Filofax Group plc Annual Report 1997/98

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The Filofax Group

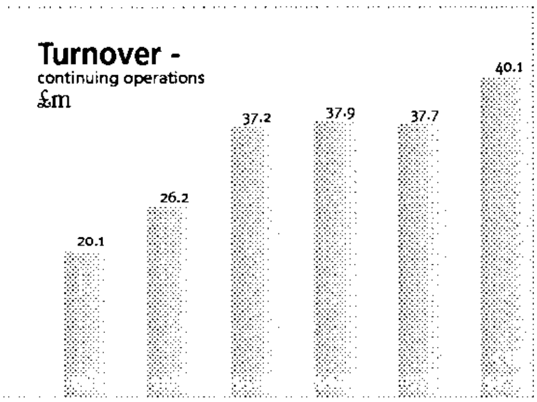
Filofax is the world's most recognised brand in ring binder organisers.
The Group's goal is to achieve and maintain leadership in this market.

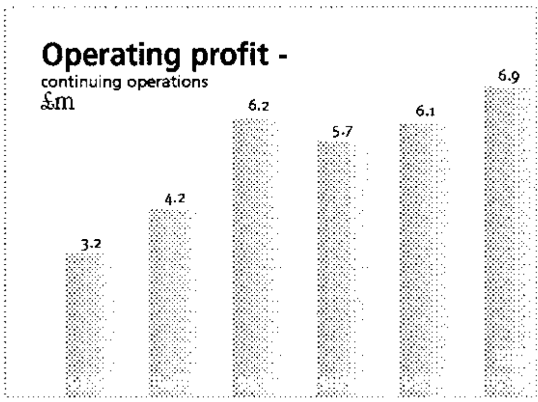
The Group has wholly owned sales subsidiaries in the UK, USA, Germany, France, Scandinavia and Hong Kong.

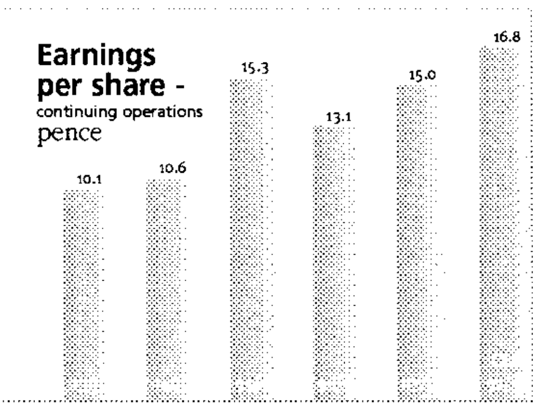
Contents

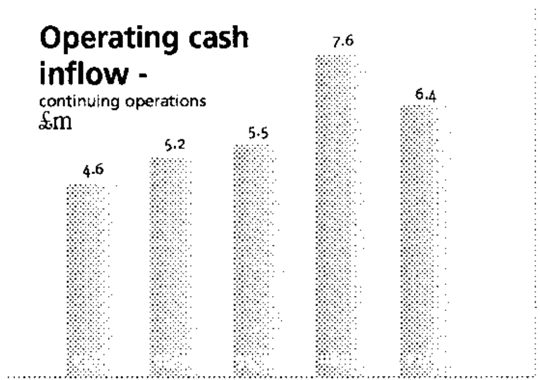
Financial Highlights

				Constant exchange rates *	
Continuing operations	**1997/98**	1996/97	Change	**1997/98**	Change
	£m	£m	%	**£m**	%
Turnover	**37.7**	37.9	-0.7%	**40.1**	+5.7%
Operating profit	**6.1**	5.7	+8.0%	**6.9**	+21.6%
Earnings per share (pence)	**15.0p**	13.1p	+14.5%	**16.8p**	+28.2%
Dividends per share (pence)	**4.07p**	3.70p	+10.0%	**4.07p**	+10.0%









* Constant exchange rate (CER) figures have been derived from retranslating the results of overseas subsidiary undertakings and significant foreign currency denominated earnings streams of UK subsidiary undertakings at the same average rates of exchange as used for translation during the

Annual Review

Results and dividend

Group sales from the continuing business declined marginally to £37.7m (1996/97: £37.9m) as a result of foreign exchange translation differences. Had sales of our overseas subsidiaries been translated at the rates used in the year to 31 March 1997, total sales would have risen by 6% to £40.1m. Sales of our core Filofax brand at constant exchange rates rose by 10% to £29.1m (£26.5m).

Pre-tax profit from continuing operations rose by 7% to £6.1m (£5.7m). Excluding the effect of currency translation this figure would have been £6.9m, representing an improvement of 21%.

