Annual Report

1995/96

Filofax Group plc

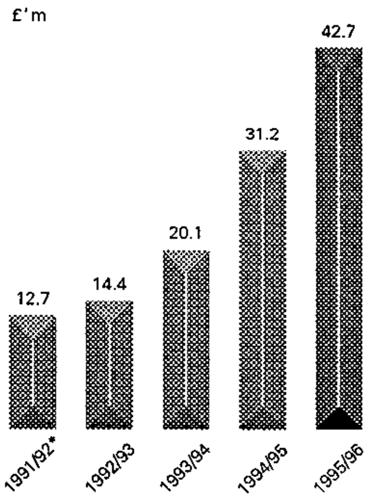
Filofax is a group of consumer supply businesses offering specialised products under strong brand names in over forty countries worldwide.

The majority of sales are made outside the UK. The Group has wholly owned sales subsidiaries in the UK, USA, Germany, France, Sweden, Denmark and Hong Kong.

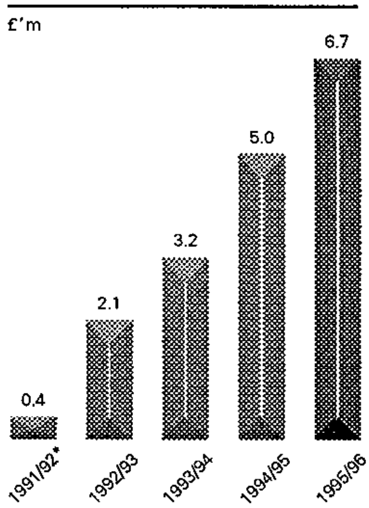
FINANCIAL HIGHLIGHTS

	1995/6 £m	1994/5 £m	Change
Turnover	**42.7**	31.2	+37%
Operating profit	**6.7**	5.0	+34%
Profit before taxation	**6.6**	4.9	+33%
Profit attributable to shareholders	**4.6**	3.4	+33%
Earnings per share (pence)	**16.0p**	13.5p	+19%
Dividends per share (pence)	**3.35p**	2.625p	+28%

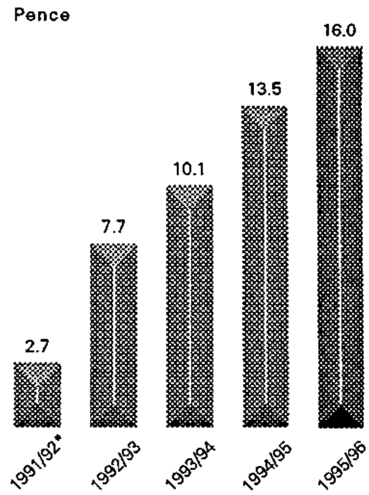
TURNOVER



OPERATING PROFIT



EARNINGS PER SHARE



*(15 months)

This year I am proud to announce that Filofax Group will apply for a full listing on the London Stock Exchange. This achievement represents another significant milestone in the Group's 75 year history. Robin Field **Chief Executive**

SEVENTY FIVE YEARS OF HISTORY

1921	Norman and Hill Ltd Incorporated
1930	Registration of trademark, Filofax
1987	Entered USM as Filofax plc
1988	First complementary acquisition, Yard-O-Led Pencil Company Ltd
1996	Filofax Group plc applies for entry to the official list of the London Stock Exchange

RESULTS

The year to 31 March 1996 saw continued strong progress both in our continuing businesses and in our acquisition strategy. Total turnover rose 37% to £42.7m (£31.2m) and total operating profits rose 34% to £6.7m (£5.0m). Profit before tax rose to £6.6m (£4.9m). Earnings per share have risen by 19% to 16p.

Excluding the acquisition of Topps of England Ltd in July 1995, sales from continuing operations rose by 20% and operating profit by 18%. Gross margin in the continuing operations strengthened from 56.1% to 57.4%.

Cash generation remained a feature, despite the increase in stock and debtors as a result of the Topps acquisition, and we finished the year with net cash balances of £4.1m.

DIVIDEND

Our continuing strong cash generation and confidence in the future have enabled the Board to recommend an increase in the final dividend to 2.0p per share (1.575p) thus lifting the total annual dividend by 28% to 3.35p per share (2.625p). This brings our compound annual growth in dividend per share over the last four years to 61% p.a.

UK

The UK market remains buoyant, with sales of new filled and empty organisers continuing to dominate those of refills. Given our commanding share of the market our future sales growth in the UK will be largely driven by overall market growth (currently around 10%) and by our success in stimulating the market with new product introductions.

The acquisition in July of Topps of England Ltd, our only significant British competitor and owner of Microfile, the nearest brand to Filofax in the European market, has been our most important corporate advance since 1990. The short term financial impact, while earnings enhancing, has been slightly to lower our overall operating margins, but the market implications are radical.

Topps greatly strengthens our strategic position in the UK. By controlling the strong secondary Microfile brand and supplying a key portion of the retailer own-brand market we are able to lift the perceived value of the Filofax brand and ensure proper differentiation between all three segments.

In order to maintain sales and brand differentiation we are maintaining Topps and Filofax UK as separate entities, each with its own sales force. The two brands are viewed as distinct by major retailers. Our clear strategic imperative is now to emphasise the differentiation in consumer perception.

In addition to the marketing opportunities opened by this acquisition we are already seeing significant production advantages. Topps' origins lie in the small leather goods industry and it manufactures some 90% of its own organiser requirements in its highly efficient Sussex factory.

In 1990 we determined to compete with Topps by importing from the Far East as a result of the high labour cost on a UK made organiser. Since then Topps has reduced the total labour content of a typical organiser to below 30% and can now compete on cost with Chinese production. As a result of this improvement our acquisition of Topps has allowed us to bring certain production back to the UK into what is now our own plant with consequent improvements in inventory management, manufacturing control and in perceived value.

We do not anticipate manufacturing more than 25% of our total Group requirements in house but already we are selling Topps made Filofax branded products. The resultant opportunities for additional overhead recovery and the maximisation of production efficiencies within the Topps factory are obvious.

Yard-O-Led

I drew attention last year to the increasing importance of the Yard-O-Led writing instrument brand in our portfolio and this has continued. As a result of its commonality of distribution with our other brands Yard-O-Led is able to reach a much larger retail audience than its relatively small size would otherwise permit. In October 1995 Yard-O-Led launched its first limited edition, a hand chased sterling silver fountain pen with a dragon motif aimed specifically at the Far Eastern market, retailing at £500 and over.

This not only generated additional revenue in itself but drew attention to the brand name and to the rest of the range. Total sales were up 36% and over 77% of this is now generated outside the UK.

Drakes

Our Drakes brand of office stationery in the UK continued to be an excellent profit contributor despite the previous year's erosion of turnover at the lower end. Total UK sales have stabilised at £1.8m and I anticipate that the improvement in product costs achieved by the buying team over the last two years will enable us to improve sales in the year ahead. Here again, shared distribution with the rest of the Group's brands contributes to the strength of both.

Henry Ling

The Henry Ling greeting cards business had a useful year of transition with radical changes to its design approach, sales team and cost structure to gain maximum benefit from Group membership.

While remaining within its defined fine art niche Lings has launched a number of distinct new lines and rejuvenated its range, withdrawing and liquidating a significant number of tired, slow moving lines. The reduction in physical stock that this has permitted, together with a shift from in-house handling and finishing to the purchase of wrapped finished stock only, has enabled the operation to consolidate onto a single site. This move has only been completed since the year end but will permit useful cost savings and a vast improvement in efficiency in the years ahead.

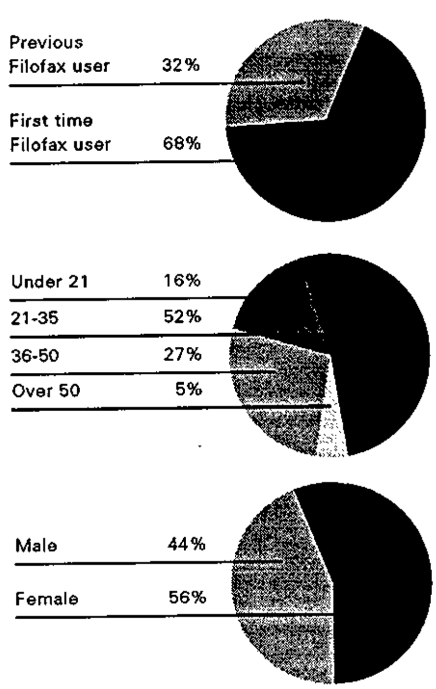
We look forward to significant improvement in market position and financial performance in the year ahead.

