollar exchange rate and a reduction of £782,000 in hedging losses compared to the prior year. In addition our Decorating and Furniture Divisions both delivered an improved profit performance.

The Group had another strong year for cash generation with a cash inflow of £4.92 million before share buybacks and dividend payments (2018 – £5.54 million). This reflects tight control of working capital and a below average year for capital expenditure.

The 3% increase in earnings per share was achieved despite a more normal tax charge of 24.8% compared to 18.8% last year when the Group benefitted from a one-off deferred tax adjustment of £350,000.

**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 82% of Group turnover, were unchanged at £71.15 million (2018 – £71.11 million) but decreased by 1.7% on a constant currency basis. Operating profit increased by 0.6% to £3.71 million (2018 – £3.69 million) but excluding hedging losses was down by 16.3% to £3.89 million (2018 – £4.65 million) reflecting challenging trading conditions in most of our major markets.

Sales in the US, which represent 59% of the Fabric Division's turnover, increased by 1.1% and decreased by 2.1% on a constant currency basis. This follows a 6.2% increase in sales last year on a constant currency basis. Despite a strong general economy we believe that our sector has been affected by a reduction in mortgage interest relief and other property tax deductions which accompanied the US corporate tax rate reduction in January 2018. The US remains our most important market and the focus of future investment. During the current year we will complete the refurbishment of our Los Angeles showroom and continue to invest in our showroom network.

Sales in the UK, which represent 18% of the Fabric Division's turnover, decreased by 1.9% during the year reflecting difficult trading conditions at the top end of the market. The luxury soft furnishing industry is suffering from a decline in the number of high end housing transactions mainly caused by disproportionately high rates of stamp duty. We believe that Brexit uncertainty is also negatively impacting housing transactions and major investment decisions. Despite weak trading conditions in the UK we have continued to invest in this market and in August we completed the refurbishment of our Chelsea Harbour showroom which has been well received by customers.

Sales in Continental Europe, which represent 20% of the Fabric Division's turnover, decreased by 1.5% and by 0.9% on a constant currency basis. Trading conditions in Europe were challenging despite the benefit of significant quantitative easing by the European Central Bank and a zero per cent bank base rate. There is no reason to believe that market conditions will improve in the short term. Europe encompasses a wide range of differing tastes and we will continue to focus our efforts on opportunities to grow sales in the markets best suited to each of our brands.

Sales in the Rest of the World, which represent just 3% of the Fabric Division's turnover, increased by 0.5% during the year. The majority of sales are made through distributors as opposed to through direct sales or agents and as a result sales in the Rest of the World are likely to remain a relatively small proportion of total sales.

# CHAIRMAN'S STATEMENT

Historically the Group has had Fabric Division operations in both the US and the UK which have served our needs well. However, rising premises costs in London and New York mean that we are planning to move some of our UK and US operations into new office and warehouse premises in Wandsworth, South West London. This will give rise to some exceptional integration costs and capital expenditure over the next two years but will deliver synergies and cost efficiencies that will benefit the business in the longer term.

- **Furniture – Kingcome Sofas**

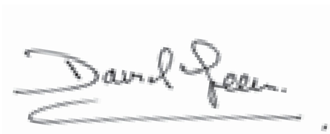
Sales of Kingcome furniture, which represent 4% of Product Division sales, increased by 3% to £2.70 million (2018 – £2.62 million). Operating profit was £262,000 compared to £130,000 last year. The majority of furniture sales are made in the UK and the improvement in profit was achieved in generally difficult market conditions. This business is the Group's only manufacturing activity. It has a relatively fixed cost base which means that profit is sensitive to small fluctuations in sales. At the year end the forward order book was 6% ahead of last year.

**Interior Decorating Division**

Decorating sales, which account for 14% of Group turnover, increased by 1.4% to £12.50 million (2018 – £12.33 million) and profits increased by 21.5% to £1.1 million (2018 – £901,000). This represents another strong performance by the Decorating Division which is now well established at its new showroom and offices in Belgravia. The business has a broad range of international clients and the proportion of overseas work increased to 47% compared to 43% last year. The Decorating Division includes a successful antiques operation which is important to the business model although it only accounts for 7% of total sales. Customer deposits at the year end were down 17% on the exceptional level at the start of the year but remain at a historically high level.

**Prospects**

During the last year we experienced increasingly challenging trading conditions in most of our major markets. This trend has continued in the first twelve weeks of the current year and we expect trading to remain difficult. Our Decorating Division delivered an exceptional performance due to the completion of several significant contracts and we expect activity to return to more normal levels this year. Over the next two years we will focus on delivering cost savings and synergies through the relocation of certain Fabric Division operations into one site in Wandsworth, South West London. At the same time we will continue to invest in our brand portfolio and the expansion of our worldwide sales network. We are in a period of considerable uncertainty over Brexit. The Group has significant European imports and exports so we will be adversely affected by tariffs arising from a hard Brexit. If this eventuality does arise then we will do everything possible to mitigate its impact on our customers. The Group has a strong balance sheet with net cash of £9.5 million and we believe we are well placed to take advantage of any improvement in trading conditions in our major markets.



David Green
Chairman
26 July 2019

# STRATEGIC REPORT

**Strategy and Business Model**

The Group's core business is the design and distribution of luxury furnishing fabrics and wallpapers sold through a 'portfolio' of luxury brands. The strategic rationale behind the portfolio approach is that each brand has a particular look and price point and caters to a particular segment of the market. The Group's brands have different strengths in different markets and product categories and this enables the Group to maximise sales through its worldwide distribution network.

Whilst the strategy has remained fairly constant over time the business model is constantly evolving with subtle changes in the approach to design, marketing, sales and operations. A particular challenge in recent years has been increasing geographical divergence whereby a product that is successful in one particular market is not necessarily successful in another market.

By far the largest and most important market for the Group is the US which accounts for approximately 59% of fabric and wallpaper sales. As a result the US market continues to be the main focus for capital investment and new product investment. The interior design industry is well developed in the US due to the very high number of luxury homes and high net worth individuals.

The Group's fabric and wallpapers are sold in over 50 countries worldwide although the US and the UK together account for 77% of Fabric Division sales. The third largest individual country is France which accounts for 6% of total sales. An important part of the Group's business model is that it has no significant retail activity and this avoids the costs and complexity of retail operations. The Group mainly sells to interior designers and retail fabric and wallpaper shops (the 'trade') and operates one flagship retail outlet at 110 Fulham Road in London which accounts for just over 1% of sales.

The Group adopts different sales approaches according to the size and potential of individual markets. In major geographical markets the Group 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 small or complex markets the Group uses exclusive distributors.

A key component of the Group's business model is that it does not manufacture any fabrics and wallpapers and they are sourced from over 100 different high end manufacturers based 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 high end fabric industry is still relatively fragmented with a large number of independent competitors. The Group is interested to acquire additional fabric and wallpaper brands provided they complement the existing portfolio and offer geographical and operational synergies. The ongoing challenge with acquisitions is finding vendors who are prepared to sell at a realistic price. A cheaper and equally valid alternative to acquisitions is to start a new brand from scratch or develop a sub-brand. However, we believe there are still good opportunities for organic growth within the Group's existing brand portfolio.

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 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. The Group seeks to reduce business risk 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 (the Furniture Division). Production takes place at a freehold factory in Newton Abbot, Devon which employs 36 highly skilled staff and this is the Group's only manufacturing activity. The majority of furniture is made to order and financed by customer deposits. It is a relatively small part of the Group accounting for 3.0% of sales. Although a distinct activity the furniture company is grouped with the fabric and wallpaper brands to make up the 'Product Division'.

# STRATEGIC REPORT

The Group also 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 14% of Group sales. The business undertakes interior design and decoration projects primarily for high end residential customers. All projects are funded by customer deposits. There are four Design Directors and five 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.

The Decorating Division includes a decorative antiques business which accounts for about 7% of its sales. Although antique sales are a relatively small part of the total they are strategically important to the Decorating Division. The project based nature of decorating means that, depending on the timing of projects, there can be significant fluctuations in profits from year to year which sometimes have a material impact on the Group's results.

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

| | **2019** | 2018 |
|---|---|---|
| Constant Currency Sales Growth | **-1.1%** | 8.6% |
| Gross Profit Margin | **54.3%** | 53.7% |
| Operating Profit Margin | **5.9%** | 5.5% |
| Earnings Per Share | **39.3p** | 38.1p |
| Operating Cash Flow | **£7.9m** | £8.9m |

*Sales Growth*
Group sales were up by just 0.4% to £86.36 million (2018 – £86.05 million) but decreased by 1.1% on a constant currency basis. In our core Fabric Division sales declined by 1.7% on a constant currency basis. Unusually the decline was similar in all our major markets with the US down 2.1%, the UK down by 1.9% and Europe down by 0.9%. The performance in the UK and Europe was not unexpected but we anticipated a better performance in the US given the strong general economy. It seems that significant changes in tax reliefs relating to residential property are having an adverse impact on our sector. In terms of trends US sales were up 2.1% in the first half of the year but down 4% in the second half. UK sales were flat in the first half and down by 4% in the second half. European sales were down by 0.8% in the first half and by 1.0% in the second half. This suggests that Fabric Division sales will remain difficult for at least the first half of the current year.

Our Decorating Division significantly exceeded expectations this year with a 1.4% sales increase to £12.50 million against an exceptionally strong prior year comparative. It is difficult to forecast decorating sales because there are often changes in the timing of projects, usually for reasons outside of our control. However, we do expect sales to return to more normal levels this year.

