

**COLART FINE ART & GRAPHICS
LIMITED**

Directors' Report and Financial Statements

Year ended 31 December 2006

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COLART FINE ART & GRAPHICS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2006

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COLART FINE ART & GRAPHICS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C E Wraight
MWG Henderson resigned 22/12/2006
J R Keightley
A D Bowen appointed 10/07/2006
E Urnes appointed 22/12/2006
R J Goodban appointed 22/12/2006

SECRETARY

M F Walker resigned 06/07/2006
J R Keightley appointed 06/07/2006

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 2006

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 2007.

BUSINESS REVIEW AND RESULTS

The company's profit for the financial year is £3,723,000 (2005 £6,451,000). An interim dividend of £3,866,000 was paid during the year (2005 £3,600,000). The directors do not recommend that a final dividend be paid (2005 final £nil).

TRADING

Sales and Profits in the year were lower than in 2005 mainly due to exchange rate changes with respect to the dollar and due to the requirements of customers to lower inventory levels and the subsequent reduction in purchases. To minimise the impact of the lower sales operating costs have been kept under tight control in 2006, and inventories have also been tightly controlled and reduced. Investment in brand development, research and development, training and capital equipment has been maintained at normal levels.

STRATEGY FOR THE BUSINESS

The strategy of the business is to maintain and enhance its market position as the supplier of the world's finest art materials by continuing attention to customer service and product development.

RISKS

The company takes measures to manage business and development risks to minimise their likelihood or impact, and in particular to ensure business continuity. The company has processes in place to control levels of working capital. The Company continues to take actions to manage its foreign currency exposure, which represents a key financial risk to the company.

OUTLOOK

The activity of the Company comprises the marketing and distribution of branded products in the UK and overseas, and additionally the management of some large scale manufacturing contracts. At the beginning of 2007 these large contracts will be moved to another ColArt UK company so that the Company can be better focused on its core branded activity.

The Company operates in a competitive environment and as such must continue to operate efficiently.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations of £200 (2005 £1,000) 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 resigned 22/12/2006

J R Keightley

A D Bowen appointed 10/07/2006

R J Goodban appointed 22/12/2006

E Urnes appointed 22/12/2006

COLART FINE ART & GRAPHICS LIMITED

DIRECTORS' REPORT

DIRECTORS (CONTINUED)

The company maintains insurance to provide liability cover for directors and officers of the company

The interests of the directors in the ultimate ColArt Group UK holding company, ColArt International Holdings 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.

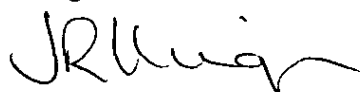
DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

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

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



Secretary

6th August 2007

COLART FINE ART & GRAPHICS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COLART FINE ART & GRAPHICS LIMITED

We have audited the financial statements of ColArt Fine Art & Graphics Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the reconciliation of movements in shareholders' Funds, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

London

16th August 2007

COLART FINE ART & GRAPHICS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2006

	Note	2006 £'000	2005 £'000
TURNOVER	2	37,590	41,438
Cost of sales		(25,042)	(25,660)
GROSS PROFIT		12,548	15,778
Distribution costs		(5,641)	(5,825)
Administrative expenses		(4,069)	(3,919)
Other operating income		2,395	2,376
OPERATING PROFIT		5,233	8,410
Interest payable and similar charges	6	(844)	(1,093)
Income from Fixed asset investments	7	446	771
Other interest receivable and similar income	8	647	678
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,482	8,766
Tax on profit on ordinary activities	9	(1,759)	(2,315)
PROFIT FOR THE FINANCIAL YEAR		3,723	6,451

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 2006

	2006 £'000	2005 £'000
Profit for the financial year	3,723	6,451
Dividend paid on equity shares	(3,866)	(3,600)
	<hr/>	<hr/>
Movement on shareholders' funds in year	(143)	2,851
	<hr/>	<hr/>
Opening Shareholders' funds	17,499	14,648
	<hr/>	<hr/>
Closing shareholders' funds	17,356	17,499
	<hr/>	<hr/>