On 1 April 1998 we announced the disposal of our greeting card business, which, after accounting for all costs associated with the sale, the original purchase costs, and trading to 31 March, resulted in a loss of £7.0m.

The Company repurchased 2.3m shares in the first half of the year at an average price of 141.3p and earnings per share on continuing operations rose by 15% to 15.0p (13.1p).

There is every evidence that the worldwide market for ring binder organisers remains buoyant and that the Filofax brand remains pre-eminent within it. Against this background your Board has recommended a 10% increase in the final dividend to 2.42p per share (2.20p) to bring the total annual dividend to 4.07p (3.70p).

Strategy and management

We announced on 10 November 1997 that we were embarking on a wide ranging strategic review. As our subsequent announcement on 19 February disclosed, this included preliminary discussions with a number of third parties to establish whether any major alliance might improve shareholder wealth. After a thorough exploration of several possibilities we have determined that there is no such opportunity in the short term and these discussions have now been terminated.

Having completed our strategic review the Group is now clearly focused on the ring binder organiser market, an area which continues to show steady real growth, in which our core competence lies and in which we have the world's strongest brand name.

As part of the re-focusing of the Group a number of changes have been made. As announced on 1 April we have disposed of the business and assets of Henry Ling and exited the greeting card market. We have also declined renewal of a contract to manage a promotional catalogue on behalf of British Telecom, a business acquired in 1995 with Topps of England Ltd, which accounted for £1.0m of turnover at low margin and which did not complement our core ring binder organiser business. The remaining corporate and promotional business in the UK (accounting for £1.5m of turnover in the year under review) has been restricted to our core products in order to make better use of our manufacturing and sales capability.

We have also initiated further strengthening and re-focusing of our UK retail sales and marketing teams to ensure greater co-ordination between our Filofax and Microfile brands. Finally, our Danish business has been incorporated into our highly successful Swedish subsidiary in order to take advantage of an increasingly homogenous Scandinavian market.

There remain a number of strategic and operating opportunities within the ring binder organiser market, in particular in new product development, which we intend to exploit. In order to help the company achieve these objectives, certain changes in management responsibilities are being introduced.

To allow me to concentrate on the opportunities available to us, my focus, as Chief Executive, will become increasingly strategic. I will continue to remain directly responsible for the Group marketing function and for sales to those countries where we do not have our own subsidiaries.

David Collischon, our non-executive Chairman, has asked to retire at the Annual General Meeting on 16 July, having reached the age of 60. David, who acquired the company in 1980 and brought it to the market in 1987, is the founder of the brand as it is known today. Since my appointment in 1990, he has served as non-executive Chairman and I am pleased he has agreed to remain on the Board as a non-executive director. Following the AGM I will assume the role of executive Chairman.

Chris Brace, Group Finance Director and Company Secretary since May 1992, has been appointed Managing Director of the Group with effect from 1 June 1998. This appointment reflects the increasingly important role he has had in the running of the Company; in November 1992 he took over responsibility for Systems and Information Technology, in 1993 he became responsible for Planning and Logistics and in 1994 for Purchasing. In the spring of 1997 I asked him to take personal control of our US subsidiary. Under his direction this business has increased its profitability

Annual Review

Continued

markedly. The Board has every confidence that Chris will bring the same energy and determination to his role as Managing Director.

I am also pleased to announce that Michael Ball, who has served as Group Financial Controller since 1994, has been promoted to the role of Group Finance Director and Company Secretary. While Chris Brace has progressively assumed more operational responsibility, Michael has been playing a larger part in the management of the Group than his title suggested and is therefore well prepared for his new position. Michael will be responsible for the management of all aspects of the Group's finance function including Systems and Information Technology, Treasury and Taxation.

UK

Our new UK subsidiary, in its first year of autonomous operation, experienced a slow start. The reorganisation announced in June 1997 involved a complete change in the staff responsible for order intake and processing and therefore a steep learning curve for all concerned. During the second half of the year not only have the benefits of experience started to show through but a number of middle management changes have strengthened the team.

Start up issues in the new subsidiary restricted overall sales, at £16.7m, to only marginal growth over the previous year despite a strongly improved product offering and continued healthy demand from end users.

Sales through retail channels of both our Filofax and Microfile brands together rose by 6% to £10.2m (£9.7m) but within this there was a degree of deliberate withdrawal of the Filofax brand from lower prestige outlets.

There is strong evidence to suggest actual sales from retailers to end users enjoyed significantly higher growth than our results imply, demonstrating a further fall in retailers' inventory.

A further strengthening of our UK retail sales management is planned for this year, which, together with the operational improvements referred to above, will give us a more secure platform for future growth.