CONTINENTAL EUROPE

The Continent of Europe remains a major engine of growth for us. Our four Continental subsidiaries again increased their aggregate sales by over 40% and total sales from both subsidiaries and third party distributors on the Continent rose 36%.

Since September 1992, when we established our first Continental subsidiary in Paris, our French sales had risen very rapidly year on year. This continued until late 1995 with an increasing commitment to French language papers and a significant increase in our French sales force and infrastructure stimulating what was in

UK CONSUMER PROFILE

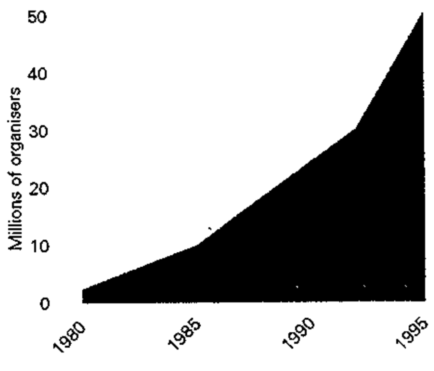


Source: Consumer Survey Nov-Dec 1995

The worldwide market for ring binder organisers continues to grow rapidly.

RING BINDER ORGANISERS

World Retail Volume



Source: Management estimates

any case a fast growing market.

Towards the end of the year, however, economic uncertainty and the consequent industrial disturbances in France, which culminated in the shutdown of public transport in Paris in November and December, began to impact our revenues. Our French sales, like those of most high end consumer supply businesses, are concentrated in Paris and especially concentrated in the last two months of the year when Christmas gift buying increases the natural seasonality of a calendar product.

The disruption to Paris trading and its associated effects on retailer and consumer confidence were a severe set back to us but we remain fully committed to the French market and anticipate significant future growth. Overall retail sales of stationery per capita in France are over twice those in the UK but organiser sales are well below British levels.

As well as continuing to invest in our own subsidiary for sales of the Filofax and Yard-O-Led brands into the traditional high street and department store sector, we are investing in the launch of the Microfile brand into the hypermarket sector through a third party distributor.

Our German subsidiary again achieved good growth and we have increased our employed sales force and have invested in our own small satellite warehouse near Frankfurt.

Since 1993 we have been running France and Germany together under the direction of a single local team of General Manager and Finance Manager but both subsidiaries have now grown beyond the size where this is practicable. We are delighted therefore to have recruited a strong local manager for the German business who starts with us on 1 July.

As in France our Filofax and Yard-O-Led sales are through the traditional stationery channels but we also see an opportunity for organisers through the modern and lower end sectors which in Germany include most department stores. We have therefore withdrawn the Microfile brand from its former distributor and have employed a very small separate team within our existing infrastructure to sell Microfile through a commission agent network.

Our Swedish subsidiary had another excellent year and has also played a major role in introducing Filofax into Finland where the brand is now well established in the Helsinki area. We are looking for further Finnish penetration in the year ahead.

Within Sweden itself we have withdrawn Filofax from the lower end of the market whose rapid expansion was threatening to prejudice the prestige of the brand at the top end. Since the end of the financial year Microfile has been launched in the lower end and will enable us to compete on cost in the mass market without adverse effect on the image of the Filofax brand.

In the small Danish market both our market leader brand, Systemplan, and the more recently introduced Filofax brand continued to grow with no cannibalisation between the two. Lings cards were also introduced to the Danish market and have won top end retailer acceptance. All Mercato organiser sales have now been included under the Filofax and Systemplan brands and all other Mercato products licensed to a third party printer.

Outside our own subsidiaries Continental European turnover growth through third party distributors rose to 19% with strong performances from Norway, Switzerland and Greece. Our Italian distributor had a less buoyant year as a result of internal administrative issues, but continued to grow nevertheless. Important inroads were made in Eastern Europe where sales growth in Russia again exceeded 50%.

REST OF WORLD

Whilst we continue to treat the USA with caution, faith in our new management team has enabled a significant increase in our fully expensed investment in merchandising units within our retail customers' premises. We have structured display programmes with several of the larger department store groups which ensure an increase in display space through into 1998.

In order to service this new space and to control the presentation and positioning of our brands we have moved from third party commission agents to the employment of our own sales force. Our total American field force of twelve has been a considerable investment. This, and the other local investments of the last year has enabled us to move total US sales ahead by 22%.

Sales to the remainder of the world via third party distributors have continued to grow. We have continued to focus on capitalising on our remarkably high brand awareness in Japan and, while we still have much to do, a good increase in sales was achieved in the year and closer co-operation with the local distributor appears to be bearing fruit.

The Group's performance in the rest of the Far East region continued to justify our investment with particularly good results for Yard-O-Led with its limited edition.

We continued to invest in developing the South American, South African and other emerging markets and, while these have not yet brought us any worthwhile return, we are confident that our painstaking efforts to find the correct channels of entry and only to introduce our brands with appropriate positioning will be justified.

THE FUTURE

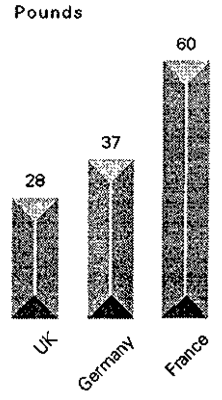
The worldwide market for ring binder organisers continues to grow rapidly. It is remarkable that it is in the Nordic markets, where acceptance of electronic innovations has been most rapid, that our own penetration is highest and our growth continues to be most buoyant.

Our financial structure remains extremely sound and our cash flow strongly positive enabling us to take advantage of further acquisitions where these will complement and strengthen the inherent growth in our base business.

Against this background, and from a larger and more stable base, we look to the coming year with confidence.

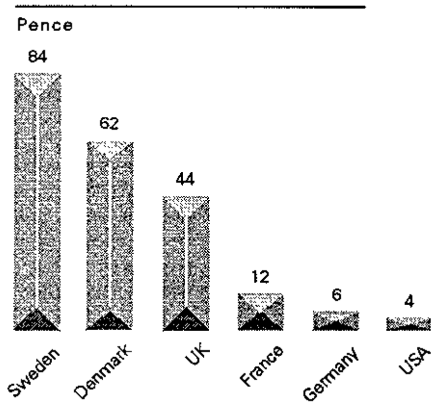
Robin Field 14 June 1996
Chief Executive

RETAIL STATIONERY MARKET PER CAPITA



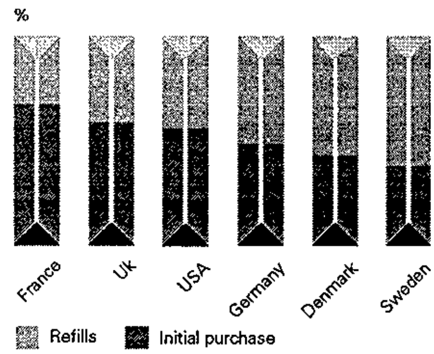
Source: Euromonitor 1995

GROUP ORGANISER BRANDS: SALES PER CAPITA



Source: Management accounts

GROUP ORGANISER BRANDS: REFILLS VERSUS INITIAL PURCHASE



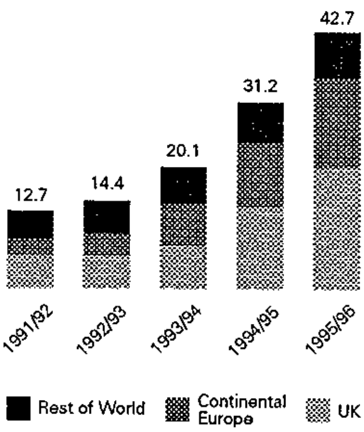
Source: Management estimates

Filofax Group plc has continually increased worldwide sales through investment in subsidiaries, development of distributors and anticipation of consumer demand.

We pride ourselves on the international spread of our sales and have consistently increased the proportion of sales under our direct control.

