

Company Registration No. 16193

**COLART FINE ART & GRAPHICS
LIMITED**

Director's Report and Financial Statements

Year ended 31 December 2004



COLART FINE ART & GRAPHICS LIMITED

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS 2004

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COLART FINE ART & GRAPHICS LIMITED

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C E Wraight
M W G Henderson
J R Keightley

SECRETARY

M F Walker

REGISTERED OFFICE

Whitefriars Avenue
Wealdstone
Harrow
Middlesex

BANKERS

Nordea Bank Finland Plc
55 Basinghall Street
London

Barclays Bank Plc
1 Capability Green
Luton

SOLICITORS

Macfarlanes
10 Norwich Street
London

AUDITORS

KPMG LLP
Chartered Accountants
8 Salisbury Square
London

COLART FINE ART & GRAPHICS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004

ACTIVITIES

The principal activity of the company is the manufacture and distribution of art and craft materials. The directors do not foresee any change in this activity during 2004.

BUSINESS REVIEW AND RESULTS

The company's profit for the financial year is £6,889,000 (2003:£6,502,000). An interim dividend of £7,500,000 was paid during the year (2003:interim £4,750,000). The directors do not recommend that a final dividend be paid (2003: final £nil).

CHARITABLE AND POLITICAL DONATIONS

Charitable donations of £nil (2003: £42) were made during the year. There were no political donations during the year.

DIRECTORS

The following directors held office during the year

C E Wraight

M G W Henderson

J R Keightley

DIRECTORS' INTEREST

The interests of the directors in the ultimate ColArt Group UK holding company, ColArt Investments Limited, are as set out in the accounts of that company.

EMPLOYEES


The company's employment policies are based on equal opportunity for all staff. The selection and advancement of staff is based on ability and suitability for the relevant job and the subsequent training development, promotion and assessment of staff performance are based on competence and not gender, ethnic origin or disability. In the event of an employee becoming disabled while in employment, every effort will be made by the company to find continuing and suitable work, including the offer of retraining.

Staff are kept fully informed of the company's progress both at a company level and at group level through in-house publications, routine briefings and consultations with recognised trade unions. These routine meetings also provide a forum for discussions and consultations on health, safety and welfare matters, which are accompanied by training and codes of working practices designed to protect the health and safety of employees.

AUDITORS

KPMG LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be put to the Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


Secretary

8 April 2005

COLART FINE ART & GRAPHICS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of ColArt Fine Art & Graphics Limited

We have audited the financial statements on pages 5 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

12 April 2005

COLART FINE ART & GRAPHICS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|------|---------------|---------------|
| TURNOVER | 2 | 40,999 | 40,789 |
| Cost of sales | | (25,063) | (23,932) |
| GROSS PROFIT | | 15,936 | 16,857 |
| Distribution costs | | (6,394) | (6,031) |
| Administrative expenses | | (3,835) | (4,275) |
| Other operating income | | 2,212 | 2,001 |
| OPERATING PROFIT | | 7,919 | 8,552 |
| Interest payable and similar charges | 6 | (983) | (1,030) |
| Income from Fixed asset investments | 7 | 1,747 | 1,015 |
| Other interest receivable and similar income | 8 | 457 | 350 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | 9,140 | 8,887 |
| Tax on profit on ordinary activities | 9 | (2,251) | (2,385) |
| PROFIT FOR THE FINANCIAL YEAR | | 6,889 | 6,502 |
| Dividends paid | 10 | (7,500) | (4,750) |
| RETAINED PROFIT FOR THE YEAR TRANSFERRED TO RESERVES | 21 | (611) | 1,752 |

The above results all arise from continuing activities.