*Gross Profit Margin*
The overall gross profit margin increased from 53.7% to 54.3%. The main reason for the 0.6 percentage point increase was a stronger US dollar average exchange rate of $1.30 compared to $1.34 last year. In the Fabric Division the gross margin achieved is heavily influenced by the Sterling to US Dollar exchange rate. This is because approximately 60% of sales are invoiced in US Dollars but the majority of goods sold are purchased from suppliers in Sterling or Euros. Every one cent movement in the Sterling US Dollar exchange rate affects gross margin by approximately £105,000. The Group does not have any significant exposure to the Euro 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:

| | **2019** | 2018 | % change |
|---|---|---|---|
| US dollar average | **1.30** | 1.34 | 3.0% |
| US dollar closing | **1.30** | 1.38 | 7.0% |
| Euro average | **1.14** | 1.13 | -0.9% |
| Euro closing | **1.16** | 1.14 | -1.7% |

# STRATEGIC REPORT

*Operating Profit Margin*
Group operating profit increased by 7.4% to £5.07 million (2018 – £4.72 million) representing an operating profit margin of 5.9% (2018 – 5.5%). A significant factor in the increase in operating profit was a £782,000 decrease in hedging losses compared to last year from £959,000 to £177,000. Excluding hedging losses operating profit actually declined by 7.6% from £5.68 million to £5.25 million. This was despite a stronger US Dollar exchange rate and is explained by the 1.7% decrease in Fabric Division sales. The Fabric Division is highly operationally geared with high gross margins and relatively fixed salary and premises costs. This means that operating profit is very sensitive to small fluctuations in sales. In fact premises costs have increased significantly over the last two years due to rising rates and rent reviews and this has added to pressure on operating margins. To mitigate these increases the Group has decided to relocate its central London head office and designs studios and also some US warehouse operations to new office and warehouse premises adjacent to its main operational site in south west London. This will result in operational synergies and costs savings but will give rise to some exceptional move costs and capital expenditure over the next two years.

*Earnings Per Share*
Earnings per share increased by 3.2% to 39.3p (2018 – 38.1p). Although operating profits increased by 7.4% post tax profit was flat at £3.83 million due to a more normal Group tax charge of 24.8% compared to 18.8% last year. The prior year tax charge included a £350,000 one-off deferred tax credit relating to the reduction in US federal corporate tax rates from 35% to 21%. This year we expect Group tax rates to be similar to the current year.

At the end of April 2019 the Group returned £4.3 million of surplus cash to shareholders through a Tender Offer to purchase 8% of its issued share capital at £5.50 per share. As the Tender Offer took place at the end of the year it did not significantly reduce the weighted average number of shares in issue but prior year buybacks of £2.17 million meant that the weighted average number of shares in issue reduced by 3.2% and if there are no further share buybacks will reduce by a further 8% this year.

The Board remains committed to a policy of returning surplus cash to shareholders by way of share buybacks provided it enhances shareholder value. Since September 1999 the Group has returned £35.1 million to shareholders through its share buyback program.

*Operating Cash flow*
The Group's operating cash flow reduced by £1.0 million to £7.91 million (2018 – £8.91 million). Working capital increased by just £29,000 compared to a reduction of £1.2 million last year. Tight control of working capital is the main driver of the Group's cash. Excluding share buybacks and dividends amounting to £4.92 million (2018 – £2.66 million) the Group generated cash of £4.92 million (2018 – £5.54 million). Partly this reflects another year of below average capital expenditure of £2.04 million compared to depreciation of £2.8 million. For the next two years capital expenditure is expected to be higher than depreciation due to US showroom expenditure and the move to new warehouse and office premises in the UK.

The strong cash flow performance during the year meant that despite returning £4.92 million to shareholders via share buybacks and dividends the Group ended the year with net cash of £9.5 million compared to £9.2 million last year.

**Changes in Accounting Policies**
For the year ended 30 April 2019, the Group adopted two new International Financial Reporting Standards: IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. There was no significant impact on the Group's consolidated results or financial position for both the current and prior year.

For the year ended 30 April 2020, the Group is required to adopt IFRS 16 'Leases' which will primarily affect the accounting treatment of all of the Group's property leases. Previously these were treated as operating leases and rent was charged to operating expenses on a straight line basis. Net present value of these leases must now be recognised on the Group's balance sheet as a right-of-use asset and a corresponding lease liability. The right-of-use asset will be amortised through operating expenses on a straight line basis and a 'notional' interest cost on the lease liabilities will be recorded through interest expense. Showroom leases are an important part of the Group's business model, especially in the US, and IFRS 16 is expected to have a material impact on the Group's financial statements. Based on property leases in force at 30 April 2019 a right-of-use asset of £22.50 million will be created and a corresponding lease liability of £24.2 million. Compared to expensing rent on a straight line basis, operating profit is expected to increase by approximately £520,000 but after charging notional interest, pre-tax profit is

# STRATEGIC REPORT

expected to reduce by £390,000. The Group will use the modified retrospective adoption method and will not restate prior year comparatives. The adoption of IFRS 16 will have no impact on the Group's cashflow. It is important to stress that over the entire life of a lease, IFRS 16 has no profit impact compared to the previous method of expensing rent on a straight line basis.

**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 summarised 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.

Historically 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 and in particular the number of high end transactions. The main control for responding to changes in the housing market is the amount of new product investment. Currently the possibility of a hard Brexit is a second major external business risk to sales and profits in the UK and Europe. Although it is difficult to plan for this eventuality the Group's strategy will be to do everything possible to mitigate any additional costs and administration burdens for customers even if this negatively impacts profits in the short term.

*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 £105,000. 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 £13.5 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.

*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 26 July 2019 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**

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U.S.A.

JP Morgan Chase Bank
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**Registrars and Transfer Office**

Computershare Investor Services PLC
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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 in proportion to their existing holdings and also allows issues of shares other than to existing shareholders in respect of a maximum of 5% of the existing issued share capital of the Company, for a period again expiring on the date of the next Annual General Meeting or 15 months after the passing of the resolution, whichever occurs first.

Resolution Number 8, proposed as a special resolution, would authorise the Directors to purchase up to a total nominal value of £135,337 of the Company's ordinary shares, representing 15% of the issued share capital at 23 July 2019, at prices from 10p up to a maximum of 5% above the middle market quotations for the preceding five business days. This power will only be exercised by the Board when it is satisfied that any purchase would have a beneficial impact on earnings per share, would not have a material adverse impact upon attributable assets and would be in the interests of the shareholders.

The authorisation would supersede and replace the five year authority granted by Resolution 8 at the Annual General Meeting held in 2017.

**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 784,560 shares at an average price of 550p.

**Results and Dividends**
The Group's profit after tax was £3,830,000 (2018 – £3,832,000). An interim dividend of 2.5p (2018 – 2.40p) per share was paid to shareholders on 10 April 2019. The Directors recommend the payment of a final dividend of 2.7p (2018 – 2.60p) per share to be paid on 10 October 2019 to shareholders on the register at the close of business on 13 September 2019. 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 5.20p (2018 – 5.00p) per share and the total of the interim and proposed final dividend is £507,000 (2018 – £486,000).

**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.

# DIRECTORS' REPORT

**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.

**Events after the Reporting Date**
No significant events have occurred since 30 April 2019 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 28 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 £158,000 at 30 April 2019 (2018 – £163,000).

**Directors**
The Directors listed on page 8 have held office throughout the year to 30 April 2019 and up to the date of this report.

**David Green** – Chairman and Chief Executive, Age 73
David Green has been Chief Executive of Colefax Group since 1986 and Chairman and Chief Executive since 1996. Prior to joining Colefax he was a founder and executive director of Carlton Communications Plc. He was a non-executive director of Carlton Communications from 1986 until 2004. He is a member of the Remuneration Committee.

**Robert Barker** – Group Finance Director, Age 55
Robert Barker is a graduate of Bristol University and trained as a Chartered Accountant with Arthur Young (now Ernst and Young). He joined Colefax Group Plc in 1989 as Group Chief Accountant. He was Commercial Director of the Fabric Division from 1992 to 1994 and was appointed Group Finance Director in July 1994. He is a member of the Audit Committee.

**Key Hall** – Chief Executive of Cowtan and Tout Inc, Age 53
Key Hall joined the Group in 1993 to set up and run the company's Los Angeles showroom. Prior to that Key had held various sales positions in the high end fabric industry. She was made Chief Executive of the Group's US subsidiary company Cowtan and Tout in 1999 and joined the Group board in 2000.

**Wendy Nicholls** – Managing Director Decorating Division, Age 71
Wendy Nicholls joined Colefax and Fowler in 1975 and was made a partner in the decorating division in 1979. She has been Managing Director of the Decorating Division and a Group Board Director since 1994.

**Alan Smith** – Non-Executive Director, Age 78
Alan Smith is a graduate of Edinburgh University and has held a wide variety of executive and non-executive directorships including 15 years as an executive director of Marks and Spencer Plc and two years as Chief Executive of Kingfisher Plc. He has been a non-executive director of Colefax Group Plc since 1993 and is a member of the Remuneration Committee and the Audit Committee.