Our time management business under the Key Time and 'A' Time brands showed modest 2% growth to £1.0m but suffered from a lack of clear identity and focus. Since the year end a new strategy has been adopted of marketing to both brands' customers under the unified name of Filofax Time Management. This will give both customers and staff a clearer and better known brand with which to identify but will involve some transition costs. In the future it will offer the opportunity to share certain products with the retail side of our business with margin and inventory advantages.

The Drakes office stationery business had a difficult year with sales falling by 13% to £1.6m (£1.8m). Although not essential to our core organiser business, Drakes remains a strong contributor and an excellent complementary sale into office product channels.

Since the acquisition of Topps of England Ltd in July 1995, we had been responsible for the management of a promotional gift catalogue for British Telecom plc. This was a business that had grown out of the supply of organisers but increasingly had almost nothing to do with our core business. It offered very much lower margins than our average and few, if any, synergies with our core activities. Accordingly, we have not renewed the contract for this business which expired on 29 May. Since December 1997 we have, by mutual consent, allowed the business to decline and consequently turnover, which had been £0.9m in the year to 31 March 1997, reached only £0.8m in the current year. We have not classified this as a discontinued operation (a category that has been reserved exclusively for greeting cards) and this will need to be taken into account when considering 1998/99 sales growth.

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The remainder of our UK activities comprises the direct corporate sale of what was formerly a range of leather goods but is increasingly restricted to the same sort of ring binder organisers that we offer via retail channels. This provides useful incremental demand for our Burgess Hill factory and an additional channel for standard product. Sales rose by 8% to £1.5m (£1.4m).

Continental European subsidiaries

The underlying performance in all Continental subsidiary markets was encouraging. In particular, both Sweden and France showed strong recovery from setbacks in the previous year. Our new products were extremely well received and our product mix improved markedly.

Sweden remains our largest Continental subsidiary with sales of SEK 46m (£3.6m), 17% up on the SEK 39m (£3.5m) achieved in the prior year, even before the consolidation of the recently formed Danish branch. Swedish growth is flattered by comparison with a poor year in 1996/97 but compound annual growth across the last two years is over 10%.

Annual Review

Continued

Despite our commanding market share in Sweden, and the resilience the brand has shown historically, there are signs of local moves towards own label products which could impact sales and margins in the year ahead.

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Reported within the Swedish results are our small sales in Finland where we enjoyed fast growth from the very small base established in 1996/97. Our strategy in this, as in all new markets, is to establish a niche position as a highly desirable premium price product rather than to push for immediate market share.

Sales in Denmark, which has since become a branch of our Swedish subsidiary, moved ahead by just 3% in local currency to DKR 16.2m (£1.5m) from DKR 15.7m (£1.7m) but, more importantly, we have begun the essential process of merging our local brand, Systemplan, under the worldwide Filofax banner. This will allow significant product rationalisation and consequent margin enhancement in the future. As a result of the sales improvement and strict cost containment our Danish operation moved into a small local profit for the first time since 1993.

Our French subsidiary maintained the improvement achieved in the second half of the previous year, lifting local sales by 9% to FFr 27.5m (£2.8m) from FFr 25.2m (£3.2m). The French market remains highly competitive but the Filofax brand name is increasingly recognised and has built up significant strength since we launched our own local subsidiary in 1992.

Germany is still the fastest growing major market for our products in Europe and, indeed, the world. Penetration levels are among the lowest in Europe and this, assisted by our excellent brand recognition, allowed us to grow local sales of the Filofax brand by 27% from DM 6.3m (£2.8m) to DM 8.0m (£2.7m). While some slowing of sales growth must be expected as penetration increases, we nevertheless look forward to a very strong year ahead.