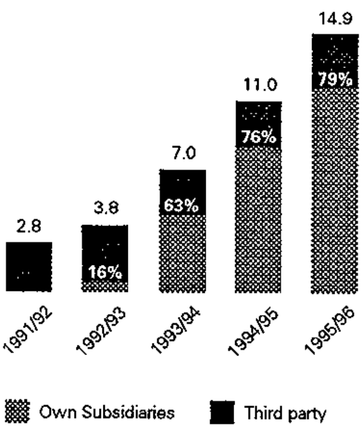
GROUP SALES

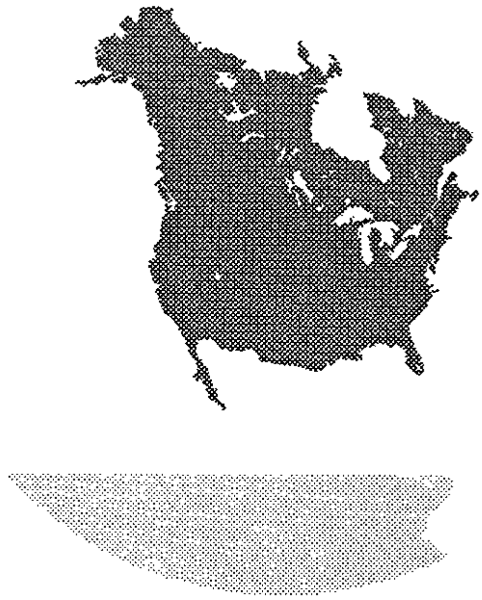
£'m



CONTINENTAL EUROPEAN SALES

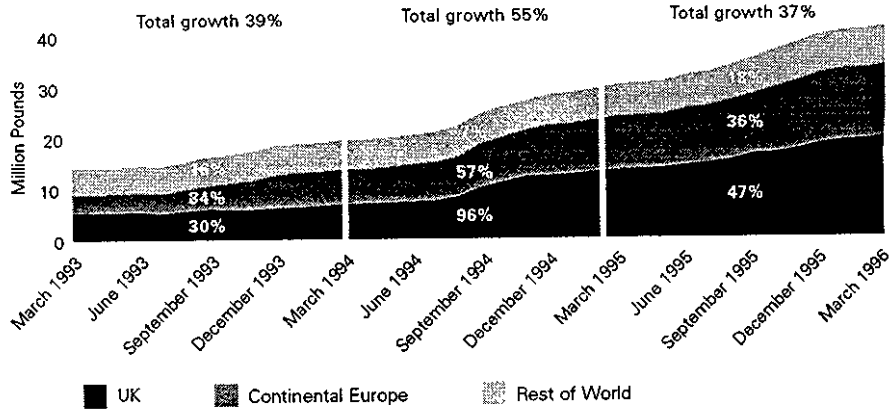
£'m





MOVING ANNUAL TURNOVER

March 1993 - March 1996



BRAND RETAIL SALES PER CAPITA - GEOGRAPHICAL ANALYSIS

Over £100 per 1000

Over £50 per 1000

Under £50 per 1000

Strong permanent distribution is our most valuable asset. Acquisition is a powerful means of extending distribution. We take over our own distribution wherever this is economically viable. We now maintain salaried sales forces in the six largest countries we serve. In a further twenty nine countries we have strictly controlled exclusive distributors. In seven countries we are testing new distributors before granting exclusivity. We maintain regular customer relations with over 10,000 retailers in over forty countries worldwide. We install our own permanent merchandising units in retailers' premises, expensing them in the year of installation. We have increased the proportion of sales under our own direct control from 69% in 1992/93 to 89% in 1995/96.

Cash management remains a high priority for the Group ensuring long term investment and sustained dividend growth.

OPERATING RESULTS

Group turnover for the year increased by £11.5m, or 37%, to £42.7m. The acquisition of Topps of England Limited ("Topps") at the end of July 1995 contributed £5.4m to this increase, the growth from existing businesses being £6.1m or 20%.

Operating profits increased by £1.7m, or 34%, to £6.7m with Topps contributing £0.8m in the period since acquisition. Operating margin from existing businesses declined fractionally to 15.9% and the margin achieved by Topps since acquisition of 14.8% fractionally reduced the overall Group margin to 15.8%.

PROFIT BEFORE TAXATION

Profit before taxation of £6.6m is stated after a net interest charge of £182,000 (1995: £103,000). The increased interest charge reflects a higher seasonal borrowing requirement resulting from expansion of the business and the cost of non-sterling borrowings taken out for the purposes of hedging foreign currency denominated assets.

TAXATION

The effective rate of tax for the year has been maintained at 30%, despite the larger proportion of profits earned in the UK following the acquisition of Topps. This was due to the geographical spread of the Group's businesses and the careful management of its tax affairs. The principal influence on the future effective tax rate, excluding unforeseen rate increases, will continue to be the geographical mix of taxable profits between different tax jurisdictions.

The Group had no material deferred tax liabilities at 31 March 1996.

EARNINGS PER SHARE

Earnings attributable to shareholders for the year were £4.6m, 33% higher than the previous year Earnings per share increased by 19% to 16.0p reflecting the higher average number of shares in issue.

DIVIDEND

The Board has proposed a final dividend of 2.0p per share which, when added to the interim dividend of 1.35p per share paid in March, gives a dividend for the year of 3.35p per share, an increase of 28% on the previous year. Consequently dividend cover is reduced to 4.8 (1995: 5.1). After charging the dividend for the year, retained earnings of £3.5m have been transferred to reserves.

ACQUISITION

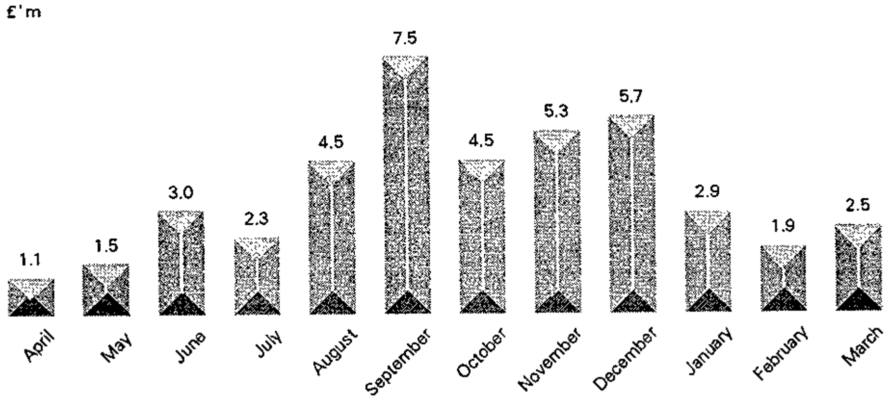
The acquisition of Topps for a total consideration of £6.6m was financed by the issue of 2,942,623 ordinary shares. At the date of acquisition Topps had £0.5m of term debt and an overdraft of £0.6m. The total goodwill written off in respect of the acquisition was £5.4m.

CASH FLOW

During the year the Group generated net cash inflows from operating activities of £5.2m, slightly higher than in 1994/5. An increase in working capital following four years of restraint reflects the expansion of the business over that period and resulted in net cash generation from operating activities £1.5m lower than operating profits. Higher dividend payments, the repayment of loans and overdrafts assumed on the acquisition of Henry Ling and Topps together with increased payments of corporation tax, resulted in only a £0.6m increase in cash and cash equivalents for the year.

The majority of the Group's businesses are seasonal in nature leading to a large fluctuation in the net cash balance during the year. Working capital requirements tend to increase substantially during the first half of the financial year, financed by a bank overdraft facility. The majority of Group sales are made in the period August to December leading to strong

1995/96 GROUP SALES



cash inflows in the second half, and particularly during the final quarter, of the financial year. A direct consequence of this seasonality is the net interest charge in the profit and loss account despite the fact that the Group was cash positive at both the beginning and the end of the financial year.

CURRENCY HEDGING

The Group aims to minimise the risk associated with foreign currency fluctuations by using a combination of foreign currency deposits and overdrafts and forward contracts. Significant foreign currency denominated assets and liabilities in the accounts of UK Group companies are matched with interest bearing bank deposits and overdrafts to eliminate exchange risk. In addition, during the year, forward contracts were taken out to match against the earnings of certain overseas subsidiaries to maintain the sterling value of those earnings. As our overseas businesses grow and intra-Group trading arrangements become more complex increasing emphasis is likely to be devoted to this area. Export sales from the UK to third parties continue to be invoiced in sterling thereby eliminating exchange risk in respect of these transactions.