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

# DIRECTORS' REPORT

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

**Directors' and officers' liability insurance**
The Group maintains liability insurance for its Directors and Officers.

**Directors' Remuneration**

| | Salary and fees £'000 | Bonus £'000 | Benefits in kind £'000 | Pension contributions £'000 | **2019 Total £'000** | 2018 Total £'000 |
|---|---|---|---|---|---|---|
| Executive Directors: | | | | | | |
| D. B. Green | 670 | 0 | 7 | 0 | **677** | 715 |
| R. M. Barker | 225 | 0 | 1 | 0 | **226** | 237 |
| W. Nicholls | 194 | 23 | 30 | 0 | **247** | 228 |
| K. Hall | 343 | 0 | 0 | 17 | **360** | 371 |
| Non-executive Directors: | | | | | | |
| A. K. P. Smith | 24 | 0 | 0 | 0 | **24** | 24 |
| | 1,456 | 23 | 38 | 17 | **1,534** | 1,575 |

**Substantial Shareholdings as at 30 April 2019 and up to the date of this report**

| | Number of shares | % |
|---|---|---|
| D. B. Green | 2,501,379 | 27.7 |
| Rights and Issues Investment Trust plc | 2,100,000 | 23.3 |
| Schroder plc | 1,764,776 | 19.6 |

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

| | Ordinary shares of 10p each | |
|---|---|---|
| | **2019** | 2018 |
| D. B. Green | **2,501,379** | 2,718,681 |
| R. M. Barker | **192,680** | 212,902 |
| W. Nicholls | **80,362** | 87,350 |
| K. Hall | **148,712** | 161,100 |
| A. K. P. Smith | **45,000** | 45,000 |

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 30 April 2019 was 535p. The range of market prices during the financial year was between 453p and 620p.

**Corporate Governance**
Colefax Group Plc was originally listed on the main market of the London Stock Exchange in July 1988 and moved from the Official List to AIM in August 2004. As a result the Combined Code (now known as the UK Corporate Governance Code) ceased to apply to the Group. However, since that time the Group has remained committed to applying the principles of good corporate governance as far as it is practical to do so within the confines of a small quoted company.

In March 2018 the Stock Exchange introduced a new rule for AIM companies requiring them to adopt a recognised corporate governance code and from 28 September 2018 publish details on their website of how they comply with the code and explain why the company departs from any areas of the code. After consideration the Board of Colefax Group Plc has decided to adopt the QCA Corporate Governance Code (2018 edition) as the code is considered most suited to the size and scope of the Group's activities. The QCA code was formally adopted by the Board following our AGM on 13 September 2018. The QCA code is based on ten corporate governance principles. How the Company has applied the ten principles is set out in the Corporate Governance section of the Company's website at www.colefaxgroupplc.com

# DIRECTORS' REPORT

The Group Board comprises one independent non-executive director and four executive directors each with specific skills and experience relevant to the needs of the Group. Currently David Green acts as Chairman and Chief Executive. The decision not to split these two roles at the present time and the fact that we have only one independent non-executive director is due to the fact that we are a relatively small Group with a business strategy focussed on one primary activity, namely the design and distribution of luxury fabrics and wallpapers. The Board has an Audit Committee and a Remuneration Committee but does not have a Nomination Committee and this function is fulfilled by the whole board. The composition and functioning of the Board is regularly discussed and will evolve according to the strategy, size and complexity of the business.

**Evaluation of Board Effectiveness**
Historically board effectiveness has been evaluated according to the collective and individual achievement of key financial targets and financial objectives and this process has been used for the year ended 30 April 2019. For the year ended 30 April 2020 the Board intends to institute a more detailed evaluation process involving evaluation questionnaires covering the following key areas: strategy risk and financial performance; board composition and structure; company integrity reputation and culture and management performance and succession planning.

**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 BSc ACA
Secretary
26 July 2019

# 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 for that period. The directors are also required to prepare the 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 the Group 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 the Group 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

**Opinion**

We have audited the financial statements of Colefax Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 April 2019 which comprise the group income statement, the group statement of comprehensive income, the group statement of financial position, the company statement of financial position, the group statement of cash flows, the company statement of cash flows, the group statement of changes in equity, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 April 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC (CONTINUED)

| Key Audit Matter | How we addressed the matter in our audit |
|---|---|
| **Revenue recognition and transition to IFRS 15**<br>As detailed in note 1 to the Group financial statements, the Group adopted IFRS 15 Revenue from contracts with customers, in the current year.<br><br>The adoption of IFRS 15 has required the Group to consider the underlying performance obligations and the point at which revenue should be recognised. A potential risk to the correct cut-off of revenue arises with respect to recording revenue for decorating contracts where work continues across the year end. Judgement is required in determining the extent of work completed.<br><br>The other revenue streams were not considered complex from a revenue recognition perspective and there was no impact of adoption to IFRS 15. | Our procedures included:<br>• We reviewed management's assessment of the implementation of IFRS 15 with regards to decorating contracts by considering a sample of contracts along with the applicable terms and conditions.<br>• For the current and prior year we tested a sample of contracts which were still in progress at year end to confirm the satisfaction of the performance obligation by reference to correspondence with customers and records of work performed to ensure that cut-off had been correctly applied; and<br>• We reviewed the financial statements for appropriateness of disclosures and their compliance with IFRS 15.<br><br>No issues were noted regarding management's application of revenue recognition principles as prescribed by IFRS 15. |
| **Inventory valuation**<br>The group's accounting policy for inventory is disclosed in note 1 and further detail concerning the group's inventory is disclosed in note 14.<br><br>Given the size of the inventory balance of £13.7 million (2018: £14.1 million), and the level of provisioning required, we consider the provisioning calculation to be an area of significant estimation. Hence there is a risk that the inventory valuation is inappropriate. | Our audit procedures included:<br>• A principal assumption used in the calculation of the provision is the level of forecast sales in future years. Provision is made against inventory exceeding levels expected to be required to meet foreseeable demand within a reasonable period. We challenged the appropriateness of management's assumptions and considered evidence to support the validity of assumptions made.<br>• We checked the mathematical accuracy of management's calculations;<br>• We tested on a sample basis the inputs used by management to estimate forecast sales by considering historic sales data and projections over the next 24 months;<br>• We reviewed the level of historic stock write offs against the level of stock provisioning; and<br>• We agreed a sample of stock items to post year-end sales invoices to confirm that they had been recorded at the lower of cost and net realisable value.<br><br>We were satisfied that management's estimate of the provision required was appropriate. |

# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBERS OF COLEFAX GROUP PLC (CONTINUED)

**Our application of materiality**
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements to be £380,000 (2018: £450,000) and for the Parent Company to be £285,000 (2018: £350,000). Performance materiality was calculated based on 75% (2018: 75%) of our materiality. We determined this percentage by reference to a number of factors including the expected total value of known and likely misstatements based on past experience and management's attitude towards proposed adjustments.

*Level of materiality applied and rationale*
The materiality we applied in respect of the Group financial statements equates to 7.5% of Profit Before Tax (2018: 7.9% of adjusted Profit Before Tax, being Profit Before Tax for the year adjusted for gains or losses arising on foreign exchange hedging contracts).

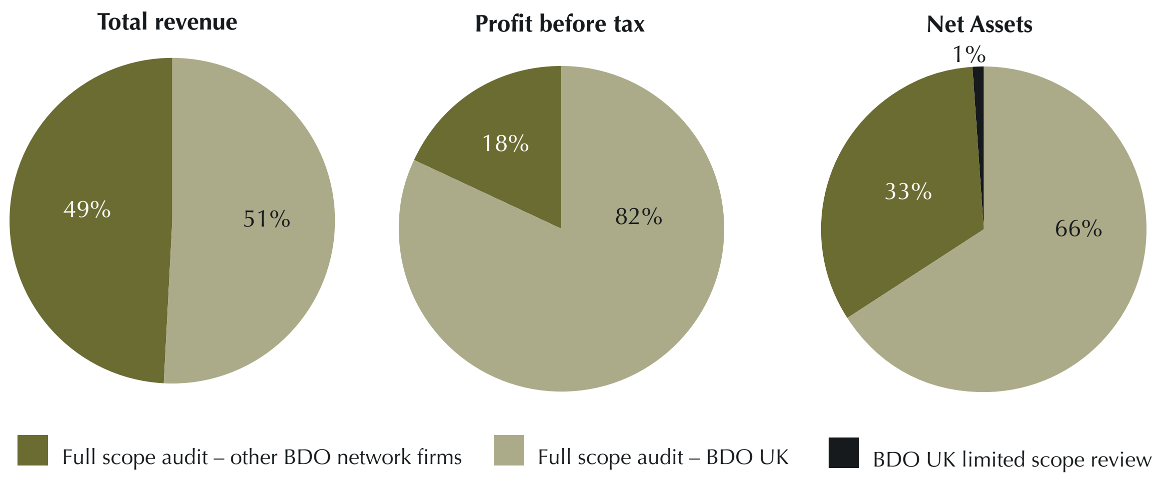
The materiality we applied in respect of the parent company financial statements is based on the net assets of the company, capped at 75% of group materiality (2018: 78% of group materiality).

We set component materiality between £83,000 and £320,000 based on the overall size and respective risk of each component. Component materiality levels were set at lower levels up to a maximum of 84% (2018: 80%) of group materiality. In the audit of each component, we further applied a performance materiality level of 75% (2018: 75%) of the component materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £19,000 (2018: £22,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**An overview of the scope of our audit**
We tailored the scope of our audit to ensure that enough work was performed to be able to issue an opinion on the financial statements as a whole, whilst taking into consideration the structure of the group, the accounting processes and controls, and the industry in which the group operates.