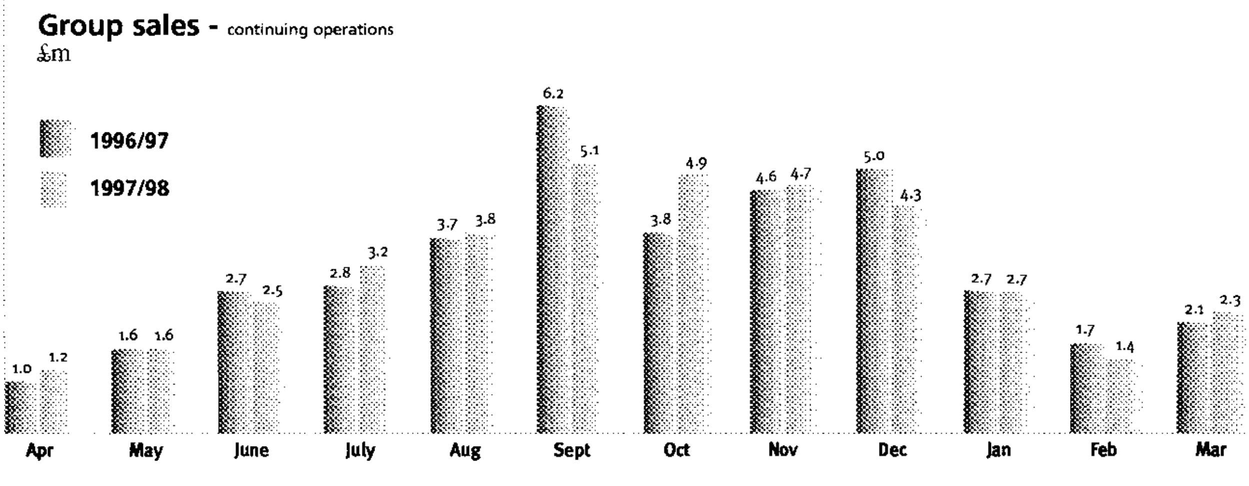
Perhaps the clearest indication of the growth of the European organiser market, and the strength of the Filofax brand within it, has been the performance achieved in those Continental markets where we do not have our own subsidiaries and sell through independent third party distributors. Sales to these markets grew by 12% even though these customers were very badly hit by the strength of Sterling, the only currency in which we sell to them, and the consequent pressure on their margins.

While this performance is perhaps flattered by a poor result in the year to 31 March 1997, the trend line is clear with compound growth from these markets of 10% p.a. over the four years since 1993/94.

USA

I drew attention last year to the complexity of the issues we face in this large and competitive market, suggesting that our strategy should be to limit expenditure and minimise risk. This resulted in a small fall in sales in the first half. In the second half year to 31 March 1998, the improvement in our product offering and the stronger local discipline that had been implemented, contributed to a reversal of the first half decline and an overall annual sales increase of 6% in local currency to $8.6m ($8.1m).

Combined with the stringent cost control of which I have previously written, this produced a very marked improvement in the profitability of our US operation. The US market offers



Annual Review

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great potential but the highest risk of any in which we operate due to the cost of distribution and the nature of competition. Our strategy is for modest sales growth and strict cost containment. We have now re-established our local subsidiary on a firm foundation from which we can move ahead in the coming year.

Rest of the world

As in Europe, the strength of Sterling put severe pressure on our third party distributors in the rest of the world. In the case of the Far East and the Pacific Rim countries this pressure was, of course, exacerbated by the turndown in the local economies and collapse in consumer confidence following the currency crises in the third quarter.

It is, again, eloquent testimony to the strength of our brand and the resilience of the ring binder organiser market that sales to distributors outside Europe grew by 7% at constant exchange rates. Compound growth over the last four years for sales to these distributors has exceeded 10% p.a.

The future

The ring binder organiser market remains buoyant and our position within it pre-eminent. Both foreign exchange translation effects and internal reorganisation have impacted results in the year under review but the resilience of our core business and its strongly cash generative nature are obvious.

Having completed an exhaustive strategic review and implemented its major conclusion, with a re-dedication to our core ring-binder organiser business, we are ready to push ahead with further organic growth. The senior management changes referred to earlier underpin this commitment.

New product development remains a key focus and, whilst our 1997/98 range was a marked improvement on its predecessor, we believe that the new ranges launched in March and August 1998 will prove the most significant step forward in product since 1991.

The market background is positive, but we cannot expect growth to resume at the rapid rate enjoyed in the turnaround phase from 1991 to 1995. Foreign exchange fluctuations can have a dramatic effect on comparative performance; our Swedish subsidiary which has been a powerful engine of growth faces particular challenges in the year ahead; and French retail demand remains subject to political factors.

Enhancement of shareholder wealth is our underlying aim and it is with this in mind that the programme of share repurchases which was necessarily suspended during our strategic review will be resumed when conditions are judged appropriate.