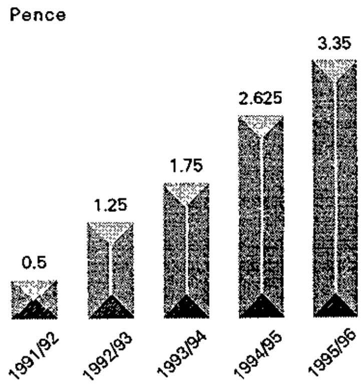
SHAREHOLDERS' FUNDS

The Group has substantial assets which, under current accounting policies and conventions, are not recognised in the consolidated balance sheet. No value is attributed to the Group's portfolio of brands, including those that have been acquired, and goodwill arising on acquisition is written off immediately.

Shareholders' funds increased by £5.1m during the year. Retained profits for the year of £3.5m have been augmented by net assets of £1.2m from the acquisition of Topps, exchange gains of £0.2m arising on retranslation of the net assets and results of overseas subsidiaries and £0.2 million from the issue of shares.

C.S. Brace
Group Finance Director

DIVIDENDS PER SHARE



SUMMARY CASH FLOW STATEMENT

Year to 31 March 1996	£m
Operating cash inflow	5.2
Dividends paid to shareholders	(0.9)
Taxation paid	(1.6)
Capital expenditure	(0.7)
Loans repaid	(0.7)
Overdraft assumed on acquisition	(0.6)
Other (net)	(0.1)
Increase in cash & cash equivalents	0.6

Directors' Report

The Directors have pleasure in submitting their Report together with the audited accounts of the Group for the year ended 31 March 1996. The Annual Review on page 2 forms part of this report.

PRINCIPAL ACTIVITIES

The Group's principal activity has continued to be that of suppliers of consumer products. A review of the Group's operations for the year and of its future prospects is set out in the Annual Review on page 2.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 1996 are set out in the Consolidated Profit and Loss Account on page 18.

The Directors recommend the payment of a final dividend of 2.0p per ordinary share (1995: 1.575p) payable on 1 November 1996.

DIRECTORS

The Directors of the Company at 31 March 1996, each of whom served for the whole year, are shown on page 12.

The Directors of the Company at 31 March 1996 have notified the Company that they were interested in the ordinary shares of the Company at that date as set out below. There have been no changes in the interests of the Directors between the end of the year and 14 June 1996, the date of this Report.

	Beneficial		Non-Beneficial	
	1996	1995	1996	1995
R.D. Collischon	695,000	695,000	1,070,192	1,070,192
C.S. Brace	94,103	94,103	—	—
R.D. Eteson	128,000	19,000	—	—
R.A. Field	1,027,446 *	744,684 *	—	—
R.J. Koch	2,024,857 *	2,774,857 *	25,000	25,000
M.R.J. Tyndall	5,000	5,000	—	—

* Includes a holding of 717,000 (1995: 717,000) shares held by Strategy Ventures Plc, a company controlled by R.A. Field and R.J. Koch.

Details of the Directors' interests in the Company's share option schemes are given in the Remuneration Committee Report on page 13.

R.D. Eteson and R.J. Koch retire from the Board by rotation and, being eligible, offer themselves for re-election.

CONTRACTS

There were no contracts of significance in which a Director is or was materially interested either during or at the end of the year.

SUBSTANTIAL SHAREHOLDINGS

At 11 June 1996, the Company had been notified of the following interests in its ordinary share capital in addition to Directors' holdings:

	Holding	%
Scottish Amicable	3,154,115	10.5%
Capital Group Companies Inc	2,142,450	7.1%
Standard Life	1,832,998	6.1%
Ivory & Sime Enterprise Capital PLC	1,000,000	3.3%

Ivory & Sime Enterprise Capital PLC is managed by Ivory and Sime Plc. M.R.J. Tyndall is a director of Ivory and Sime Investment Management PLC, a subsidiary of Ivory & Sime Plc.

Directors' Report

continued

ANNUAL GENERAL MEETING

At the Annual General Meeting on 25 July 1996, shareholders will be asked to approve four items of special business in addition to the ordinary business. These resolutions concern the renewal of the Company's authorities to purchase its own shares and to disapply pre-emption rights, the approval of two new Executive Share Option Schemes and an increase in the maximum aggregate fees payable to the Directors.

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint Binder Hamlyn as auditors and to authorise the Directors to determine their remuneration will be put to the members at the Annual General Meeting.

CREST

CREST is the new system which will allow shareholders to hold and transfer their shares in uncertificated electronic form rather than the current paper-based system. The CREST system will gradually replace the current Talisman settlement system between July 1996 and April 1997. Shareholders will not be obliged to convert their current share certificates into electronic entries in CREST but, with the closure of the Talisman system, shareholders may find that settlement in physical form will become slower and more expensive.

In view of the above, your Board has decided that the ordinary shares of the Company should participate in the CREST settlement system. In accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), the only action that is required in this respect is a resolution of the Board. Accordingly, a resolution of the Board was passed on 13 June 1996 resolving that title to the ordinary shares of 5p each in the capital of the Company, in issue or to be issued, may be transferred by means of a "relevant system".

The effect of the resolution is to disapply those provisions of the Company's Articles of Association that are inconsistent with the holding and transfer of its shares in CREST and any provision of the Regulations.

Under the system administered by CRESTCo, the Company's shares are scheduled to begin trading in uncertificated form early in 1997.

By Order of the Board.
C.S. Brace
Secretary
14 June 1996

Board of Directors

DIRECTORS

David Collischon MCIM (Chairman)*
Non-Executive Chairman of the Group and Chairman of the Chelmsford Diocesan Board of Finance.

Robin Field MBA (Chief Executive)
A non-executive director of Sunleigh plc and Strategy Ventures Plc, was a strategy consultant for five years and was previously with Jardine Matheson & Co.

Christopher Brace ACA (Finance and Company Secretary)
He previously held senior finance positions with Carlton Communications Plc and Hillsdown Holdings Plc.

Richard Eteson BSc (Sales and Marketing)
He previously held senior sales and marketing positions with Wilkinson Sword Ltd and Bowater-Scott Ltd.

Richard Koch MBA*
A director of the Roxboro Group PLC, Advent Venture Capital Trust Plc, Strategy Ventures Plc, Chairman of Management Services International Limited and a partner in Odyssey.

Mark Tyndall MA*
A director of Ivory & Sime Investment Management PLC.

**Non-Executive Director*

Top to bottom:
Robin Field,
Christopher Brace,
Richard Eteson.

Remuneration Committee Report

For the year ended 31 March 1996

COMPLIANCE

The constitution and operation of the Company's Remuneration Committee is in compliance with the principles which are now incorporated in Section A of the provisions derived from the code of best practice ("the Code") issued by the Study Group on Directors' Remuneration, as amended by the Stock Exchange Listing Rules. The Remuneration Committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in determining the remuneration packages for executive Directors for 1995/96. The Auditors' Report on the accounts set out on page 34 confirms that the scope of the report covers the disclosures contained in this report that are specified for audit by the London Stock Exchange.

COMPOSITION AND TERMS OF REFERENCE

The Remuneration Committee is responsible for advising the Board on the terms and conditions of employment, including remuneration, of the Company's executive Directors. It is also responsible for advising the Board on the granting of share options under the Company's Executive Share Option Scheme. The Committee's members are R.D. Collischon and M.R.J. Tyndall, both non-executive Directors of the Company.

EXECUTIVE REMUNERATION POLICY

In arriving at its recommendations for executive remuneration, the Committee is conscious of the necessity of attracting, retaining and motivating individuals of the calibre required to manage the business of the Group.

The current remuneration packages for executive Directors comprise basic salary, benefits-in-kind, pensions, performance related payments and the longer-term rewards offered by share options.

Basic Salary

Basic salary reflects job responsibilities and is set by reference to individual performance and comparable market rates.

Performance Related Payments

The Company's executive Directors participate in schemes which enable them to earn performance related bonuses as part of their remuneration package. All executive Directors are eligible to receive a bonus based upon the percentage increase in earnings per share. In addition, the Chief Executive can earn a bonus based upon the achievement of budgeted pre-tax profits. In both cases no minimum levels of bonus are guaranteed and no payments are made where targets are not achieved.