The company has no recognised gains and losses other than the profit above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

COLART FINE ART & GRAPHICS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS Year ended 31 December 2004.

| | 2004 £'000 | 2003 £'000 |
|-------------------------------------|---------------|---------------|
| Profit for the financial year | 6,889 | 6,502 |
| Dividend paid on equity shares | (7,500) | (4,750) |
| | <hr/> | <hr/> |
| Net addition to shareholders' funds | (611) | 1,752 |
| Opening shareholders' funds | 15,909 | 14,157 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | <u>15,298</u> | <u>15,909</u> |

COLART FINE ART & GRAPHICS LIMITED

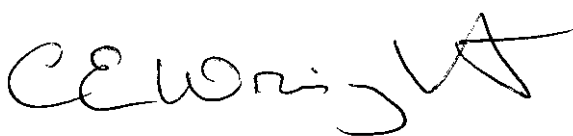
BALANCE SHEET

31 December 2004

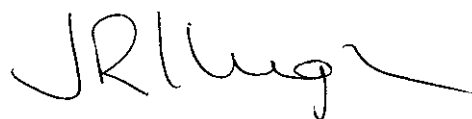
| | Note | 2004 £000 | 2003 £000 |
|--|------|-----------------|-----------------|
| FIXED ASSETS | | | |
| Intangible assets | 11 | - | - |
| Tangible assets | 12 | 5,563 | 5,877 |
| Investments | 13 | 8,029 | 6,734 |
| | | <u>13,592</u> | <u>12,611</u> |
| CURRENT ASSETS | | | |
| Stocks | 14 | 8,442 | 7,918 |
| Debtors: amounts falling due within one year | 15 | 10,368 | 10,089 |
| Debtors: amounts falling due after one year | 16 | 7,064 | 7,378 |
| Cash at bank and in hand | | - | 6,071 |
| | | <u>25,874</u> | <u>31,456</u> |
| CREDITORS: amounts falling due within one year | 17 | <u>(10,364)</u> | <u>(7,226)</u> |
| NET CURRENT ASSETS | | <u>15,510</u> | <u>24,230</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>29,102</u> | <u>36,841</u> |
| CREDITORS: amounts falling due after more than one year | 18 | <u>(13,004)</u> | <u>(20,018)</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | 19 | <u>(800)</u> | <u>(914)</u> |
| TOTAL NET ASSETS | | <u>15,298</u> | <u>15,909</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 20 | 1,464 | 1,464 |
| Profit and loss account | 21 | 13,834 | 14,445 |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | | <u>15,298</u> | <u>15,909</u> |

These financial statements were approved by the Board of Directors on 8 April 2005.

Signed on behalf of the Board of Directors



Director



COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Basis of accounting

The accounts have been prepared under the historical cost convention. Accounting policies have been consistently applied. The company has taken advantage of the exemption afforded by Section 228 of the Companies Act 1985, as it is an intermediate holding company whose group parent company is Wilhelm Becker AB which prepares consolidated accounts, not to prepare consolidated accounts and under the terms of Financial Reporting Standard No.1 from publishing a cash flow statement. Consequently these financial statements present the results of the company and not the group.

Turnover

Turnover represents the net amount invoiced to external customers and affiliated companies during the year, exclusive of VAT and other sales related taxes.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of those assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets are not discounted.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Tangible and intangible assets

Tangible fixed assets and intangible fixed assets are stated at cost or valuation, net of depreciation or amortisation and any provision for impairment. Except for freehold land, the cost of fixed assets is written off on a straight line basis over the period of the expected useful life of the asset. For this purpose, expected lives are determined within the following limits:

| | |
|---|-----------------------------|
| Freehold buildings | not more than fifty years |
| Product plant and equipment, and office equipment | not more than fifteen years |
| Motor vehicles | not more than four years |
| Patents and know-how | not more than ten years |

Leases

Operating lease commitments are charged in the financial statements on a straight line basis even if this is not the time the rental liabilities arise.

Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the renew date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the short period is used.

Foreign currency translations

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

1. ACCOUNTING POLICIES *(continued)*

Pension arrangements

For defined benefit schemes the amount charged against the profit and loss account in respect of pension costs in the year is the estimated regular cost of providing the benefit accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage over the estimated average remaining life of the scheme members. Defined benefit schemes are funded with assets held separately from those of the group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year.