Robin Field
Chief Executive

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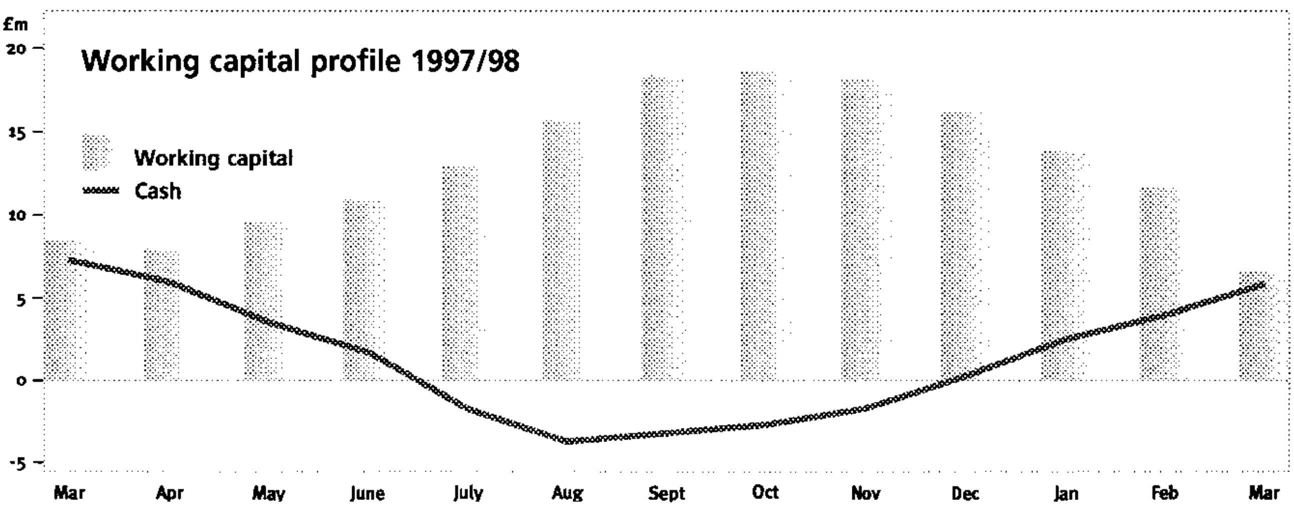

Financial Review

Operating results

Group turnover for the year to 31 March 1998 fell by £1.4m, or 3%, to £42.2m but suffered from the strength of Sterling and from the poor performance of Henry Ling & Son (London) Limited ("Lings"), particularly in the months immediately prior to the disposal of the business. In accordance with current accounting practice, the results attributable to Lings have been treated as a discontinued operation in both the current and prior year. Turnover for the year from the core continuing businesses of £37.7m was also fractionally below the level achieved in 1996/97, but was adversely affected by the strength of Sterling, principally against European currencies. At constant exchange rates, turnover from continuing operations would have been 5.7% higher than in 1996/97 at £40.1m (1996/97: £37.9m). This underlying growth was underpinned by the performance of the Group's Continental European subsidiaries where sales at constant exchange rates increased by 12%.

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Operating profits from continuing businesses of £6.1m were 8%, or £0.45m, higher than in 1996/97 despite the effects of Sterling strength. At constant exchange rates, growth would have been 22% giving operating profits of £6.9m. Total Group operating profits were diluted by the performance of Lings where the operating loss for the year of £1.9m reflects both the trading performance and the write down of assets to the value shown on the acquirer's proposed completion balance sheet.

Disposal of Henry Ling & Son (London) Limited

The business and net trading assets of Lings were sold on 31 March 1998 for an initial consideration of £0.5m which was received on 1 April 1998. Further consideration of up to £0.5m may be receivable but this has not been recognised in the Group accounts. As a consequence, a loss of £5.1m has been included in the profit and loss account, below operating profit, in respect of the disposal. This amount includes the reinstatement for presentational purposes of £4.8m of goodwill written off to reserves when the business was originally acquired.

Taxation

The effective rate of tax for the Group's continuing businesses decreased to 30% (31%) influenced by a number of factors including the reduction in the rate of corporation tax payable in the UK and the mix of profits between different tax jurisdictions. The major influence on the future effective tax rate, excluding unforeseen rate changes, is likely to continue to be the geographical mix of taxable profits between different tax jurisdictions.

The trading loss and subsequent write down and disposal of Lings trading assets gave rise to a tax credit of £297,000. This credit, which is expected to be relievable against the taxable profits arising from the continuing operations, has been included under discontinued operations for reporting purposes.

The Group continues to recover fully its payments of Advance Corporation Tax, and it is anticipated that the additional payments arising from the repurchase of ordinary shares in 1997/98 will also be fully recovered in the forthcoming year.

The Group has no material deferred tax liabilities.

Earnings per share

The loss on the disposal of Lings outweighed earnings from continuing businesses and gave rise to an overall loss attributable to shareholders for the year of £2.4m, equating to a loss per share of 8.4p (earnings: 13.7p). On the basis of continuing operations, earnings attributable to shareholders increased by 9% to £4.3m (£4.0m) and earnings per share increased by 15% to 15.0p (13.1p). In addition to the growth in earnings, the further increase on a per share basis reflects the earnings enhancement of the Group's share buyback programme, which resulted in the repurchase of 2,300,000 shares during the year.