Benefits-In-Kind

The principal benefits-in-kind are the use of a fully expensed motor vehicle and payment of private medical insurance for each executive Director and his immediate family.

Pensions

The Group operates a tax approved funded defined benefit scheme for all employees of Filofax Limited, the principal UK trading company. The executive Directors are members of this pension scheme. The Company currently makes a contribution of 10.4% of salary to the scheme and employees contribute 5% of salary, the funding rate being determined by a triennial actuarial valuation. Actual pension benefits earned will depend upon final salary and length of service.

When Directors' salaries exceed the government determined upper earnings limit for pension purposes, the Group operates an additional defined benefit scheme.

Share Options

The Group currently operates an approved share option scheme for senior executives, and an employee sharesave scheme open to all employees. Options granted under the Executive Share Option Scheme are ratified by the Remuneration Committee and are awarded on the basis of individual performance. These options are exercisable between three and ten years from the date of grant and are seen as a key mechanism for the motivation and retention of high calibre executives.

Following the recent legislative changes in the tax treatment of approved share option schemes the Board has recommended the adoption of an additional non-approved share option scheme. The Board believes the scheme will act as a valuable incentive for those executive directors and staff upon whose efforts the Company largely depends to ensure its continuing success. The adoption of this recommendation is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

Remuneration Committee Report

continued

NON-EXECUTIVE REMUNERATION POLICY

Non-executive Directors are paid fees in respect of their services. These fees are determined by the Board as a whole. The Chairman receives private medical insurance, but there are no other benefits in kind for non-executive Directors. Non-executive remuneration is not performance related and is not pensionable.

DIRECTORS' REMUNERATION - FOR THE YEAR ENDED 31 MARCH 1996

Director	Fees £'000	Salary £'000	Benefits in Kind £'000	Performance Related Payments £'000	Pension Contributions £'000	Total 1996 £'000	Total 1995 £'000
Executive							
R.A. Field	—	121	8	21	13	163	181
C.S. Brace	—	78	9	13	8	108	120
R.D. Eteson	—	75	9	13	8	105	113
Non-Executive							
R.D. Collischon (Chairman)	10	—	—	—	—	10	13
R.J. Koch	7	—	—	—	—	7	8
M.R.J. Tyndall	7	—	—	—	—	7	8
	24	274	26	47	29	400	443
Total 1995	28	273	25	89	28	443	

Remuneration Committee Report

continued

DIRECTORS' SHARE OPTIONS

The executive Directors who held office at 31 March 1996 were beneficially interested in options to acquire ordinary shares in the Company as shown in the table below. The options shown have been granted under both the Executive Share Option Scheme and the Employee Sharesave Scheme. The exercise prices shown for the total number of options for each Director, and for all of the Directors in aggregate, are weighted average prices. Options granted under the Executive Share Option Scheme are normally exercisable 3 years after the date of grant and expire 7 years from the first possible exercise date. Options granted under the Employee Sharesave Scheme are normally exercisable 5 years after the date of grant and expire 6 months after the first possible exercise date. No options were granted to Directors during the year.

		Number of Options				
	Date of Grant	1 Apr 95	Exercised	31 Mar 96	Price	Date from which Exercisable
R.A. Field						
Executive	May 1992	297,200	297,200	—	30.0p	May 1993
Executive	May 1992	66,000	66,000	—	30.0p	May 1995
Sharesave	Oct 1992	37,006	—	37,006	30.4p	Oct 1997
Executive	Nov 1992	94,562	94,562	—	63.5p	Nov 1995
Sharesave	Sept 1993	7,632	—	7,632	90.4p	Sep 1998
Executive	July 1994	10,000	—	10,000	193.0p	July 1997
Executive	Dec 1994	44,000	—	44,000	223.0p	Dec 1997
		556,400	457,762	98,638	137.4p	
C.S. Brace						
Executive	May 1992	90,000	—	90,000	30.0p	May 1995
Sharesave	Oct 1992	37,006	—	37,006	30.4p	Oct 1997
Executive	Nov 1992	47,281	—	47,281	63.5p	Nov 1995
Sharesave	Sept 1993	7,632	—	7,632	90.4p	Sep 1998
Executive	July 1994	7,400	—	7,400	193.0p	Jul 1997
Executive	Dec 1994	28,000	—	28,000	223.0p	Dec 1997
		217,319	—	217,319	69.9p	
R.D. Eteson						
Executive	Nov 1990	40,000	40,000	—	30.0p	Nov 1993
Executive	May 1991	56,000	56,000	—	30.0p	May 1994
Sharesave	Oct 1992	37,006	—	37,006	30.4p	Oct 1997
Executive	Nov 1992	47,281	47,281	—	63.5p	Nov 1995
Sharesave	Sept 1993	7,632	—	7,632	90.4p	Sept 1998
Executive	July 1994	7,400	—	7,400	193.0p	July 1997
Executive	Dec 1994	28,000	—	28,000	223.0p	Dec 1997
		223,319	143,281	80,038	118.5p	
Total		997,038	601,043	395,995	96.6p	

All of the options exercised during the year were exercised on 20 November 1995, shares not retained subsequently being sold at prices between 268p and 277p. The highest and lowest mid-market closing prices during the year to 31 March 1996 were 275p and 224p respectively. The closing mid-market price on 29 March 1996 was 232p.

DIRECTORS' CONTRACTS

None of the Directors has a service agreement of over 12 months duration with the Company.

Corporate Governance

The Board of Filofax Group plc recognises the importance of effective corporate governance and has complied throughout the year with both the spirit and the 19 specific points of the Cadbury Code of Best Practice.

As recommended by the Cadbury Committee, and required by the Listing Rules of the London Stock Exchange, Binder Hamlyn, the Company's auditors, have considered the Directors' Statement of Compliance in relation to those points of the Code which can be objectively verified. Their report to the Company is set out on page 35.

The adoption of an appropriate Board structure and of appropriate methods of operation, which are summarised below, are key factors in ensuring proper standards of corporate governance.

1. The Board

The Board currently comprises three non-executive and three executive Directors and is responsible to shareholders for the proper management of the Group and, as explained below, for the preparation of accounts. Apart from their Directors' fees and shareholdings as disclosed in the accounts and the Directors' Report, the non-executive Directors are independent.

Key areas of the Group's affairs which are dealt with by the Board as a whole include:-

- approval of the accounts;
- review of Group strategies and operating budgets;
- appointment of directors and senior executives;
- approval of major capital projects and asset disposals; and
- approval of treasury and risk management policies.

The Board is chaired by R.D. Collischon and is scheduled to meet at least 4 times a year with additional meetings called as required.

A number of issues are dealt with through non-executive committees of the Board. Reports of these committee meetings are presented to the Board.

The Directors are authorised, at the Group's expense, to obtain independent professional advice they consider necessary in furtherance of their duties.

a) Audit Committee

This Committee consists of all the non-executive Directors. Its duties include the review of standards of internal financial control throughout the Group, the review of the interim and full year accounts and approval of the Group's accounting policies. The Audit Committee also considers the appointment and fees of the external auditors and reviews the nature and scope of the audit prior to its commencement.

The Committee meets at least twice a year when the Group Finance Director and the external auditors are invited to attend as required.

b) Remuneration Committee

This Committee consists of two non-executive Directors. Its responsibilities are described in the Remuneration Committee Report on page 13.

2. Internal Financial Control

The Board of Directors has overall responsibility for the Group's system of internal financial control. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures.

Corporate Governance

continued

The following are the main features of the internal financial control framework:

- Comprehensive annual budgets are prepared by local management for all subsidiaries. The budgeting process encompasses a review of the principal business and financial risks facing each business unit. Budgets are reviewed by the Group's executive Directors in conjunction with local management.

- All Group companies prepare monthly management accounts in accordance with UK accounting principles. Monthly results, balance sheets and cash flows are reported against budget and prior year and explanations sought for variances. From these accounts, consolidated management accounts are prepared for review by the Group's executive Directors.

- Group executive Directors regularly visit subsidiaries to discuss business issues and risks, financial results and future prospects with local management.

- Centrally defined authority levels exist for significant transactions.