Stock

Stock is stated at the lower of cost or net realisable value. Cost comprises materials, direct labour and an appropriate proportion of overhead expenses and is arrived at by the 'first in-first out' method. Provision is made for obsolete, slow-moving stock or defective items where appropriate.

2. TURNOVER

The directors are of the opinion that it would be seriously prejudicial to the interests of the company to disclose an analysis of turnover.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Depreciation | 1,013 | 1,009 |
| Amortisation of intangible asset | - | - |
| Operating leases | | |
| - hire of equipment | 423 | 415 |
| - other | 516 | 471 |
| Remuneration of auditors | | |
| - audit fees | 34 | 32 |
| Amounts receivable under operating leases | (516) | (471) |

4. DIRECTORS' EMOLUMENTS AND INTERESTS

No emoluments were paid directly by the company to the directors for duties undertaken on behalf of the company during the year (2003: £nil). The remuneration of the three directors (2003: four) was borne by other group companies.

Total remuneration paid to the directors by group companies for services to the Company was:

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| Aggregate emoluments | 162,689 | 329,201 |
| Company contributions to money purchase pension scheme | 7,055 | 38,402 |

Retirement benefits are accruing to two directors under a defined benefit scheme and one director under both a money purchase and a defined benefit scheme.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

4. DIRECTORS' EMOLUMENTS AND INTERESTS *(continued)*

Highest paid director

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| Aggregate emoluments | 84,801 | 172,837 |
| Company contributions to money purchase pension scheme | - | 29,718 |

The interests of the Directors are shown in the accounts of ColArt Investments Limited, the ultimate UK holding company of the ColArt Group.

5. EMPLOYEE INFORMATION

The average number of persons employed by the company, excluding executive directors, during the year was:

| | 2004 Number | 2003 Number |
|--------------------------|----------------|----------------|
| Sales and administration | 129 | 133 |
| Production | 192 | 194 |
| | 321 | 327 |

Staff costs for the above persons:

| | 2004 £'000 | 2003 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 7,857 | 7,626 |
| Social security costs | 540 | 524 |
| Other pensions costs | 922 | 845 |
| | 9,319 | 8,992 |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2004 £'000 | 2003 £'000 |
|------------------------------|---------------|---------------|
| Interest payable | | |
| On bank and other borrowings | 983 | 1,030 |
| | 983 | 1,030 |

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

7. INCOME FROM FIXED ASSET INVESTMENTS

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Income from fixed asset investments (excluding group undertakings) | 1,747 | 1,015 |
| | <u>1,747</u> | <u>1,015</u> |

8. OTHER INTEREST RECEIVABLE & SIMILAR INCOME

| | 2004 £'000 | 2003 £'000 |
|---------------------|---------------|---------------|
| Interest receivable | 457 | 350 |
| | <u>457</u> | <u>350</u> |

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2004 £'000 | 2003 £'000 |
|--|---------------------|---------------------|
| Current tax: | | |
| UK corporation tax on profits of the period | 2,411 | 2,572 |
| Double taxation relief | (49) | (59) |
| Adjustments in respect of previous periods | (20) | (54) |
| | <u>2,342</u> | <u>2,459</u> |
| Foreign taxation | 23 | 24 |
| Current tax charge | <u>2,365</u> | <u>2,483</u> |
| Deferred taxation: | | |
| Origination and reversal of timing differences | (114) | (98) |
| Adjustments in respect of previous periods | - | - |
| | <u>(114)</u> | <u>(98)</u> |
| TAX ON PROFIT ON ORDINARY ACTIVITIES | <u>2,251</u> | <u>2,385</u> |

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

| | | |
|--|---------------------|---------------------|
| Profit on ordinary activities before taxation | 9,140 | 8,887 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 – 30%) | 2,742 | 2,666 |
| Effects of : | | |
| Expenses not deductible for tax purposes | 20 | 41 |
| Depreciation for the period in excess of capital allowances | 36 | 7 |
| Dividends from UK subsidiaries | (465) | (233) |
| Increase in SSAP24 and other timing differences | 78 | 91 |
| Foreign taxes not deductible for UK double taxation relief purposes | 23 | 24 |
| Double taxation relief | (49) | (59) |
| Adjustment to tax charge in respect of previous periods | (20) | (54) |
| CURRENT TAX CHARGE FOR PERIOD | <u>2,365</u> | <u>2,483</u> |