Cash flow

After the overall reduction in working capital attributable to continuing businesses in 1996/97, there has been a small increase in working capital in the current year, although net cash inflow from operating activities of £6.4m (£7.6m) has again exceeded operating profit. Despite the significant cash outflow of £3.7m on the share repurchase programme and related payments of Advance Corporation Tax, the strong cash generative nature of the business has left the Group with net cash balances at the year end of £5.9m (£7.4m). The majority of the Group's businesses remain seasonal in nature and this will again lead to a large swing in the cash balance during the forthcoming year. Working capital requirements tend to increase substantially during the first half of the financial year and, as in previous years, have been financed by a bank overdraft facility. The majority of Group sales are made in the period August to December leading to strong cash inflows in the second

Financial Review

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half and particularly in the final quarter of the financial year.

Currency hedging

The Group aims to minimise the risks associated with foreign currency fluctuations arising from the translation of significant foreign currency denominated assets and liabilities in the accounts of UK Group companies by using a combination of currency deposits and overdrafts and forward contracts to match against those assets and liabilities. Unlike the previous year, the Group did not have in place any hedging arrangements in respect of foreign currency denominated earnings streams for the year ended 31 March 1998, and no arrangements are currently in place for the 1998/99 financial year. The effect of Sterling strength on the translation of those earnings streams has had a significant effect on the Sterling reported results of the Group for 1997/98 and, in the continuing absence of earnings hedges, reported results will remain sensitive to fluctuations in Sterling exchange rates.

Shareholders' funds

The Group has substantial assets which, under current accounting policies and conventions, are not included in the Consolidated Balance Sheet. No value has been attributed to the Group's portfolio of brands and goodwill arising on acquisitions has been written off directly to reserves.

Shareholders' funds decreased by £2.1m during the year to £10.5m. Retained losses (£3.5m), the repurchase of ordinary shares (£3.3m) and a small write off of goodwill on the acquisition of the 'A' Time business have been partially offset by the write back of goodwill of £4.8m arising from the disposal of Lings.

Dividend

The directors have proposed a final dividend of 2.42p per share (2.20p) which, when added to the interim dividend paid in March, gives a full year dividend of 4.07p per share (3.70p), an increase of 10%. The dividend per share is uncovered because of the loss resulting from the Lings disposal, but on the basis of earnings from continuing operations is covered 3.7 times (3.5 times).

Share repurchase programme

As referred to above, the Group, in a series of transactions during the year, repurchased and cancelled 2,300,000 ordinary shares as part of its share repurchase programme. The total consideration was £3,250,000 (average price 141.3p per share) plus associated costs of £37,000. Advance Corporation Tax payments of £452,750 were made in respect of these transactions. At the forthcoming AGM, the Company will seek to renew its authority to repurchase up to a further 14.9% of the issued share capital of the Company. As before, the Board will only exercise this authority if it believes that it would be in the best interests of shareholders generally and would enhance earnings to do so.

Year 2000

In common with the majority of international businesses, computer systems within the Group will require modification or replacement to enable them to accommodate the Year 2000 date change and to avoid malfunction and consequent commercial disruption. The operation of the business depends not only on the Group's own computer systems, but to some extent on those of customers and suppliers. The Group is well advanced in the phase of assessing the risks associated with the date change to the Year 2000 on its own systems and has initiated various replacement projects across the business. The process of considering the effects on suppliers and customers has commenced and, once this assessment is complete, the likely impact on the business can be assessed and appropriate action plans developed to deal with the key risks. The majority of the costs associated with systems replacement and other activities designed to combat the risks associated with Year 2000 compliance, will be capital in nature while the balance, which is unlikely to be material, will be expensed as incurred.

C. S. Brace
1 June 1998

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Summary Cash Flow Statement - continuing operations

Year to 31 March 1998	£m
Operating cash inflow	**6.4**
Equity dividends paid	**(1.1)**
Taxation paid	**(2.4)**
Capital expenditure	**(0.9)**
Acquisition	**(0.1)**
Shares repurchased	**(3.3)**
Decrease in cash	**(1.4)**

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Directors' Report

The directors have pleasure in submitting their Report together with the audited accounts of the Group for the year ended 31 March 1998. The Annual Review on page 2 forms part of this Report.

Principal activity

The Group's principal activity is the supply 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 1998 are set out in the Consolidated Profit and Loss Account on page 16.

The directors recommend the payment of a final dividend of 2.42p per ordinary share (1996/97: 2.20p) payable on 30 October 1998 making the total dividend for the year 4.07p per ordinary share (1996/97: 3.70p).

Acquisitions and disposals

On 24 June 1997, the Group acquired the goodwill, intellectual property and customer lists of 'A' Time, an unincorporated business, for a consideration of £119,000 plus expenses.

On 31 March 1998, the Group disposed of the business and net trading assets of Henry Ling & Son (London) Limited for an initial consideration of £0.5m.

Share capital

During the year, the Company purchased and cancelled 2,300,000 of its own ordinary shares. Full details of these transactions are given in the Financial Review on page 7 and in Note 14 to the accounts.