COLART FINE ART & GRAPHICS LIMITED

BALANCE SHEET

31 December 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Intangible assets	11	-	-
Tangible assets	12	5,293	5,266
Investments	13	9,161	9,184
		<u>14,454</u>	<u>14,450</u>
CURRENT ASSETS			
Stocks	14	7,270	8,040
Debtors amounts falling due within one year	15	10,458	13,011
Debtors amounts falling due after one year	16	2,697	2,776
Cash at bank and in hand		-	135
		<u>20,425</u>	<u>23,962</u>
CREDITORS. amounts falling due within one year	17	<u>(9,154)</u>	<u>(12,451)</u>
NET CURRENT ASSETS		<u>11,271</u>	<u>11,511</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>25,725</u>	<u>25,961</u>
CREDITORS amounts falling due after more than one year	18	(7,938)	(7,997)
PROVISIONS FOR LIABILITIES AND CHARGES	19	<u>(431)</u>	<u>(465)</u>
TOTAL NET ASSETS		<u>17,356</u>	<u>17,499</u>
CAPITAL AND RESERVES			
Called up share capital	20	1,464	1,464
Profit and loss account	21	15,892	16,035
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>17,356</u>	<u>17,499</u>

These financial statements were approved by the Board of Directors on 6th August 2007

Signed on behalf of the Board of Directors

C E Wraight

Director

J R Keightley

Director

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

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 is used.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

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.

Pension arrangements

The ColArt group operates a pension scheme with two sections, a defined benefit section providing benefits based on final pensionable pay and a defined contribution section. The assets of the scheme are held separately from those of the group.

The defined benefit scheme is a multi employer scheme under the definitions set out in FRS17 'Retirement benefits' and as such the company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As a result the amount charged to the company's profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The defined contribution section of the pension scheme charges the profit and loss account with the pension contribution payable in the year.

Stock

Stock is stated at the lower of cost and 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

	2006 £'000	2005 £'000
Depreciation	984	1,010
Loss on sale of Fixed Assets	12	-
Operating leases		
- hire of equipment	475	460
- other	210	210
Remuneration of auditors		
- audit fees	36	35
Amounts receivable under operating leases	(210)	(210)

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

4. DIRECTORS' EMOLUMENTS AND INTERESTS

Emoluments paid directly by the company to the directors for duties undertaken on behalf of the company during the year were £186,074 (2005 £148,961)

Total remuneration paid for services to the Company was

	2006 £	2005 £
Aggregate emoluments	<u>186,074</u>	<u>148,961</u>
Company contributions to money purchase pension scheme	<u>-</u>	<u>4,780</u>

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

Highest paid director

	2006 £	2005 £
Aggregate emoluments	<u>83,546</u>	<u>84,549</u>

5. EMPLOYEE INFORMATION

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

	2006 Number	2005 Number
Sales and administration	133	131
Production	<u>177</u>	<u>181</u>
	<u>310</u>	<u>312</u>

Staff costs for the above persons

	2006 £'000	2005 £'000
Wages and salaries	8,804	8,556
Social security costs	801	685
Other pensions costs	<u>1,009</u>	<u>986</u>
	<u>10,614</u>	<u>10,227</u>

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £'000	2005 £'000
Interest payable on bank and other borrowings	844	1,093
	<u>844</u>	<u>1,093</u>

7. INCOME FROM FIXED ASSET INVESTMENTS

	2006 £'000	2005 £'000
Income from fixed asset investments (excluding group undertakings)	446	771
	<u>446</u>	<u>771</u>

8. OTHER INTEREST RECEIVABLE & SIMILAR INCOME

	2006 £'000	2005 £'000
Interest receivable	647	678
	<u>647</u>	<u>678</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on profits of the period	1,589	2,466
Double taxation relief	(57)	(62)
Adjustments in respect of previous periods	168	(70)
	<u>1,700</u>	<u>2,334</u>
Foreign taxation	93	37
Current tax charge	<u>1,793</u>	<u>2,371</u>
Deferred taxation		
Origination and reversal of timing differences	(34)	(56)
Tax on profit on ordinary activities	<u>1,759</u>	<u>2,315</u>