During the planning of our group audit, we confirmed our strategy for the procedures to be performed across the group's three significant components. Two significant components are located in the UK and full scope audits were carried out by the group engagement team. In respect of the significant component in the USA, we engaged with the component auditors to perform a full scope audit. In respect of a non-significant component in France, we engaged with component auditors to perform specific procedures on significant risk areas. Our strategy is summarised as follows:



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC (CONTINUED)

The Group Audit team set component materiality levels as detailed above with work on all significant components being reviewed by the Group audit team under the direction and supervision of the Group Engagement Partner. The Group team attended various conference calls and meetings through the planning, fieldwork and completion stages of the audit. The Group Engagement Partner visited United States of America during the course of the audit. During this visit and meetings, the Group audit team reviewed the audit files of the component auditors and the component auditors then performed any further work required by the Group audit team.

Our audit of the Parent Company was undertaken to the materiality level specified above at the Company's head office in London, United Kingdom.

**Other information**
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

**Responsibilities of directors**
As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLEFAX GROUP PLC (CONTINUED)

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**
This report is made solely to the Parent 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 Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Cardiff (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom
26 July 2019

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

## GROUP INCOME STATEMENT
For the year ended 30 April 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **86,355** | 86,052 |
| Cost of sales | | **(39,496)** | (39,811) |
| **Gross profit** | | **46,859** | 46,241 |
| Operating expenses | 5 | **(41,789)** | (41,520) |
| **Profit from operations** | 6 | **5,070** | 4,721 |
| Finance income | 8 | **25** | 1 |
| Finance expense | 8 | **–** | (3) |
| **Profit before taxation** | | **5,095** | 4,719 |
| Tax expense | | | |
| – UK | | **(733)** | (508) |
| – Overseas | | **(532)** | (379) |
| | 9 | **(1,265)** | (887) |
| **Profit for the year attributable to equity holders of the parent** | | **3,830** | 3,832 |
| Basic earnings per share | 11 | **39.3p** | 38.1p |
| Diluted earnings per share | 11 | **39.3p** | 38.1p |

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

# GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2019

| | Notes | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **Profit for the year** | | **3,830** | 3,832 |
| **Other comprehensive income/(expense):** | | | |
| **Items that will not be reclassified to profit and loss:** | | | |
| Remeasurement of defined benefit pension scheme | | **(28)** | 31 |
| Tax relating to items that will not be reclassfied to profit and loss | 19 | **11** | (46) |
| | | **(17)** | (15) |
| **Items that will or may be reclassified to profit and loss:** | | | |
| Exchange differences on translation of foreign operations | | **209** | (743) |
| Cash flow hedges: | | | |
| Losses/(gains) recognised directly in equity | | **(157)** | 210 |
| Transferred to profit and loss for the year | | **177** | 959 |
| Tax relating to items that will or may be reclassified to profit and loss | 19 | **(104)** | (100) |
| | | **125** | 326 |
| **Total other comprehensive income** | | **108** | 311 |
| **Total comprehensive income for the year attributable to equity holders of the parent** | | **3,938** | 4,143 |

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

# GROUP STATEMENT OF FINANCIAL POSITION

At 30 April 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Property, plant and equipment | 12 | **8,215** | 8,692 |
| Deferred tax asset | 19 | **113** | 173 |
| Pension asset | 24 | **–** | 34 |
| | | **8,328** | 8,899 |
| **Current assets:** | | | |
| Inventories and work in progress | 14 | **14,923** | 16,552 |
| Trade and other receivables | 15 | **11,265** | 11,130 |
| Cash and cash equivalents | 16 | **9,458** | 9,177 |
| | | **35,646** | 36,859 |
| **Current liabilities:** | | | |
| Trade and other payables | | **14,847** | 16,144 |
| Current corporation tax | | **669** | 306 |
| | 17 | **15,516** | 16,450 |
| **Net current assets** | | **20,130** | 20,409 |
| **Total assets less current liabilities** | | **28,458** | 29,308 |
| **Non-current liabilities:** | | | |
| Deferred rent | 18 | **1,992** | 1,878 |
| Deferred tax liability | 19 | **26** | 11 |
| Pension liability | 24 | **1** | – |
| **Net assets** | | **26,439** | 27,419 |
| **Capital and reserves attributable to equity holders of the Company:** | | | |
| Called up share capital | 21 | **902** | 981 |
| Share premium account | 22 | **11,148** | 11,148 |
| Capital redemption reserve | 22 | **1,972** | 1,893 |
| ESOP share reserve | 22 | **(113)** | (113) |
| Foreign exchange reserve | 22 | **2,267** | 2,158 |
| Cash flow hedge reserve | 22 | **(16)** | (32) |
| Retained earnings | 22 | **10,279** | 11,384 |
| **Total equity** | | **26,439** | 27,419 |

The financial statements were approved by the Board of Directors and authorised for issue on 26 July 2019.

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

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

*Company No. 1870320*

## COMPANY STATEMENT OF FINANCIAL POSITION

At 30 April 2019

| | Notes | **2019** **£'000** | 2018 £'000 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Investments | 13 | **25,443** | 26,443 |
| **Current assets:** | | | |
| Trade and other receivables | 15 | **5,322** | 5,214 |
| | | **5,322** | 5,214 |
| **Current liabilities:** | | | |
| Trade and other payables | 17 | **2,175** | 1,719 |
| **Net current assets** | | **3,147** | 3,495 |
| **Net assets** | | **28,590** | 29,938 |
| **Capital and reserves attributable to equity holders of the Company:** | | | |
| Called up share capital | 21 | **902** | 981 |
| Share premium account | 22 | **11,148** | 11,148 |
| Merger reserve | 22 | **10,762** | 10,762 |
| Capital redemption reserve | 22 | **1,972** | 1,893 |
| Retained earnings | 22 | **3,806** | 5,154 |
| **Total equity** | | **28,590** | 29,938 |

The Company profit for the year was £3,570,000 (2018 – £4,071,000). Total comprehensive income relating to the year for the Company consists of the profit for the year only.

The financial statements were approved by the board of directors and authorised for issue on 26 July 2019.

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

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

*Company No. 1870320*

## GROUP STATEMENT OF CASH FLOWS

For the year ended 30 April 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **5,095** | 4,719 |
| Finance income | | **(25)** | (1) |
| Finance expense | | **–** | 3 |
| Loss on disposal of property, plant and equipment | | **8** | 235 |
| Depreciation | 12 | **2,800** | 2,735 |
| **Cash flows from operations before changes in working capital** | | **7,878** | 7,691 |
| Decrease/(increase) in inventories and work in progress | | **1,765** | (2,042) |
| Decrease in trade and other receivables | | **47** | 463 |
| (Decrease)/increase in trade and other payables | | **(1,783)** | 2,797 |
| **Cash generated from operations** | | **7,907** | 8,909 |
| **Taxation paid** | | | |
| UK corporation tax paid | | **(374)** | (350) |
| Overseas tax paid | | **(606)** | (679) |
| | | **(980)** | (1,029) |
| **Net cash inflow from operating activities** | | **6,927** | 7,880 |
| **Investing activities** | | | |
| Payments to acquire property, plant and equipment | 12 | **(2,046)** | (2,382) |
| Receipts from sales of property, plant and equipment | | **14** | 49 |
| Interest received | | **25** | – |
| **Net cash outflow from investing** | | **(2,007)** | (2,333) |
| **Financing activities** | | | |
| Purchase of own shares including related costs | 21 | **(4,421)** | (2,172) |
| Interest paid | | **–** | (3) |
| Equity dividends paid | 10 | **(497)** | (488) |
| **Net cash outflow from financing** | | **(4,918)** | (2,663) |
| **Net increase in cash and cash equivalents** | | **2** | 2,884 |
| Cash and cash equivalents at beginning of year | | **9,177** | 6,710 |
| Exchange gains/(losses) on cash and cash equivalents | | **279** | (417) |
| **Cash and cash equivalents at end of year** | 16 | **9,458** | 9,177 |

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

# COMPANY STATEMENT OF CASH FLOWS

For the year ended 30 April 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **3,722** | 4,219 |
| Dividend income for the year | | **(3,600)** | (4,103) |
| Finance income | | **(141)** | (133) |
| **Cash flows from operations before changes in working capital** | | **(19)** | (17) |
| Decrease/(increase) in trade and other receivables | | **321** | (937) |
| Increase in trade and other payables | | **114** | 15 |
| **Cash generated from/consumed by operations** | | **416** | (939) |
| **Taxation paid** | | | |
| UK corporation tax paid | | **(374)** | (350) |
| **Net cash inflow/(outflow) from operating activities** | | **42** | (1,289) |
| **Investing activities** | | | |
| Interest received | | **214** | 499 |
| Loan payment received from subsidiary | 13 | **1,000** | 650 |
| Dividends received from subsidiaries | | **3,320** | 3,603 |
| **Net cash inflow from investing** | | **4,534** | 4,752 |
| **Financing activities** | | | |
| Purchase of own shares including related costs | 21 | **(4,421)** | (2,172) |
| Equity dividends paid | 10 | **(497)** | (488) |
| **Net cash outflow from financing** | | **(4,918)** | (2,660) |
| **Net decrease/(increase) in cash and cash equivalents** | | **(342)** | 803 |
| Cash and cash equivalents at beginning of year | | **(1,689)** | (2,492) |
| **Cash and cash equivalents at end of year** | 16 | **(2,031)** | (1,689) |