10. DIVIDENDS

| | 2004 £'000 | 2003 £'000 |
|---------------------------|---------------|---------------|
| Dividend on equity shares | | |
| Interim dividend paid | 7,500 | 4,750 |

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS Year ended 31st December 2004

11. INTANGIBLE FIXED ASSETS

| | Patents and Trademarks £'000 |
|--|------------------------------------|
| Cost | |
| At 1 January 2004 and 31 December 2004 | 124 |
| Accumulated depreciation | |
| At 1 January 2004 and 31 December 2004 | 124 |
| Net book value | |
| At 1 January 2004 and 31 December 2004 | - |

The above intangible assets comprise patents and know-how.

12. TANGIBLE FIXED ASSETS

| | Freehold land £'000 | Freehold buildings £'000 | Plant and Equipment £'000 | Total £'000 |
|---------------------------------|---------------------------|--------------------------------|---------------------------------|----------------|
| Cost | | | | |
| At 1 January 2004 | 308 | 5,380 | 11,985 | 17,673 |
| Additions | - | 180 | 524 | 704 |
| Disposal | - | - | (12) | (12) |
| Reclassification | - | 217 | (217) | - |
| At 31 December 2004 | 308 | 5,777 | 12,280 | 18,365 |
| Accumulated depreciation | | | | |
| At 1 January 2004 | - | 3,351 | 8,445 | 11,796 |
| Provided during year | - | 258 | 755 | 1,013 |
| Disposal | - | - | (7) | (7) |
| Reclassification | - | 3 | (3) | - |
| At 31 December 2004 | - | 3,612 | 9,190 | 12,802 |
| Net book value | | | | |
| At 31 December 2004 | 308 | 2,165 | 3,090 | 5,563 |
| At 31 December 2003 | 308 | 2,029 | 3,540 | 5,877 |

Future capital expenditure authorised but not contracted for £nil (2003: £4,000)

Future capital expenditure contracted for but not provided in the accounts £104,000 (2003: £137,000).

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

13. INVESTMENTS

| | 2004 £'000 | 2003 £'000 |
|-------------------|---------------|---------------|
| At 1 January | 6,734 | 6,421 |
| Additions in year | 1,295 | 313 |
| At 31 December | 8,029 | 6,734 |

A further 30% of the equity of ColArt Tianjin Art Material Company was purchased during 2004. Details of investments in subsidiary undertaking are contained in note 25.

14. STOCKS

| | 2004 £'000 | 2003 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 2,141 | 2,209 |
| Work in progress | 2,028 | 1,646 |
| Finished goods | 4,273 | 4,063 |
| | 8,442 | 7,918 |

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 4,962 | 4,952 |
| Amounts owed by group undertakings | 3,476 | 3,003 |
| Other debtors | 1,930 | 2,134 |
| | 10,368 | 10,089 |

16. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | 6,704 | 6,982 |
| Other debtors | 360 | 396 |
| | 7,064 | 7,378 |

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 2,870 | 2,935 |
| Amounts owed to group undertakings | 1,316 | 1,199 |
| Taxation and social security | 1,432 | 1,972 |
| Accruals and deferred income | 2,527 | 1,120 |
| Bank overdraft | 2,219 | - |
| | <u>10,364</u> | <u>7,226</u> |

The creditor for taxation and social security includes UK corporation tax payable amounting to £1,191,000 (2003: £1,483,000).

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Bank loans | 12,244 | 12,681 |
| Amounts owed to group undertakings | 760 | 7,337 |
| | <u>13,004</u> | <u>20,018</u> |

On 11 August 1999, the company was a participant in a refinancing exercise for the ColArt Group, resulting in its existing bank loan being refinanced as part of a new credit arrangement. Part of this loan was restructured in 2002.