The current tax charge for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	5,482	8,766
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	1,645	2,630
Effects of		
Expenses not deductible for tax purposes	42	11
Depreciation for the period in excess of capital allowances	36	57
Dividends from UK subsidiaries	(134)	(143)
Double tax relief expected on dividends from non UK resident subsidiaries	-	(89)
Foreign taxes not deductible for UK double taxation relief purposes	93	37
Double taxation relief	(57)	(62)
Adjustment to tax charge in respect of previous periods	168	(70)
Current tax charge for the period	1,793	2,371

10. DIVIDENDS

	2006 £'000	2005 £'000
Dividend on equity shares		
Interim dividend paid	3,866	3,600

11. INTANGIBLE FIXED ASSETS

	Patents and Trademarks £'000
Cost	
At 1 January 2006 and 31 December 2006	124
Accumulated depreciation	
At 1 January 2006 and 31 December 2006	124
Net book value	
At 1 January 2006 and 31 December 2006	-
The above intangible assets comprise patents and know-how	

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

12 TANGIBLE FIXED ASSETS

	Freehold land £'000	Freehold buildings £'000	Plant and Equipment £'000	Total £'000
Cost				
At 1 January 2006	308	5,979	12,791	19,078
Additions	-	139	884	1,023
Sales	-	-	(12)	(12)
At 31 December 2006	308	6,118	13,663	20,089
Accumulated depreciation				
At 1 January 2006	-	3,880	9,932	13,812
Provided during year	-	254	730	984
At 31 December 2006	-	4,134	10,662	14,796
Net book value				
At 31 December 2006	308	1,984	3,001	5,293
At 31 December 2005	308	2,099	2,859	5,266

Future capital expenditure authorised but not contracted for £Nil (2005 £24,000)

Future capital expenditure contracted for but not provided in the accounts £87,000 (2005 £279,000)

13. INVESTMENTS

	2006 £'000	2005 £'000
At 1 January	9,184	8,029
Additions/(disposals) in year	(23)	1,155
At 31 December	9,161	9,184

Details of investments in subsidiary undertakings are contained in note 25

14. STOCKS

	2006 £'000	2005 £'000
Raw materials and consumables	1,900	2,255
Work in progress	1,886	2,129
Finished goods	3,484	3,656
	7,270	8,040

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2006

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Trade debtors	5,410	4,960
Amounts owed by group undertakings	4,153	7,180
Other debtors	895	871
	<u>10,458</u>	<u>13,011</u>

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

	2006 £'000	2005 £'000
Amounts owed by group undertakings	2,515	2,530
Other debtors	182	246
	<u>2,697</u>	<u>2,776</u>

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Trade creditors	2,662	2,800
Amounts owed to group undertakings	2,584	2,333
Taxation and social security	1,333	1,884
Accruals and deferred income	1,522	1,838
Bank loans and overdraft	1,053	3,596
	<u>9,154</u>	<u>12,451</u>

The creditor for taxation and social security includes UK corporation tax payable amounting to £1,073,000 (2005 £1,659,000)

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

18. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £'000	2005 £'000
Bank loans	7,178	7,237
Amounts owed to group undertakings	760	760
	<u>7,938</u>	<u>7,997</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 2011 at a variety of rates not greater than 7.5%.

The banking facilities are supported by the following:

- charge in the shares in the main subsidiary undertakings of ColArt International Holdings Limited
- charge on the brands in the main subsidiary undertakings of ColArt International Holdings 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:

	2006 £'000	2005 £'000
Over five years	<u>7,178</u>	<u>7,237</u>

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

19. PROVISIONS FOR LIABILITIES AND CHARGES

	2006 £'000	2005 £'000
Accelerated capital allowances	<u>431</u>	<u>465</u>
Provision for deferred taxation	<u>431</u>	<u>465</u>
Deferred tax		
At 1 January	465	521
Charge to profit and loss account for year	<u>(34)</u>	<u>(56)</u>
At 31 December	<u>431</u>	<u>465</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 (2005: £86,000). At present it is not envisaged that any tax will become payable in the foreseeable future.