Directors

The directors of the Company at the date of this Report are shown on page 10. Each of the directors served on the Board for the whole year, except for M. D. Ball who was appointed on 1 June 1998.

The directors of the Company at 31 March 1998 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 any of the directors between the end of the year and 1 June 1998, the date of this Report.

	Beneficial		Non-Beneficial	
	1998	1997	1998	1997
R. D. Collischon	**695,000**	695,000	**1,070,192**	1,070,192
C. S. Brace	**131,109**	94,103	—	—
R. A. Field	**1,064,538***	1,027,446*	—	—
M. R. J. Tyndall	**5,000**	5,000	—	—

* Includes a holding of 717,000 (1997: 717,000) shares held by Strategy Ventures Plc, a company in which R. A. Field has an interest.

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

R. D. Collischon retires from the Board by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting. M. D. Ball, having been appointed to the Board on 1 June 1998, and being eligible, offers himself for election at the Annual General Meeting.

Directors' Report

Continued

Contracts

No director had a material interest in any contract of significance with the Company during the year.

Substantial shareholdings

At 18 May 1998, the Company had been notified of the following interests in its ordinary share capital in addition to directors' holdings:

	Holding	%
Aberforth Partners	4,082,695	14.51%
M & G Group Plc	2,173,167	7.72%
The Capital Group Companies, Inc	1,987,200	7.06%
The Equitable Life Assurance Society	1,577,440	5.61%
R. J. Koch	1,557,857	5.54%
Legal & General Investment Management	933,600	3.32%
BG Pension Funds Management Limited	865,190	3.07%

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Annual General Meeting

At the Annual General Meeting on 16 July 1998, shareholders will be asked to approve three items of special business in addition to the ordinary business. These resolutions are explained in the Notice to the Annual General Meeting and the explanatory notes thereon on page 33.

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.

On behalf of the Board

M. D. Ball
Company Secretary
1 June 1998

Board of Directors

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David Collischon
MCIM FInstD
Non-executive Chairman

Acquired Filofax in 1980, Chairman and Managing Director from 1980 to 1990. Floated the Company on the USM in 1987.
Now non-executive Chairman of the Group. (Aged 60)

Mark Tyndall MA
Non-executive Director

Managing Director and founder of Apax Partners & Co. Asset Management Ltd.
Joined the Board of Filofax in 1990. He is a non-executive director of Ionica PLC and was previously an executive director of Ivory and Sime PLC. (Aged 40)

Robin Field MBA
Chief Executive

Held a number of management positions with Jardine Matheson & Co. in Hong Kong and Taiwan from 1975 to 1983.
He then completed an MBA with Distinction at INSEAD and went on to work internationally as a strategy consultant with the LEK Partnership.
He joined Filofax in 1990.
He is non-executive Chairman of ORA Telecoms Ltd. and a director of Strategy Ventures Plc. (Aged 46)

Christopher Brace ACA
Managing Director

Held a number of positions in planning and purchasing before joining Thomson McLintock in 1979 where he qualified as a Chartered Accountant.
He then held senior finance positions with MGM Metrocolor, Hillsdown Holdings Plc and Carlton Communications Plc.
He joined the Board of Filofax as Finance Director in 1992 and became Managing Director in June 1998. (Aged 41)

Michael Ball BCom ACA
Finance Director and Company Secretary

After graduating from the University of Birmingham in 1988 with a first class honours degree in Commerce, he joined Ernst and Young where he qualified as a Chartered Accountant. He then spent over two years at Glaxo in a group finance role before joining Filofax in 1994 as Group Financial Controller. He was promoted to the role of Finance Director in June 1998. (Aged 31)

Remuneration Committee Report

For the year ended 31 March 1998

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 best practice provisions annexed to the Stock Exchange Listing Rules. The Remuneration Committee 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 the directors for 1997/98. The Auditors' report on the accounts set out on page 32 confirms that the scope of their report covers the disclosures contained in this Report that are specified for review by the London Stock Exchange.

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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 Schemes. The Committee's members are Mr R. D. Collischon and Mr 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.

Each executive director has a service contract with the Company incorporating a notice period not exceeding twelve months.

The current remuneration package for executive directors comprises base salary, benefits-in-kind, pension, performance related payments and the longer-term rewards offered by share options.

Base salary

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

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 pension scheme for the benefit of certain employees of Filofax Limited, the principal UK trading company. The executive directors were members of the defined benefit section of this scheme until 31 March 1997, but no contributions have been made to that section of the scheme since that date. From 1 April 1997, the executive directors' pension arrangements, including all benefits previously accrued under the defined benefit section of the scheme, were transferred to the defined contribution section of the scheme. With effect from the same date, the Company has made a contribution of 25% of salary to the scheme on behalf of the respective executive directors who have themselves contributed 5% of salary. The contribution levels were determined by independent actuaries so as to maintain the executive directors' retirement benefits at the same levels as those previously anticipated under the defined benefit section of the scheme.