Interest on the bank loan has been fixed until 2008 at a variety of rates not greater than 8%.

The banking facilities are supported by the following:

- charge in the shares in the main subsidiary undertakings of ColArt Investments Limited.
- charge on the brands in the main subsidiary undertakings of ColArt Investments Limited.
- fixed and floating charge over the assets of ColArt group companies registered in the United Kingdom; and
- charge over some of the assets of overseas subsidiaries of the ColArt group.

In the opinion of the directors, repayment of the loan will be as follows:

| | 2004 £'000 | 2003 £'000 |
|----------------------------|---------------|---------------|
| Between two and five years | 12,244 | 12,681 |
| | <u>12,244</u> | <u>12,681</u> |

The amounts owed to fellow subsidiary undertakings have no fixed repayment terms, are secured and are non-interest bearing.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

19. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Accelerated capital allowances | 521 | 557 |
| Short term timing differences | 279 | 357 |
| Provision for deferred taxation | <u>800</u> | <u>914</u> |
| Deferred tax | | |
| At 1 January | 914 | 1,012 |
| Charge to profit and loss account | (114) | (98) |
| At 31 December | <u>800</u> | <u>914</u> |

Deferred tax has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further roll over relief is not obtained. The estimated amount of tax which would become payable in these circumstances is £86,000. At present it is not envisaged that any tax will become payable in the foreseeable future.

20. CALLED UP SHARE CAPITAL

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Authorised: | | |
| 8,000,000 ordinary shares of 25p each | 2,000 | 2,000 |
| Called up, allotted and fully paid | | |
| 5,856,000 ordinary shares of 25p each | <u>1,464</u> | <u>1,464</u> |

21. PROFIT AND LOSS ACCOUNT

| | 2004 £'000 | 2003 £'000 |
|------------------------------|---------------|---------------|
| At 1 January | 14,445 | 12,693 |
| (Loss) / profit for the year | (611) | 1,752 |
| At 31 December | <u>13,834</u> | <u>14,445</u> |

22. CONTINGENT LIABILITIES

As described in note 16, the banking facilities of the ColArt Investments Limited group are supported by the following:

- charge on the shares in the main subsidiary undertakings of ColArt Investment Limited.
- charge on the brands in the main subsidiary undertakings of ColArt Investments Limited.
- fixed and floating charge over the assets of ColArt group companies registered in the United Kingdom; and
- charge over some of the assets of overseas subsidiaries of the ColArt group.

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

23. OPERATING LEASE COMMITMENTS

The company is committed to making the following payments in respect of operating leases during the forthcoming year.

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Land and buildings: | | |
| Expiry date - in over five years | 306 | 471 |
| Expiry date - between two and five years | 210 | - |
| Plant and machinery | | |
| Expiry date - between two and five years | 227 | 396 |
| Expiry date - within one year | 114 | 83 |
| | <u>857</u> | <u>950</u> |

24. PENSION ARRANGEMENTS

The company participates in the ColArt Pension Scheme which provides members with defined benefits related to salary and service. During 2002, the Defined Benefit section of the Scheme was closed to new entrants and a Defined Contribution Section was introduced for new entrants joining from 1st August 2002. The Scheme's assets are held in a separate trustee administered pension fund.

The Scheme was formed on 1 April 2000, and is valued every three years by professionally qualified independent consulting actuaries.

The company continues to account for pensions in accordance with SSAP 24 'Accounting for Pension Costs' and the disclosures given in (a) below relate to those required by that standard. The transitional disclosures required under FRS 17 'Retirement benefits' to the extent not given in (a) are set out in (b).

- (a) The formal valuation of the scheme showed that as at 1 April 2003 the Scheme's assets were £18,881,000 in respect of liabilities accrued to 31 March 2003. The actuarial value of these assets represented 75% of the benefits that had accrued to the members based on service to that date allowing for assumed future salary increases. The Company paid contributions during the year at the full ongoing rate revealed by the valuation as at 1 April 2003.