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

## GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 April 2019

| | 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 1 May 2018 | 981 | 11,148 | 1,893 | (113) | 2,158 | (32) | 11,384 | 27,419 |
| Profit for the year | – | – | – | – | – | – | 3,830 | 3,830 |
| Foreign exchange | – | – | – | – | 209 | – | – | 209 |
| Remeasurement of defined benefit pension scheme | – | – | – | – | – | – | (28) | (28) |
| Cash flow hedges: | | | | | | | | |
| Losses | – | – | – | – | – | (157) | – | (157) |
| Transfers | – | – | – | – | – | 177 | – | 177 |
| Tax on other comprehensive income | – | – | – | – | (100) | (4) | 11 | (93) |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **109** | **16** | **3,813** | **3,938** |
| Share buybacks | (79) | – | 79 | – | – | – | (4,421) | (4,421) |
| Dividends paid | – | – | – | – | – | – | (497) | (497) |
| **At 30 April 2019** | **902** | **11,148** | **1,972** | **(113)** | **2,267** | **(16)** | **10,279** | **26,439** |
| At 1 May 2017 | 1,022 | 11,148 | 1,852 | (113) | 2,779 | (979) | 10,227 | 25,936 |
| Profit for the year | – | – | – | – | – | – | 3,832 | 3,832 |
| Foreign exchange | – | – | – | – | (743) | – | – | (743) |
| Remeasurement of defined benefit pension scheme | – | – | – | – | – | – | 31 | 31 |
| Cash flow hedges: | | | | | | | | |
| Gains | – | – | – | – | – | 210 | – | 210 |
| Transfers | – | – | – | – | – | 959 | – | 959 |
| Tax on other comprehensive income | – | – | – | – | 122 | (222) | (46) | (146) |
| Total comprehensive income for the year | – | – | – | – | (621) | 947 | 3,817 | 4,143 |
| Share buybacks | (41) | – | 41 | – | – | – | (2,172) | (2,172) |
| Dividends paid | – | – | – | – | – | – | (488) | (488) |
| At 30 April 2018 | 981 | 11,148 | 1,893 | (113) | 2,158 | (32) | 11,384 | 27,419 |

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 April 2019

| | Share capital £'000 | Share premium reserve £'000 | Merger reserve £'000 | Capital redemption reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 May 2018 | 981 | 11,148 | 10,762 | 1,893 | 5,154 | 29,938 |
| Profit and total comprehensive income for the year | – | – | – | – | 3,570 | 3,570 |
| Share buybacks | (79) | – | – | 79 | (4,421) | (4,421) |
| Dividends paid | – | – | – | – | (497) | (497) |
| **At 30 April 2019** | **902** | **11,148** | **10,762** | **1,972** | **3,806** | **28,590** |
| At 1 May 2017 | 1,022 | 11,148 | 10,762 | 1,852 | 3,743 | 28,527 |
| Profit and total comprehensive income for the year | – | – | – | – | 4,071 | 4,071 |
| Share buybacks | (41) | – | – | 41 | (2,172) | (2,172) |
| Dividends paid | – | – | – | – | (488) | (488) |
| At 30 April 2018 | 981 | 11,148 | 10,762 | 1,893 | 5,154 | 29,938 |

*The notes on pages 26 to 46 form part of these Consolidated financial statements.*

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

## 1. Accounting policies

**General Information**

Colefax Group Plc is a public limited company (Company No. 1870320) incorporated and domiciled in England and Wales 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 IASB or International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position for the current reporting period.

– *IFRS 15 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 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 been endorsed for use in the EU. IFRS 15 introduces a new five-step approach to revenue recognition:

  Step 1: Identify the contract(s) with a customer
  Step 2: Identify the performance obligations in the contract
  Step 3: Determine the transaction price
  Step 4: Allocate the transaction price to the performance obligations in the contract
  Step 5: Recognise revenue when (or as) each performance obligation is satisfied.

  In the prior year, under IAS 18, customer progress payments received were disclosed as a deduction from associated work in progress amounts. Under IFRS 15, such customer progress payments are treated as payments received on account, within current liabilities. Accordingly, work in progress and current liabilities have both increased by £1,183,000 (2018 – £2,466,000) following the adoption of IFRS 15. There was no impact on profits, net assets or retained earnings as a result of this reclassification or the adoption on IFRS 15.

– *IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2018).* This standard replaces IAS 39 *Financial 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 loans and receivables are therefore measured at amortised cost under IFRS 9. 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, including the introduction of an expected credit loss method for 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 been endorsed for use in the EU.

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these are not effective for the current year.

– Amendment to IFRS 15 'Revenue from Contracts with Customers.' This clarification has not yet been endorsed for use in the EU.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

1. **Accounting policies** *continued*

– *IFRS 16 'Leases' (effective for accounting periods beginning on or after 1 January 2019)*. IFRS 16 will be effective for the first time in the Group's consolidated financial statements for the year ended 30 April 2020. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard will primarily affect the accounting for the Group's operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the consolidated balance sheet. In addition it will replace the straight-line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liabilities.

The Group has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on the balance sheet as at 1 May 2019. In addition it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

As at 30 April 2019, the Group has non-cancellable operating lease commitments of £28.02 million (see note 23). A preliminary assessment indicates that these arrangements will meet the definition of IFRS 16 and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as short-term or low-value leases. Management has assessed the impact of adopting the new standard and estimates that a right-of-use asset of £22.50 million and a lease liability of £24.2 million will be recognised from 1 May 2019. The difference between the right-of-use asset and lease liability is due to deferred rent and rent accruals and prepayments in force at 30 April 2019. The adoption of IFRS 16 is expected to have a material impact on the Group's operating profit and pre-tax profit for the year ended 30 April 2020. Operating profit is expected to increase by approximately £520,000 but pre-tax profit is expected to reduce by £390,000.

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.

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 1 May 2006 (transition date),

the investment is still recorded in the Company's statement of financial position at the nominal value of the shares issued, together with the fair value of any additional consideration paid as the Group has applied the IFRS 1 'First-time Adoption of International Financial Reporting Standards' exemption relating to business combinations.

In the Group Financial Statements, merged subsidiary undertakings are treated as if they had always

been a member of the Group. Any difference between the nominal value of the shares acquired by the Group and those issued by the company to acquire them is taken to reserves.

**Goodwill**

Goodwill arising on acquisitions prior to 30 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 net of rebates and discounts provided.

IFRS 15 'Revenue from Contracts with Customers' has been adopted by the Group for the first time. IFRS 15 supercedes the previous revenue recognition guidance including IAS 18 'Revenue'.

The Group has elected to apply the standard fully retrospectively. Revenue from the Product Division has continued to be recognised on point of delivery, which is when control over the goods passes to the customer and the Group has a present right to payment. There is no financing element to payment.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

1. **Accounting policies** *continued*

Goods supplied on a decorating contract are effectively linked together as one performance obligation. The performance obligation is satisfied when control passes to the customer and the Group has a present right to payment. Revenue is therefore recognised over time. Decorating contracts do not contain any financing element.

**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. Cost includes all direct expenditure on physical goods and materials acquired in advance of installation.

**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 in the territories in which the taxable income is earned 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.

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.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

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 as deferred rent 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 to the income statement as part of employment costs in the period to which they relate.

*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 31 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 recognised in the Statement of other Comprehensive Income and taken 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 and all subsidiaries*
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**
Financial assets comprise cash and cash equivalents and trade and other receivables.

*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.

# NOTES TO THE ACCOUNTS
For the year ended 30 April 2019

1. **Accounting policies** *continued*

*Trade and Other Receivables*
Trade and other receivables do not carry interest and are stated at their nominal (invoiced) value as reduced by appropriate allowances for estimated irrecoverable amounts. When a trade receivable is considered 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.

*Financial Assets and Liabilities at fair value through profit and loss*
Financial assets and liabilities at fair value through profit and loss consist of a deferred compensation plan for selected US employees. Plan assets and related liabilities are valued by reference to observable quoted prices in active markets.

*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. These financial statements have continued to apply the same accounting policy for cash flow hedges under IAS 39 through the transition period. 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 is initially recognised in other comprehensive income and accumulated in the cash flow hedge reserve. It is subsequently 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'.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

## 2. Critical accounting estimates and judgements

In preparation of consolidated financial statements under IFRS the Group makes estimates and assumptions regarding the future. There are considered to be no critical accounting judgements other than for income taxes. Estimates 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 (see note 14) to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. There have been no changes in past assumptions or the provisioning methodology in the year. Were such assumptions to change, inventory values could materiality alter. Factors that could impact estimated demand and selling prices include the success of future collections, competitor actions, supplier prices and economic trends.

*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, as described in note 19. 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.