- Central control and monitoring of the key functional areas of treasury, procurement, marketing and product development.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial control for the year to 31 March 1996. This was conducted by the review of internal control questionnaires completed by all significant trading subsidiaries and by consideration of the procedures in existence for central control and monitoring of subsidiaries.

3. Going Concern
Having reviewed the Group's liquid resources and borrowing facilities and its cash flow forecasts for the coming year the Directors believe that the Group has adequate resources to continue as a going concern for the foreseeable future. For this reason, the accounts on pages 18 to 33 have been prepared on the going concern basis.

4. Statement Of Directors' Responsibilities In Relation To The Accounts
The Directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing these accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Consolidated Profit and Loss Account

For the year ended 31 March 1996

			1996	1995
	Note	£'000	£'000	£'000
Turnover				
Continuing operations		37,315		31,220
Acquisition		5,396		—
Total turnover	1		42,711	31,220
Cost of sales			19,033	13,711
Gross profit			23,678	17,509
Administrative expenses			16,933	12,485
Operating profit				
Continuing operations		5,944		5,024
Acquisition		801		—
Total operating profit	2		6,745	5,024
Interest payable (net)	6		(182)	(103)
Profit on ordinary activities before taxation	3		6,563	4,921
Taxation	7		1,969	1,476
Profit on ordinary activities after taxation			4,594	3,445
Dividends	8		1,057	724
Retained profit for the year	19		3,537	2,721
Earnings per share	9		16.0p	13.5p

Statement of Total Recognised Gains and Losses

For the year ended 31 March 1996

		1996	1995
	Note	£'000	£'000
Profit on ordinary activities after taxation		4,594	3,445
Exchange differences arising on consolidation	19	200	(245)
Total recognised gains and losses for the year	20	4,794	3,200

Consolidated Balance Sheet

As at 31 March 1996

	Note	1996 £'000	1995 £'000
Tangible fixed assets	10	2,673	1,165
Stock	12	7,196	5,072
Debtors	13	5,359	3,451
Cash at bank and in hand		4,379	3,678
Total current assets		16,934	12,201
Creditors: amounts falling due within one year	14	9,858	9,057
Net current assets		7,076	3,144
Total assets less current liabilities		9,749	4,309
Creditors: amounts falling due after more than one year	15	358	—
Net assets		9,391	4,309
Capital and Reserves			
Called up share capital	17	1,506	1,323
Share premium account	18	186	69
Other reserves	18	1,045	—
Profit and loss account	19	6,654	2,917
Equity shareholders' funds	20	9,391	4,309

Approved by the Board of Directors on 14 June 1996

R.A. Field

C.S. Brace

Company Balance Sheet

As at 31 March 1996

	Note	1996 £'000	1995 £'000
Fixed asset investments	11	18,096	11,407
Debtors	13	1,370	2,128
Creditors: amounts falling due within one year	14	891	596
Net current assets		479	1,532
Net assets		18,575	12,939
Capital and Reserves			
Called up share capital	17	1,506	1,323
Share premium account	18	186	69
Other reserves	18	13,019	10,525
Profit and loss account	19	3,864	1,022
Equity shareholders' funds		18,575	12,939

Approved by the Board of Directors on 14 June 1996

R.A. Field

C.S. Brace

Consolidated Cash Flow Statement

For the year ended 31 March 1996

	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	25	5,226	5,106
Returns on investments and servicing of finance			
Interest received		433	89
Interest paid		(572)	(192)
Interest element of finance lease repayments		(23)	—
Dividends paid		(871)	(543)
Net cash outflow from returns on investments and servicing of finance		(1,033)	(646)
Taxation			
Taxation paid		(1,630)	(908)
Investing activities			
Purchase of tangible fixed assets		(738)	(789)
Sale of tangible fixed assets		26	79
Payments for subsidiary undertaking acquired during the year (net of cash and cash equivalents acquired)	21	(648)	(486)
Payment of deferred consideration in respect of prior year acquisitions		—	(943)
Net cash outflow from investing activities		(1,360)	(2,139)
Net cash inflow before financing		1,203	1,413
Financing			
Issue of ordinary shares (net of issue costs)		153	28
Capital element of finance lease repayments		(91)	—
Repayment of loans		(707)	(175)
Net cash outflow from financing	26	(645)	(147)
Increase in cash and cash equivalents	27	558	1,266

Accounting Policies

For the year ended 31 March 1996

ACCOUNTING CONVENTION

The accounts have been prepared using the historical cost convention and comply with all applicable UK accounting standards.

BASIS OF CONSOLIDATION

The Group accounts consolidate the assets and liabilities and the results of the Company and its subsidiary undertakings. All the businesses purchased during the year have been accounted for using the acquisition method of accounting. Trading results relating to the periods before the undertakings became subsidiary undertakings are excluded from the consolidated profit and loss account. Transactions and balances between subsidiary undertakings have been eliminated; profit on sales to subsidiary undertakings is eliminated on consolidation until products are sold to customers outside the Group.

TURNOVER

Turnover shown in the consolidated profit and loss account represents goods invoiced during the year to external customers excluding value added tax and other sales taxes.

DEPRECIATION

Depreciation is calculated by reference to the cost of fixed assets using a straight line basis at rates considered appropriate having regard to the expected useful lives of the assets. The annual rates of depreciation in use are:

Freehold property	$2^1/_2$%
Short leasehold buildings	Over period of lease
Plant and Machinery	15%
Fixtures and equipment	15%-$33^1/_3$%
Motor vehicles	25%

STOCKS

Stocks are valued at the lower of cost and net realisable value.

DEFERRED TAXATION

Provision is made for taxation which is deferred as a result of timing differences arising principally between depreciation and capital allowances to the extent that the liabilities are likely to crystallise at the rate applicable at the time of reversal.

LEASING COMMITMENTS

Rentals paid under operating leases are charged to income on a straight line basis over the terms of the lease.

Assets acquired under finance leases and hire purchase contracts are capitalised and depreciated over their useful lives. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease.

PENSIONS

The cost of providing pension benefits is charged to the consolidated profit and loss account on a systematic and rational basis over the period during which benefit is derived from employees' services. Any difference between this charge and the contributions paid to pension schemes is included as an asset or liability in the consolidated balance sheet.

GOODWILL

Goodwill acquired is written off directly to reserves in the year of acquisition.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at rates ruling at the date of the transaction. Exchange differences arising in the accounts of individual companies are taken to the profit and loss account.

The accounts of subsidiary undertakings are translated into sterling on consolidation on the following basis:

(i) Profit and loss account items at the average rate of exchange during the period or, where forward contracts have been taken out to hedge the results of overseas subsidiary undertakings, at contracted rates.
(ii) Assets and liabilities at the rate of exchange ruling at the balance sheet date.

Exchange differences arising on the translation of the opening net investment and the results for the year are recorded as movements on reserves.

Notes to the Accounts

For the year ended 31 March 1996

1. SEGMENTAL ANALYSIS

The Group operates in a single business segment. All turnover relates to the sale of consumer products.

An analysis of turnover by location of customer is as follows:	1996 £'000	1995 £'000
United Kingdom	20,067	13,694
Continental Europe	14,911	10,954
Rest of World	7,733	6,572
	42,711	31,220

An analysis of turnover by location of subsidiary undertaking is as follows:	1996 £'000	1995 £'000
United Kingdom	29,410	22,057
Continental Europe	11,904	8,372
Rest of World	10,425	8,868
	51,739	39,297
Less: Intra-Group sales	(9,028)	(8,077)
External turnover	42,711	31,220

Intra-Group sales comprise United Kingdom £4,270,000 (1995: £4,091,000), Continental Europe £95,000 (1995: £Nil) and Rest of World £4,663,000 (1995: £3,986,000).

The Directors consider that the disclosure of segmental analyses of profit before taxation and net assets would be seriously prejudicial to the interests of the Group.

2. ANALYSIS OF OPERATING PROFITS

	Continuing operations £'000	Acqui-sition £'000	Total 1996 £'000	Total 1995 £'000
Turnover	37,315	5,396	42,711	31,220
Cost of sales	15,886	3,147	19,033	13,711
Gross profit	21,429	2,249	23,678	17,509
Administrative expenses	15,485	1,448	16,933	12,485
Operating profit	5,944	801	6,745	5,024
Operating margin	15.9%	14.8%	15.8%	16.1%

Details of the acquisition during the year are given in Note 21.