The pension cost for the year to 31 December 2004 has been assessed in accordance with the advice of the consulting actuaries based on the results of the valuation carried out as at 1 April 2003. The calculations were performed using the projected unit method for pension benefits and the current cost method for lump sums on death in service and expenses of administration. The accounting deficit has been spread using the percentage of pay method. The actuarial assumptions adopted for determining pension costs and contribution rates were based on yields on government bonds as at 1 April 2003. The most important of these assumptions are as follows:

| | |
|--|---------|
| Rate of return on investments pre-retirement: | 6.6% pa |
| Rate of return on investments post-retirement: | 5.6% pa |
| Rate of increase in earnings: | 3.6% pa |
| Rate of increase in the Lower Earnings Limit: | 2.6% pa |
| Rate of pension increases: | 2.5% pa |

The total pension cost for the company for 2004 was £1,271,000. At the end of the year, the prepayment in the accounts amounts to £929,000.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

(b) FRS17 Retirement benefits

Under the definitions set out in Financial Reporting Standard 17 Retirement Benefits, the ColArt pension scheme is a multi-employer pension scheme. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. Accordingly, the company has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme.

The company's contribution rate depends on the surplus or deficit in the scheme and the rate is set for the scheme as a whole. The company is contributing 15.8% of pensionable earnings (plus a further 4% of Pensionable Pay in respect of senior executives) to the ColArt Pension Scheme, which is higher than the current service cost. The latest actuarial valuation of the scheme was carried out in April 2003. It has been updated to 31 December 2004 by qualified independent actuaries using revised assumptions that are consistent with FRS 17.

25. INTEREST IN SUBSIDIARY UNDERTAKINGS

In the opinion of the directors, the aggregate value of the company's interests in its subsidiary undertakings and joint venture undertakings are not less than the aggregate of the amount at which the shares in and the amount owing from the company's subsidiary undertakings are included in the company's balance sheet.

The company held the following significant interests at 31 December 2004:

| | Country of incorporation | Class of share | Percentage held | Nature of business |
|---|---------------------------|--------------------|-----------------|---|
| Crown Artist Brush Limited | England | Ordinary | 100% | Brush manufacture |
| ColArt Hong Kong Limited | Hong Kong | Ordinary | 100% | Selling and Distribution |
| Mirum Products Limited | England | Ordinary | 100% | Tube manufacture |
| Oasis Art & Craft Products Limited | England | Ordinary | 100% | Assembly and distribution of children's creative products |
| ColArt Tianjin Art Materials Company Limited | Peoples Republic of China | Registered capital | 90% | Colour manufacture |
| Bonny ColArt Company Limited | Japan | Registered capital | 50% | Packaging and distribution of artists materials |
| Jinhua Universal Canvas Manufacturing Company Limited | Peoples Republic of China | Registered capital | 30% | Canvas manufacture |

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31st December 2004

26. RELATED PARTY TRANSACTIONS

During the year the company undertook business transactions with other Becker group companies as listed in the published accounts of Wilhelm Becker AB.

Due to the similar nature of these transactions the amounts for all companies have been aggregated as follows:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Purchases | 6,787 | 7,010 |
| Sales | 19,058 | 18,965 |
| Management and technical expertise provided | 1,271 | 1,115 |
| Management charges paid | 79 | 78 |
| Royalties received | 448 | 412 |
| Other payments made | 74 | 75 |

27. HOLDING COMPANIES

The immediate holding company is ColArt International Holdings Limited incorporated in Great Britain and registered in England and Wales.

The ultimate UK holding company is Wilhelm Becker Limited incorporated in Great Britain and registered in England and Wales.

The ultimate holding company is Lindengruppen AB, a company incorporated and registered in Sweden. The parent company of the largest and smallest group of which the company is a member and for which group financial statements are drawn up is Wilhelm Becker AB, a company incorporated and registered in Sweden.

Copies of the consolidated financial statements of Wilhelm Becker AB can be obtained from Bruksgården, SE-268 83, Höganas, Sweden.