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

20. CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised:		
8,000,000 ordinary shares of 25p each	2,000	2,000
	<hr/>	<hr/>
Called up, allotted and fully paid		
5,856,000 ordinary shares of 25p each	1,464	1,464
	<hr/>	<hr/>

21. PROFIT AND LOSS ACCOUNT

	2006 £'000	2005 £'000
At 1 January	16,035	13,184
Profit for the financial year	3,723	6,451
Dividend paid	(3,866)	(3,600)
	<hr/>	<hr/>
At 31 December	15,892	16,035
	<hr/>	<hr/>

22. CONTINGENT LIABILITIES

As described in note 18, the banking facilities of the ColArt International Holdings Limited group are supported by the following

- charge on the shares in the main subsidiary undertakings of ColArt International Holdings Limited
- charge on the brands in the main subsidiary undertakings of ColArt International Holdings 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

COLART FINE ART & GRAPHICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

23. OPERATING LEASE COMMITMENTS

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

	2006 £'000	2005 £'000
Land and buildings		
Expiry date - between two and five years	210	210
Plant and machinery		
Expiry date - in over five years	9	9
Expiry date - between two and five years	320	315
Expiry date - within one year	114	111
	<u>653</u>	<u>645</u>

24. PENSION ARRANGEMENTS

The company participates in the ColArt Pension Scheme which has both a Defined benefit and a Defined contribution section. The Defined Benefit section of the Scheme was closed to new entrants and the Defined Contribution Section was introduced for new entrants joining from 1st August 2002. The schemes 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 preliminary results of the formal valuation of the Scheme showed that as at 1 April 2006 the Scheme's assets were £34,400,000. The liabilities on a going concern basis were assessed to be £44,800,000 meaning the value of the assets represented 77% of the benefits that had accrued to the members based on service to that date allowing for assumed future salary increases. The Company increased its contributions during the year and is also in discussions to change the future benefits of the Scheme in order to put together a funding plan to bring the Scheme to a fully funded position in just over 10 years. There will be a further valuation as at 1 April 2009.

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 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 19% of pensionable earnings to the ColArt Pension Scheme for members in the Defined Benefit section of the Scheme plus other contributions based on other employees which in total equate to 21.5% of the pensionable earnings for the members in the Defined Benefit section of the Scheme. The latest actuarial valuation of the scheme was carried out in April 2006. It has been updated to 31 December 2006 by qualified independent actuaries using revised assumptions that are consistent with FRS 17.

COLART FINE ART & GRAPHICS LIMITED

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Year ended 31 December 2006

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 2006

	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 Camlin Canvas Private Limited	India	Ordinary	60%	Canvas manufacture
Snazaroo Holdings Limited	England	Ordinary	100%	Face paint manufacture

All of the above investments are held directly by the company

26. RELATED PARTY TRANSACTIONS

As a 100% owned subsidiary, the company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing details of transactions with either its intermediate parent company, Wilhem Becker AB, or fellow subsidiaries

27. HOLDING COMPANIES

The immediate holding company is ColArt Contract Manufacturing 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, Hoganas, Sweden

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28. SIGNIFICANT EVENTS AFTER THE YEAR END

On 21 March 2007, it was announced that the corporation tax rate is to decrease from 30% to 28%, effective from 1 April 2008. The new tax rate will be substantively enacted when the Bill for 2007 Finance Act is passed.

Subsequent to the year end, the financing arrangements of the AB Wilh Becker group, including ColArt Fine Art & Graphics Ltd, have been reviewed and restructured. ColArt Fine Art & Graphics Ltd is now dependent for its working capital and growth on a facility provided by AB Wilh Becker, the company's ultimate parent company. The directors consider that the group will continue to operate within the financing facilities currently available and accordingly the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

There have been no other significant events since the year end.