Notes to the Accounts

continued

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Is stated after charging/(crediting) the following:	1996 £'000	1995 £'000
Rentals under operating leases		
– Land and buildings	689	381
– Other assets	445	301
Foreign exchange losses/(gains)	107	(31)
Auditors' remuneration for audit services	85	72
Auditors' remuneration for non-audit services*	41	30
Depreciation		
– Owned assets	598	345
– Assets held under finance leases	60	—

*Included in the costs of acquisitions are fees to the auditors for non-audit services of £30,000 (1995: £30,000).

4. DIRECTORS' EMOLUMENTS

	1996 £'000	1995 £'000
Fees	24	28
Executive remuneration – performance related	47	89
Executive remuneration – other	300	298
Pension contributions	29	28
	400	443

More information concerning Directors' emoluments and interests in options to acquire ordinary shares in the Company is shown in the Remuneration Committee Report on page 13.

5. EMPLOYMENT COSTS

	1996 £'000	1995 £'000
Wages and salaries	7,020	4,176
Social security costs	1,020	659
Other pension costs	159	105
	8,199	4,940

The average number of employees during the year was:	1996 Number	1995 Number
Production and warehousing	132	35
Office, sales and management	244	186
	376	221

6. NET INTEREST PAYABLE

	1996 £'000	1995 £'000
Bank loans and overdrafts	595	173
Finance lease interest	23	—
Other	—	19
	618	192
Interest receivable	(436)	(89)
	182	103

7. TAXATION

	1996 £'000	1995 £'000
UK corporation tax	1,810	1,107
Overseas taxation	337	498
Net taxation adjustments of prior years	(178)	(129)
	1,969	1,476

8. DIVIDENDS

	1996 £'000	1995 £'000
Interim dividend 1.35p (1995: 1.05p) per share net	407	307
Final dividend 2.0p (1995: 1.575p) per share net	603	417
Under provision of 1994/95 final dividend	47	—
	1,057	724

The final dividend for the 1994/95 financial year was provided for on the basis of the number of shares in issue at 31 March 1995. Subsequent to the approval of the 1994/95 accounts the Group issued shares in respect of the acquisition of Topps of England Limited and its subsidiary undertakings. This issue took place prior to the record date for the 1994/95 final dividend and the shares issued therefore ranked for that dividend. The under provision of £47,000 has been treated as an appropriation of profits in the current year.

9. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit after taxation of £4,594,000 (1995: £3,445,000) divided by the weighted average number of shares in issue during the period of 28,695,485 (1995: 25,538,714). Fully diluted earnings per share is not materially different to basic earnings per share in either year.

Notes to the Accounts

continued

10. TANGIBLE FIXED ASSETS – GROUP

	Freehold Property £'000	Short Leasehold Property £'000	Fixtures and Equipment £'000	Motor Vehicles £'000	Plant and Machinery £'000	Total £'000
Cost						
At 1 April 1995	—	291	1,923	148	—	2,362
Exchange adjustments	—	—	58	9	—	67
Acquisition of subsidiary undertaking	928	5	437	334	819	2,523
Additions	8	5	612	61	64	750
Disposals	—	—	(66)	(88)	(9)	(163)
At 31 March 1996	936	301	2,964	464	874	5,539
Depreciation						
At 1 April 1995	—	171	995	31	—	1,197
Exchange adjustments	—	—	19	3	—	22
Acquisition of subsidiary undertaking	132	1	359	149	486	1,127
Charge for the year	10	56	443	83	66	658
Disposals	—	—	(75)	(54)	(9)	(138)
At 31 March 1996	142	228	1,741	212	543	2,866
Net book value						
At 31 March 1996	794	73	1,223	252	331	2,673
At 31 March 1995	—	120	928	117	—	1,165

The net book value above includes £319,169 (1995: £Nil) in respect of assets held under finance leases and hire purchase contracts.

Notes to the Accounts

continued

11. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Shares £'000	Loans £'000	Total £'000
Cost and net book value			
At 1 April 1995	9,157	2,250	11,407
Addition – Topps of England Limited	6,689	—	6,689
At 31 March 1996	15,846	2,250	18,096

The following are the principal subsidiary undertakings of the Company as at 31 March 1996 all of which are wholly owned and included in the consolidation.

Name	Principal Activity	County of Incorporation and Operation
Filofax A/S*	Supplier of stationery products	Denmark
Filofax Sweden AB*	Supplier of stationery products	Sweden
Filofax GmbH*	Supplier of stationery products	Germany
Filofax Hong Kong Limited*	Supplier of stationery products	Hong Kong
Filofax Inc	Supplier of stationery products	USA
Filofax Limited	Supplier of stationery products	England
Filofax SARL*	Supplier of stationery products	France
Drakes Office Systems Limited	Supplier of stationery products	England
Henry Ling & Son (London) Limited	Publisher of greetings cards	England
Lefax Publishing Limited*	Supplier of stationery products	England
Yard-O-Led Pencil Company Limited	Manufacturer of writing instruments	England
Topps of England Limited	Manufacturer and supplier of stationery products	England

*Investment held by a subsidiary undertaking.

12. STOCKS

	1996 £'000	1995 £'000
Raw materials	365	—
Work in progress	576	—
Finished goods and goods for resale	6,255	5,072
	7,196	5,072

13. DEBTORS

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	4,832	—	2,869	—
Amounts due from subsidiary undertakings	—	1,220	—	2,024
Other debtors	31	—	89	—
Prepayments and accrued income	332	—	324	—
Taxation recoverable	164	150	169	104
	5,359	1,370	3,451	2,128

Notes to the Accounts

continued

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank overdraft	43	—	—	—
Term loan (Note 15)	30	—	425	—
Trade creditors	3,270	—	3,237	—
Corporation tax payable	2,472	—	1,897	—
Advance corporation tax payable	252	252	179	179
Other taxes and social security	671	—	383	—
Other creditors	78	—	93	—
Accruals	2,295	36	2,426	—
Finance lease obligations	144	—	—	—
Proposed dividend	603	603	417	417
	9,858	891	9,057	596

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

	1996 £'000	1995 £'000
Term loan due within two to five years	120	—
Term loan due in more than five years	98	—
Finance lease obligations	140	—
	358	—

The term loan is secured by a fixed charge on the freehold properties and by a floating charge on the other assets of Topps of England Limited and its subsidiary undertakings. The term loan is repayable in instalments and bears interest at a fixed rate of 11.225% per annum.

16. OBLIGATIONS UNDER FINANCE LEASE AGREEMENTS

	1996 £'000	1995 £'000
Amounts falling due:		
Within one year	153	—
Within two to five years	168	—
	321	—
Less: Finance charges relating to future periods	(37)	—
	284	—
The total obligation is included in:		
Creditors: amounts falling due within one year (Note 14)	144	—
Creditors: amounts falling due after more than one year (Note 15)	140	—
	284	—

Notes to the Accounts

continued

17. SHARE CAPITAL

	Authorised		Issued and Fully Paid Up	
	Number	£'000	Number	£'000
Ordinary Shares of 5p				
At 1 April 1995	50,000,000	2,500	26,465,972	1,323
Nominal value of shares issued:				
In respect of acquisition (Note 21)	—	—	2,942,623	147
Under share option schemes	—	—	714,879	36
At 31 March 1996	50,000,000	2,500	30,123,474	1,506

Share Options

There were outstanding at 31 March 1996 options granted to Directors and employees within the Group to subscribe for 561,327 ordinary shares under the Employee Sharesave Scheme at prices ranging from 23.2p to 205.6p. The weighted average exercise price is 103.4p. These options are normally capable of being exercised over varying periods up to June 2001.

There were outstanding at 31 March 1996 options granted to Directors and employees within the Group to subscribe for 387,981 ordinary shares under the Executive Share Option Scheme at prices ranging from 30p to 234p. The weighted average exercise price is 131.8p. These options are normally capable of being exercised over varying periods up to July 2005.

Details of Directors' interests in the Company's share options are given in the Remuneration Committee Report on page 13.