## 3. Revenue

| | Product Division | | Decorating Division | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Primary Geographical Markets: | | | | | | |
| United Kingdom | **14,889** | 15,060 | **6,620** | 7,071 | **21,509** | 22,131 |
| United States | **41,533** | 40,859 | **458** | 558 | **41,991** | 41,417 |
| Europe | **14,858** | 15,071 | **2,574** | 1,026 | **17,432** | 16,097 |
| Rest of the World | **2,572** | 2,736 | **2,851** | 3,671 | **5,423** | 6,407 |
| | **73,852** | 73,726 | **12,503** | 12,326 | **86,355** | 86,052 |
| Revenue arises from: | | | | | | |
| Sale of goods | **73,852** | 73,726 | **11,644** | 11,010 | **85,496** | 84,736 |
| Provision of services | **–** | – | **859** | 1,316 | **859** | 1,316 |
| | **73,852** | 73,726 | **12,503** | 12,326 | **86,355** | 86,052 |

Revenue on Product Division sales are recognised at a point in time and Decorating Division sales are recognised over time.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

## 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 | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Business segments** | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| **Revenue:** | | | | | | |
| Total revenue | **73,964** | 73,901 | **12,503** | 12,326 | **86,467** | 86,227 |
| Inter-segment revenue | **(112)** | (175) | **–** | – | **(112)** | (175) |
| **Revenue from external customers** | **73,852** | 73,726 | **12,503** | 12,326 | **86,355** | 86,052 |
| **Segment result:** | | | | | | |
| Profit from operations | **3,975** | 3,820 | **1,095** | 901 | **5,070** | 4,721 |
| Finance income | **25** | 1 | **–** | – | **25** | 1 |
| Finance expense | **–** | (3) | **–** | – | **–** | (3) |
| **Profit before taxation** | **4,000** | 3,818 | **1,095** | 901 | **5,095** | 4,719 |
| Tax expense/(credit) | **1,046** | 699 | **219** | 188 | **1,265** | 887 |
| **Profit for the year attributable to equity holders of the parent** | **2,954** | 3,119 | **876** | 713 | **3,830** | 3,832 |
| Total assets | **36,587** | 37,126 | **6,204** | 6,167 | **42,791** | 43,293 |
| Total liabilities | **12,805** | 11,988 | **3,547** | 3,886 | **16,352** | 15,874 |
| **Net assets** | **23,782** | 25,138 | **2,657** | 2,281 | **26,439** | 27,419 |
| Capital expenditure | **1,989** | 2,067 | **57** | 315 | **2,046** | 2,382 |
| Depreciation | **2,605** | 2,555 | **195** | 180 | **2,800** | 2,735 |

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 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Geographical segments** | **£'000** | £'000 | **£'000** | £'000 |
| United Kingdom | **21,509** | 22,131 | **2,677** | 2,746 |
| United States | **41,991** | 41,417 | **5,145** | 5,414 |
| Europe | **17,432** | 16,097 | **393** | 532 |
| Rest of World | **5,423** | 6,407 | **–** | – |
| | **86,355** | 86,052 | **8,215** | 8,692 |

## 5. Operating expenses

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Distribution and marketing costs | **28,972** | 28,163 |
| Administrative costs | **12,817** | 13,357 |
| Total operating expenses | **41,789** | 41,520 |

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

| | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| 6. **Profit from operations** | This has been arrived at after charging/(crediting): | | |
| | Audit services – group | **50** | 47 |
| | Audit services – subsidiaries | **131** | 122 |
| | Non-audit services – taxation compliance | **96** | 129 |
| | Non-audit services – pensions | **10** | 9 |
| | Depreciation of owned property, plant and equipment | **2,800** | 2,735 |
| | Operating lease rentals – land and buildings | **5,399** | 5,183 |
| | Operating lease rentals – plant and machinery | **78** | 83 |
| | Loss on the disposal of property, plant and equipment | **8** | 235 |
| | Exchange losses | **361** | 916 |
| | Pension costs (see note 24) | **393** | 410 |

| | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| 7. **Staff costs** | Staff costs, including Executive Directors, were as follows: | | |
| | Wages and salaries | **16,489** | 16,279 |
| | Social security costs | **1,959** | 1,960 |
| | Pension costs | **393** | 410 |
| | | **18,841** | 18,649 |

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

| | No. | No. |
|---|---|---|
| Distribution and marketing | | |
| Executive directors | **2** | 2 |
| Other employees | **292** | 290 |
| Administration | | |
| Executive directors | **2** | 2 |
| Other employees | **56** | 53 |
| | **352** | 347 |

The holding Company directors received their remuneration, as detailed in the Directors' Report, from other group companies. The holding Company had no other employees during the year (2018 – nil).

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Directors' (key management personnel) remuneration was as follows: | | |
| Emoluments | **1,517** | 1,553 |
| Pension contributions | **17** | 22 |
| Employers social security costs on directors' emoluments | **172** | 174 |
| | **1,706** | 1,749 |
| Emoluments of the highest paid director: | | |
| Emoluments | **677** | 715 |

A full analysis of Directors' remuneration is provided on page 11 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.

One director participated in Group defined contribution pension schemes in 2019 (2018 – one). No directors participated in Group defined benefit pension schemes in 2019 (2018 – nil).

No directors (2018 – nil) exercised options in the year and no options were granted to directors in the year (2018 – nil).

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

| | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| 8. **Finance income and expense** | Finance expense: | | |
| | Bank loans and overdrafts repayable within five years | **–** | 3 |
| | Finance income: | | |
| | Bank and other interest receivable | **25** | 1 |
| | | **25** | 2 |

| | | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| 9. **Tax expense** | (a) Analysis of charge for the year | | |
| | UK corporation tax | | |
| | UK corporation tax on profits of the year | **698** | 535 |
| | Adjustments in respect of previous years | **1** | – |
| | | **699** | 535 |
| | Overseas tax | | |
| | Overseas tax on profits of the year | **599** | 988 |
| | Adjustments in respect of previous years | **(13)** | (14) |
| | | **586** | 974 |
| | Total current tax | **1,285** | 1,509 |
| | UK deferred tax | | |
| | Origination and reversal of temporary differences | **31** | (20) |
| | Adjustments in respect of previous years | **3** | (7) |
| | | **34** | (27) |
| | Overseas deferred tax | | |
| | Origination and reversal of temporary differences | **(42)** | (245) |
| | Impact of overseas tax rate changes | **(12)** | (350) |
| | | **(54)** | (595) |
| | Total deferred tax | **(20)** | (622) |
| | Total income tax expense | **1,265** | 887 |

(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.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit before taxation | **5,095** | 4,719 |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%) | **968** | 897 |
| Effect of: | | |
| Disallowed expenses and non-taxable income | **63** | 33 |
| Adjustments in respect of prior period (current tax) | **(12)** | (14) |
| Adjustments in respect of prior period (deferred tax) | **3** | (7) |
| Rate differences | **243** | (22) |
| Total tax expense | **1,265** | 887 |

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

| | | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| 10. **Dividends** | Final (paid) of 2.6p (2017 – 2.5p) on 10 October 2018 | **253** | 254 |
| | Interim (paid) of 2.5p (2018 – 2.4p) on 9 April 2018 | **244** | 234 |
| | | **497** | 488 |
| | Final dividend proposed for the year of 2.7p (2018 – 2.6p) | **263** | 252 |

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 £3,830,000 (2018 – £3,832,000) and on 9,738,402 (2018 – 10,067,216) 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 are the same as basic earnings per share as there are no outstanding share options in force at 30 April 2019.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

**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 1 May 2018 | 240 | 9,119 | 6,710 | 339 | 6,712 | 23,120 |
| Exchange adjustment | – | 396 | 151 | – | 346 | 893 |
| Additions | – | 357 | 359 | 22 | 1,308 | 2,046 |
| Disposals | – | (581) | (298) | (43) | (149) | (1,071) |
| **At 30 April 2019** | **240** | **9,291** | **6,922** | **318** | **8,217** | **24,988** |
| Depreciation: | | | | | | |
| At 1 May 2018 | 77 | 5,681 | 4,418 | 178 | 4,074 | 14,428 |
| Exchange adjustment | – | 245 | 137 | – | 212 | 594 |
| Charge for the year | 5 | 640 | 604 | 80 | 1,471 | 2,800 |
| Disposals | – | (581) | (277) | (42) | (149) | (1,049) |
| **At 30 April 2019** | **82** | **5,985** | **4,882** | **216** | **5,608** | **16,773** |
| Net Book Value: | | | | | | |
| **At 30 April 2019** | **158** | **3,306** | **2,040** | **102** | **2,609** | **8,215** |
| At 1 May 2018 | 163 | 3,438 | 2,292 | 161 | 2,638 | 8,692 |
| At 1 May 2017 | 240 | 9,735 | 6,668 | 422 | 11,294 | 28,359 |
| Exchange adjustment | – | (454) | (154) | – | (555) | (1,163) |
| Additions | – | 111 | 931 | 60 | 1,280 | 2,382 |
| Disposals | – | (273) | (735) | (143) | (5,307) | (6,458) |
| At 30 April 2018 | 240 | 9,119 | 6,710 | 339 | 6,712 | 23,120 |
| Depreciation: | | | | | | |
| At 1 May 2017 | 72 | 5,570 | 4,442 | 243 | 8,363 | 18,690 |
| Exchange adjustment | – | (271) | (155) | – | (398) | (824) |
| Charge for the year | 5 | 655 | 581 | 78 | 1,416 | 2,735 |
| Disposals | – | (273) | (450) | (143) | (5,307) | (6,173) |
| At 30 April 2018 | 77 | 5,681 | 4,418 | 178 | 4,074 | 14,428 |
| Net Book Value: | | | | | | |
| At 30 April 2018 | 163 | 3,438 | 2,292 | 161 | 2,638 | 8,692 |
| At 1 May 2017 | 168 | 4,165 | 2,226 | 179 | 2,931 | 9,669 |

The Group's freehold property was last valued on 28 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.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

## 13. Investments

| | Shares £'000 | Loans £'000 | Total £'000 |
|---|---|---|---|
| Company: | | | |
| At 30 April 2018 | 19,443 | 7,000 | 26,443 |
| Loan repayment by subsidiary | – | (1,000) | (1,000) |
| **At 30 April 2019** | **19,443** | **6,000** | **25,443** |