18. SHARE PREMIUM ACCOUNT AND OTHER RESERVES

	Share premium account		Other reserves	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April 1995	69	69	—	10,525
Premium on shares issued during the year:				
In respect of acquisition (Note 21)	—	—	6,453	6,453
Under share option schemes	213	213	—	—
Goodwill on acquisitions written off	—	—	(5,408)	—
Share issue costs	(96)	(96)	—	—
Transfer to profit and loss account reserves	—	—	—	(3,959)
At 31 March 1996	186	186	1,045	13,019

As required by section 131 of the Companies Act 1985, the premium arising on ordinary shares of the Company issued in respect of the acquisition of Topps of England Limited has been credited to other reserves against which the goodwill arising on the acquisition has been written off. The cumulative amount of goodwill written off to reserves at 31 March 1996 amounts to £19,333,000 (1995: £13,925,000).

Other reserves at 1 April 1995 included a special reserve of £3,959,402 which arose from the cancellation of the share premium account in 1993 with High Court approval. This special reserve has now been transferred to profit and loss account reserves as, in the opinion of the Directors, all the creditors of the Company at the date the special reserve was created have been met thereby fulfilling the criteria set by the High Court for the reserves to become distributable.

Notes to the Accounts

continued

19. PROFIT AND LOSS ACCOUNT

	Group £'000	Company £'000
At 1 April 1995	2,917	1,022
Profit/(loss) for the year	3,537	(1,117)
Exchange differences arising on consolidation of overseas subsidiary undertakings	200	—
Transfer from other reserves	—	3,959
At 31 March 1996	6,654	3,864

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account. The loss for the financial year dealt with in the accounts of the Company amounts to £60,000 (1995: £8,000).

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £'000	1995 £'000
At beginning of year	4,309	2,123
Total recognised gains and losses for the year	4,794	3,200
Dividends	(1,057)	(724)
Goodwill on acquisitions written off	(5,408)	(5,455)
Issue of shares	6,753	5,165
At end of year	9,391	4,309

21. ACQUISITION

On 28 July 1995 the Group acquired the whole of the issued share capital of Topps of England Limited ("Topps") for an aggregate consideration of £6,600,000. This acquisition was funded by the issue of 2,942,623 ordinary shares.

The following table provides an analysis of the assets and liabilities acquired and the related acquisition adjustments in respect of this acquisition:

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Fixed assets	1,432	(36)	1,396
Stock	1,711	(155)	1,556
Cash	(559)	—	(559)
Debtors and prepayments	1,216	—	1,216
Creditors and accruals	(1,774)	(24)	(1,798)
Loans	(530)	—	(530)
	1,496	(215)	1,281
Acquisition expenses			(89)
Goodwill written off			5,408
Consideration – discharged by issue of ordinary shares			6,600

The fair value adjustments relate primarily to the restatement of acquired assets and liabilities to their realisable value at the time of the acquisition. These restatements have been made in accordance with Group accounting policies.

21. ACQUISITIONS (continued)
The net cash outflow in respect of the acquisition of Topps was £648,000 (including £(559,000) of cash and cash equivalents acquired).

The acquisition of Topps contributed £1,727,000 to the Group's net operating cash flows, payments of £238,000 in respect of taxation, utilised £141,000 in respect of investing activities and payments of £361,000 in respect of financing activities.

The following disclosures in respect of the pre-acquisition performance of Topps have been given in accordance with the requirements of Financial Reporting Standard No. 6, "Acquisitions and Mergers". In all cases the figures disclosed have been determined in accordance with the pre-acquisition accounting policies of Topps. In the year to 31 March 1995, the consolidated profit after taxation of Topps and its subsidiary undertakings was £498,813. In the period immediately following Topps' last financial year and preceding the date of acquisition by the Company, from 1 April 1995 to 28 July 1995, consolidated turnover was £1,883,700. The operating loss during that period was £101,000, the loss before taxation was £153,000 and, after the estimated taxation credit, the loss was £99,000. There were no minority interests or other recognised gains and losses other than the profit or loss in either period.

22. PENSION COMMITMENTS
The Group operates several pension schemes for the benefit of employees in their retirement. The pension charge for the year may be analysed by type of scheme as follows:

	1996 £'000	1995 £'000
Defined benefit schemes	77	56
Defined contribution schemes	82	49
	159	105

The principal scheme, the Filofax Limited Staff Pension Plan, is a funded defined benefit scheme which provides benefits based upon final pensionable earnings. The assets of the Plan are held separately from those of Group undertakings and are invested in a managed fund administered by Confederation Life Insurance Company. Under the terms of the Trust Deed, the Plan is administered by the Trustees who delegate routine tasks to external administrators.

Employer's contributions to the Plan are charged to the profit and loss account so as to spread the cost of providing pensions over the employees' working lives. The contributions are determined by qualified actuaries on the basis of triennial valuations using the aggregate cost method. The most recent valuation, as at 1 April 1996, showed that the market value of the Plan assets was £979,785 and that the actuarial value of those assets represented 153% of the benefits that had accrued to members, after allowing for future increases in pensionable earnings.

The assumptions which have most significance for the actuarial valuation are those relating to the expected rate of return on investments and the expected rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 7.5% per annum and that pensions payments would increase at 3% per annum.

The Company currently contributes to the Plan at the rate of 10.4% of pensionable salaries inclusive of death in service benefit premiums. Employees currently contribute to the Plan at a rate of 5% of pensionable salaries.

Notes to the Accounts

continued

23. OPERATING LEASE COMMITMENTS

The Group has annual commitments in respect of operating leases as follows:

	1996		1995	
	Land and Buildings £'000	Other Assets £'000	Land and Buildings £'000	Other Assets £'000
Expiring:				
Within one year	103	209	141	65
Within two to five years	322	251	339	278
Over five years	390	—	165	—
	815	460	645	343

24. OTHER COMMITMENTS

Guarantees

The Company has guaranteed rentals payable by Filofax Inc amounting to £33,000 (1995: £29,000) per annum until 30 September 1999.

Contingent Liabilities

With the exception of the guarantees referred to above, the Group has no material unprovided contingent liabilities.

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996 £'000	1995 £'000
Operating profit	6,745	5,024
Depreciation	658	345
Increase in stocks	(464)	(935)
Increase in debtors	(597)	(114)
(Decrease)/increase in creditors	(1,116)	786
Net cash inflow from operating activities	5,226	5,106

Notes to the Accounts

continued

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share Capital (including premium) £'000	Loans £'000	Finance Leases £'000	Total £'000
At beginning of year	1,392	425	—	1,817
Loans of subsidiary undertaking acquired	—	530	—	530
Capital element of finance lease obligations of subsidiary undertaking acquired	—	—	375	375
Cash flows from financing	153	(707)	(91)	(645)
Shares issued in respect of acquisition	147	—	—	147
At end of year	1,692	248	284	2,224

27. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	1996 £'000	1995 £'000
At beginning of year	3,678	2,406
Net cash inflow	558	1,266
Exchange movements	100	6
At end of year	4,336	3,678

Cash and cash equivalents comprise cash at bank and in hand of £4,379,000 (1995: £3,678,000) and bank overdrafts of £43,000 (1995: £Nil).

Auditors' Report

To the members of Filofax Group plc

We have audited the accounts on pages 18 to 33 which have been prepared on the basis of the accounting policies set out on page 22. We have also examined the amounts disclosed relating to emoluments and share option interests of the Directors which form part of the report to shareholders by the Remuneration Committee on pages 13 to 15.

Respective Responsibilities of Directors and Auditors As described on page 17, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 March 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn

14 June 1996

Binder Hamlyn
Chartered Accountants
Registered Auditors
20 Old Bailey
London EC4M 7BH

Auditors' Report on Corporate Governance Matters

To Filofax Group plc

In addition to our audit of the accounts we have reviewed the Directors' statements on pages 16 and 17 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, which is not disclosed.

Basis of Opinion We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion With respect to the Directors' statements on internal financial control and on going concern on page 17, in our opinion the Directors have provided the disclosures required by paragraph 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, the Directors' statement on page 16 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Binder Hamlyn, Binder Hamlyn

14 June 1996

Chartered Accountants
20 Old Bailey
London EC4M 7BH

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Auditors
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Financial Calendar

25 July 1996	Annual General Meeting
1 October 1996	Record date for 1995/96 final ordinary dividend
1 November 1996	Payment date for 1995/96 final ordinary dividend
November 1996	Announcement of 1996/97 interim results
March 1997	Payment of 1996/97 interim dividend
June 1997	Announcement of 1996/97 full year results

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