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

| Name of Company | Notes | Principal Products | Registered Address |
|---|---|---|---|
| Colefax and Fowler Limited | *,1 | Fabrics and Wallpapers | 19-23 Grosvenor Hill, London W1K 3QD |
| Sibyl Colefax & John Fowler Limited | *,1 | Interior & Architectural Design | 19-23 Grosvenor Hill, London W1K 3QD |
| Kingcome Sofas Limited | *,1 | Upholstered Furniture | 19-23 Grosvenor Hill, London W1K 3QD |
| Colefax and Fowler Holdings Limited | *,1 | Holding Company for Colefax and Fowler Inc | 19-23 Grosvenor Hill, London W1K 3QD |
| Manuel Canovas Limited | *,1 | Dormant | 19-23 Grosvenor Hill, London W1K 3QD |
| Jane Churchill Limited | *,1 | Dormant | 19-23 Grosvenor Hill, London W1K 3QD |
| Colefax and Fowler Incorporated | 2 | Holding Company for Cowtan and Tout Inc | 205, Hudson St, New York, NY 10013 |
| Cowtan and Tout Incorporated | 2 | Fabrics and Wallpapers | 205, Hudson St, New York, NY 10013 |
| Manuel Canovas SAS | 3 | Fabrics and Wallpapers | 23, Rue Royale, 75008 Paris |
| Colefax and Fowler GmbH | 4 | Fabrics and Wallpapers | 13, Ottostrasse, 80333 Munich |
| Colefax and Fowler Srl | 5 | Fabrics and Wallpapers | 8 Via Palermo, 20121 Milan |

(*) Owned directly by parent company
(1) Incorporation/Principal Country of Operation is England and Wales.
(2) Incorporation/Principal Country of Operation is USA.
(3) Incorporation/Principal Country of Operation is France.
(4) Incorporation/Principal Country of Operation is Germany.
(5) Incorporation/Principal Country of Operation is Italy.

The effective percentage of issued Share Capital held by the Group is 100% for all Group subsidiaries.

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

At 30 April 2019, the ESOP Trust owned 60,000 (2018 – 60,000) ordinary shares of 10p in the Company at cost, with a market value of £321,000 (2018 – £298,000). Dividends on these shares have been waived.

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

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

## 14. Inventories and work in progress

| | Group 2019 £'000 | Group 2018 £'000 |
|---|---|---|
| Finished goods for resale | **13,467** | 13,537 |
| Work in progress | **1,456** | 3,015 |
| | **14,923** | 16,552 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £22,362,000 (2018 – £21,873,000). The value of stock impaired/written off in the period amounted to £1,301,000 (2018 – £1,120,000).

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| | | **£'000** | £'000 | **£'000** | £'000 |
| 15. **Trade and other receivables** | Trade receivables | **6,927** | 7,214 | **–** | – |
| | Less: provision for impairment of trade receivables | **(389)** | (407) | **–** | – |
| | Trade receivables net | **6,538** | 6,807 | **–** | – |
| | Amounts owed by subsidiary undertakings | **–** | – | **4,750** | 4,606 |
| | Other receivables | **2,565** | 2,201 | **360** | 326 |
| | Prepayments and accrued income | **2,162** | 2,122 | **212** | 282 |
| | | **11,265** | 11,130 | **5,322** | 5,214 |

There is no difference between the carrying amount and the fair value of the trade and other receivables. The only impaired assets are withn trade receivables.

The only financial asset that is subject to IFRS 9's new expected credit loss model is trade and intercompany receivables.

The Group has applied the IFRS 9 simplified approach to measure lifetime expected credit losses.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The expected loss rates are based on the Group's bad debt experience in the 12 months to 30 April 2019.

On this basis, the total loss allowance for trade receivables as at 30 April 2019 (on adoption of IFRS 9) is determined as follows:

| | Current £'000 | Up to 3 months overdue £'000 | 3-6 months overdue £'000 | 6-12 months overdue £'000 | More than 12 months overdue £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Expected loss rate | 1% | 5% | 58% | 37% | 80% | |
| Trade receivables | 4,516 | 1,989 | 202 | 108 | 112 | 6,927 |
| Loss allowance | 34 | 107 | 118 | 40 | 90 | 389 |

As a result of adopting IFRS 9, the Directors believe that in the current economic environment there is objective evidence of credit deterioration and an additional impairment provision of £162,000 is required (2018 – nil), representing a collective assessment of risk and receivables that are yet to be specifically identified, and is an additional provision as compared to the prior year.

**Credit quality of financial assets**

**(i) Current**

Included in the Group's trade receivable balances are receivables with a carrying value of £4,516,000 (2018 – £4,370,000) which are not overdue. Under the expected credit loss model, a provision is held for the lifetime credit loss on these balances of £34,000 (2018 – nil).

**(ii) Overdue**

Included in the Group's trade receivable balances are receivables with a carrying value of £2,184,000 (2018 – £2,481,000) which are overdue at the reporting date for which the Group does not consider the need to create a specific impairment provision against individually identified receivables, but an expected credit loss provision has been made of £128,000 (2018 – nil).

**(iii) Overdue – individually impaired**

As at 30 April 2019, trade receivables of £227,000 (2018 – £407,000) were individually determined to be impaired and provided for. The amount of the provision was £227,000 (2018 – £407,000). The main factor used to assess the impairment of trade receivables is the circumstances of the individual customer.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

## 15. Trade and other receivables *continued*

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At beginning of year | **407** | 319 |
| Provided during the year | **350** | 191 |
| Receivables written off as uncollectable | **(171)** | (91) |
| Unused amounts reversed | **(201)** | (11) |
| Exchange differences | **4** | (1) |
| At end of year | **389** | 407 |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Sterling | **3,204** | 3,332 |
| Euro | **1,335** | 1,175 |
| US Dollar | **1,792** | 2,077 |
| Other | **207** | 223 |
| | **6,538** | 6,807 |

## 16. Cash and cash equivalents

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Cash at bank and in hand | **9,458** | 9,177 | **–** | – |
| Bank overdrafts | **–** | – | **(2,031)** | (1,689) |
| | **9,458** | 9,177 | **(2,031)** | (1,689) |

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 | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Amounts owed to subsidiary undertakings | **–** | – | **60** | – |
| Bank overdraft | **–** | – | **2,031** | 1,689 |
| Trade payables | **3,669** | 3,952 | **–** | – |
| Accruals | **4,191** | 4,248 | **84** | 30 |
| Payments received on account | **3,502** | 4,539 | **–** | – |
| Corporation tax | **669** | 306 | **–** | – |
| Other taxes and social security costs | **719** | 642 | **–** | – |
| Other payables | **2,747** | 2,723 | **–** | – |
| Forward foreign currency contracts | **19** | 40 | **–** | – |
| | **15,516** | 16,450 | **2,175** | 1,719 |

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.

Significant changes in payments received on account of £1,037,000 solely relates to cash received in advance of performance not recognised as revenue and amounts are taken to revenue during the period as services are performed.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| | | **£'000** | £'000 | **£'000** | £'000 |
| 18. **Non-current liabilities** | Deferred rent | **1,992** | 1,878 | **–** | – |

## 19. Deferred taxation

| | Group | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| Deferred taxation has been provided as follows: | | |
| Accelerated capital allowances on property, plant and equipment | **802** | 834 |
| Excess of depreciation over capital allowances on property, plant and equipment | **(18)** | (56) |
| Short-term temporary differences | **(871)** | (940) |
| | **(87)** | (162) |

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 | **(113)** | (173) |
| Deferred taxation included in non-current liabilities | **26** | 11 |
| | **(87)** | (162) |

| Movements in the deferred tax provision is as follows: | **2019 £'000** | 2018 £'000 |
|---|---|---|
| At 1 May | **(162)** | 348 |
| Charged to the income statement (note 9) | **(20)** | (622) |
| Charged/(credited) directly to other comprehensive income | **93** | 146 |
| Translation adjustment | **2** | (34) |
| At 30 April | **(87)** | (162) |

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

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Cash flow hedge reserve | **4** | 222 |
| Deferred tax on long-term loan foreign currency movements | **100** | (122) |
| Deferred tax on overseas defined benefit pension scheme movements | **(11)** | 8 |
| Other movements in deferred tax | **–** | 38 |
| | **93** | 146 |

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

20. **Financial instruments** The financial instruments of the Group as classified in the financial statements as at 30 April 2019 can be analysed under the following IFRS 9 categories:

| Group | Assets at fair value through profit or loss 2019 £'000 | 2018 £'000 | Amortised cost (Loans and receivables 2018) 2019 £'000 | 2018 £'000 | Total 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Trade and other receivables | **1,520** | 1,424 | **7,583** | 7,583 | **9,103** | 9,007 |
| Cash and cash equivalents | **–** | – | **9,458** | 9,177 | **9,458** | 9,177 |
| Total | **1,520** | 1,424 | **17,041** | 16,760 | **18,561** | 18,184 |

| | Liabilities at fair value through profit or loss 2019 £'000 | 2018 £'000 | Other financial liabilities 2019 £'000 | 2018 £'000 | Total 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Trade and other payables | **1,520** | 1,438 | **7,860** | 8,201 | **9,380** | 9,639 |
| Forward foreign currency contracts | **19** | 40 | **–** | – | **19** | 40 |
| Total | **1,539** | 1,478 | **7,860** | 8,201 | **9,399** | 9,679 |

The Group's principal financial instruments comprise of cash, short-term deposits, bank overdrafts, 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 deferred compensation plan assets and liabilities are carried at fair value, measured using level 1 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. The fair value of the deferred compensation plan assets and liabilities is based on quoted market prices.

Financial assets and liabilities at fair value through profit and loss consist of a deferred compensation plan for selected US employees. Plan assets and liabilities are valued by reference to observable quoted prices in active markets. The deserved compensation plan has been closed and the plan assets will be paid out within the next 12 months.

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.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

20. **Financial instruments** *continued*

*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 (2018 – £3.0 million). The undrawn committed facilities available at 30 April 2019 in respect of which all conditions had been met at that date total £3.0 million (2018 – £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 30 April 2019 the Group's trade payables were £3.7 million (2018 – £4.0 million) and trade receivables were £6.5 million (2018 – £6.8 million) giving a ratio of 1.8 (2018 – 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 49% 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 30 April 2019 is detailed below.

The Group's profit is reduced by approximately £105,000 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 26% 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 £9.5 million (2018 – £9.2 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 30 April 2019, the Group was in multiple forward foreign currency contract arrangements to sell US dollars. The hedged transactions are expected to occur in 2019/20.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

**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:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Fair value of forward foreign currency contracts – (liability)/asset | **19** | (40) |

*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 30 April 2019 can be analysed under the following IFRS 9 categories:

| | Amortised cost (Loans and receivables 2018) | | Total | |
|---|---|---|---|---|
| Company | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Financial assets | | | | |
| Intercompany and other receivables | **5,110** | 4,932 | **5,110** | 4,932 |
| **Total** | **5,110** | 4,932 | **5,110** | 4,932 |

| | Other financial liabilities | | Total | |
|---|---|---|---|---|
| | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Financial liabilities | | | | |
| Bank overdrafts | **2,031** | 1,689 | **2,031** | 1,689 |
| **Total** | **2,031** | 1,689 | **2,031** | 1,689 |

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 (2018 – £3.0 million) which is available to the UK companies in the Group.

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2019

**21. Share capital**

| | Authorised 2019 | Authorised 2018 | Allotted, called up and fully paid 2019 | Allotted, called up and fully paid 2018 |
|---|---|---|---|---|
| Ordinary shares of 10p each | **£3,300,000** | £3,300,000 | **£902,244** | £980,700 |
| Number of shares | **33,000,000** | 33,000,000 | **9,022,440** | 9,807,000 |

| | Allotted, called up and fully paid | | | |
|---|---|---|---|---|
| | **2019 Number** | **2019 £** | 2018 Number | 2018 £ |
| Ordinary shares of 10p each | | | | |
| At beginning of year | **9,807,000** | **980,700** | 10,220,000 | 1,022,000 |
| Purchase of own shares for cancellation | **(784,560)** | **(78,456)** | (413,000) | (41,300) |
| At end of year | **9,022,440** | **902,244** | 9,807,000 | 980,700 |

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

**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 30 April 2019 the Group had minimum lease payments under non-cancellable operating leases as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Land and Buildings £'000** | **Other £'000** | Land and Buildings £'000 | Other £'000 |
| Within one year | **4,225** | **55** | 4,941 | 46 |
| Between two and five years | **14,547** | **54** | 15,113 | 33 |
| Over five years | **9,247** | **–** | 10,052 | – |
| | **28,019** | **109** | 30,106 | 79 |

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

# NOTES TO THE ACCOUNTS

For the year ended 30 April 2018

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 £393,000 (2018 – £410,000).

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 1 July 1997. The scheme was closed to new members on 31 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 30 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 3.6% (2018 – 3.85%, 2017 – 3.6%). The market value of investments at 30 April 2019 was £971,000 (2018 – £986,000, 2017 – £1,007,000) all of which have an expected long term rate of return of 5.0% (2018 – 6.5%, 2017 – 5.0%). 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 30 April 2019 was £972,000 (2018 – £952,000, 2017 – £1,062,000), resulting in a net pension liability of £1,000 (2018 – asset of £34,000, 2017 – liability of £55,000). A liability of £1,000 (2018 – £34,000, 2017 – (£55,000)) covering the underfunded actuarial accrued liability is included in the Group statement of financial position together with a related deferred tax asset of £11,000 (2018 – (£8,000), 2017 – £22,000). The expected group rebate from the scheme for the year ended 30 April 2020 is £5,000.

The fair value of the assets in the scheme and the expected rate of return at 30 April 2018 were:

| | **2019 £'000** | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | **–** | – | – | – | – |
| Fixed income | **322** | 321 | 196 | 144 | 137 |
| Equities | **649** | 665 | 811 | 707 | 717 |
| Total market value of assets | **971** | 986 | 1,007 | 851 | 854 |
| Present value of scheme liabilities | **(972)** | (952) | (1,062) | (1,021) | (1,002) |
| Net pension liability | **(1)** | 34 | (55) | (170) | (148) |

Reconciliation of plan assets:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| At beginning of year | **986** | 1,007 |
| Exchange gain | **96** | 37 |
| Contributions by Group | **–** | 50 |
| Benefits paid | **(100)** | (100) |
| Actuarial (loss)/gain | **(11)** | (8) |
| At end of year | **971** | 986 |

Reconciliation of plan liabilities:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| At beginning of year | **952** | 1,062 |
| Exchange increase | **100** | (5) |
| Interest cost | **37** | 35 |
| Benefits paid | **(100)** | (100) |
| Actuarial (decrease)/increase | **(17)** | (40) |
| At end of year | **972** | 952 |

# NOTES TO THE ACCOUNTS
For the year ended 30 April 2018

## 24. Pension commitments *continued*

History of experience gains and losses:

| | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Actuarial return on scheme assets (£'000) | **(11)** | (8) | 65 | (63) | 20 |
| As a % of plan assets | **(1.2%)** | -0.8% | 6.8% | -7.5% | -2.4% |
| Actuarial (increases)/reductions on scheme liabilities (£'000) | **(17)** | (40) | 36 | (36) | (92) |
| As a % of plan liabilities | **(1.7%)** | 4.2% | -2.6% | 3.6% | 9.0% |

The Group's defined benefit pension arrangement is closed to new entrants and not significant in value. Accordingly, any changes to key pension assumptions would have a significant impact on the consolidated financial statements.

## 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 UK subsidiaries in respect of their overdraft facilities. At 30 April 2019, the value of subsidiary overdrafts covered by the guarantee amounted to £nil (2018 – £nil).

## 26. Related party transactions

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

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Interest charged on long-term loans to Colefax and Fowler Holdings Limited | **139** | 133 |

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

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Colefax and Fowler Holdings Limited | **5,940** | 7,076 |
| Colefax and Fowler Limited | **4,701** | 4,037 |
| Kingcome Sofas Limited | **32** | – |
| Sibyl Colefax and John Fowler Limited | **17** | 493 |
| | **10,690** | 11,606 |

The Company received dividend income from subsidiaries in the year of £3,600,000 (2018 – £4,103,000).

# FIVE YEAR REVIEW

| | **2019 £'000** | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|---|
| Revenue from continuing operations | **86,355** | 86,052 | 80,475 | 76,879 | 76,796 |
| Profit from continuing operations | **5,070** | 4,721 | 2,937 | 5,013 | 5,037 |
| Profit before taxation from continuing operations | **5,095** | 4,719 | 2,937 | 5,016 | 5,029 |
| Profit attributable to shareholders | **3,830** | 3,832 | 1,895 | 3,461 | 3,542 |
| Basic earnings per share from continuing operations | **39.3p** | 38.1p | 18.6p | 32.2p | 32.2p |
| Diluted earnings per share from continuing operations | **39.3p** | 38.1p | 18.6p | 32.2p | 32.2p |
| Dividends per share | **5.20p** | 5.00p | 4.80p | 4.60p | 4.40p |
| Equity | **26,439** | 27,419 | 25,936 | 26,318 | 23,757 |
| Operating cash flow | **7,907** | 8,909 | 4,180 | 7,195 | 8,741 |
| Cash and cash equivalents | **9,458** | 9,177 | 6,710 | 10,085 | 6,861 |

# NOTICE OF MEETING

Notice is hereby given that the 2019 Annual General Meeting of Colefax Group Plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 18 September 2019 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 30 April 2019, together with the reports of the Directors and of the auditors thereon.
2. To declare a final dividend of 2.7p 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 W. Nicholls, who retires by rotation, as a Director.

**Special Business**

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

6. THAT 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 £300,748 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 £300,748 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 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 regulations or requirements of any regulatory or stock exchange authority in any jurisdiction or territory; and

# NOTICE OF MEETING

(b) the allotment (other than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £45,112.

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

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

8. THAT in place of all existing authorities (save to the extent relied upon prior to the passing of this resolution), the Company be generally and unconditionally authorised in accordance with Section 701 of the Companies Act (the "Act") to make one or more market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company ("ordinary shares") provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 1,353,366 representing 15% of the issued ordinary share capital;

(b) the minimum price which may be paid for an ordinary share is 10p;

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased;

(d) this authority expires on the fifth anniversary of the date of the passing of the resolution; and

(e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

**By order of the Board**
R. M. Barker BSc ACA
Secretary
26 July 2019

**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 16 September 2019.

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 16 September 2019 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 16 September 2019 (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 25 July 2019 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 9,022,440 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the company as at 25 July 2019 were 9,022,440.

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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