Performance related payments

The Company's executive directors participate in schemes which enable them to earn performance related payments as part of their remuneration package. For the year to 31 March 1998, the executive directors were eligible to receive a bonus based upon the percentage increase in earnings per share and could earn a further bonus based upon the achievement of budgeted pre-tax profits. In all cases no minimum levels of bonus are guaranteed and no payments are made where targets are not achieved. No bonuses were paid in either the year ended 31 March 1997 or the year ended 31 March 1998.

Remuneration Committee Report

For the year ended 31 March 1998 *Continued*

Share options

The Group operates approved and unapproved executive share option schemes for senior executives, and an employee sharesave scheme open to the employees of UK Group companies. Options granted under both of the executive share option schemes 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. Options issued under the unapproved executive share option scheme have certain conditions attaching to them which must be met prior to an exercise being made. Details of these conditions are given on page 13.

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Non-executive remuneration policy

Non-executive directors are paid fees in respect of their services. 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 1998

Aggregate emoluments by individual director were as follows:

Director	Fees £'000	Base salary £'000	Benefits in kind £'000	Performance related payments £'000	**Aggregate emoluments 1997/98 £'000**	Aggregate emoluments 1996/97 £'000	**Pension contributions 1997/98 £'000**
EXECUTIVE:							
R. A. Field	–	138	9	–	**147**	137	34
C. S. Brace	–	88	7	–	**95**	92	22
NON-EXECUTIVE:							
R. D. Collischon (CHAIRMAN)	10	–	1	–	**11**	11	–
M. R. J. Tyndall	7	–	–	–	**7**	7	–
REMUNERATION OF DIRECTORS WHO LEFT IN 1996/97	–	–	–	–	–	73	–
1997/98	**17**	**226**	**17**	–	**260**	320	56
1996/97	24	272	24	–	320		

Total remuneration was as follows:

	1998 £'000	1997 £'000
Aggregate emoluments (as shown above)	**260**	320
Money purchase pension contributions	**56**	–
Gains made on exercise of share options	**87**	–
Compensation for loss of office	–	45
	403	365

The comparative figures for aggregate emoluments shown above exclude contributions to defined benefit pension schemes in accordance with The Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997 SI 1997/570. The two executive directors listed above each had retirement benefits accruing under a defined benefit scheme in the year ended 31 March 1997 but, from 1 April 1997, their pension arrangements were transferred to the defined contribution section of the pension scheme.

Remuneration Committee Report

For the year ended 31 March 1998 *Continued*

Directors' share options

The executive directors who held office at 31 March 1998 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 approved and the unapproved executive share option schemes and under the employee sharesave scheme. The exercise prices shown for the total number of options for each director are weighted average prices.

	Date of grant	Number of Options: 1 April 97	Granted	Exercised	31 March 98	Exercise price	Date from which exercisable
R. A. Field							
Sharesave	October 92	37,006	–	37,006	–	30.4p	October 97
Sharesave	September 93	7,632	–	–	7,632	90.4p	September 98
Executive	July 94	10,000	–	–	10,000	193.0p	July 97
Executive	December 94	44,000	–	–	44,000	223.0p	December 97
Executive*	August 97	–	300,000	–	300,000	141.0p	August 00
		98,638	300,000	37,006	361,632	151.3p	
C. S. Brace							
Executive	May 92	90,000	–	–	90,000	30.0p	May 95
Sharesave	October 92	37,006	–	37,006	–	30.4p	October 97
Executive	November 92	47,281	–	–	47,281	63.5p	November 95
Sharesave	September 93	7,632	–	–	7,632	90.4p	September 98
Executive	July 94	7,400	–	–	7,400	193.0p	July 97
Executive	December 94	28,000	–	–	28,000	223.0p	December 97
Executive*	August 97	–	200,000	–	200,000	141.0p	August 00
		217,319	200,000	37,006	380,313	111.1p	

* Options issued under the unapproved scheme.

During the year, both R. A. Field and C. S. Brace exercised options over 37,006 ordinary shares and neither has subsequently sold the shares issued under the respective options. The mid-market closing share price on the date of exercise was 148.5p giving rise to unrealised gains on exercise of £43,704 for both R. A. Field and C. S. Brace.

Options granted under the approved executive share option scheme are normally exercisable three years after the date of grant and expire seven years from the exercise date.

Options granted under the unapproved executive share option scheme are exercisable in three equal tranches, three, five and seven years from the date of grant but, under normal circumstances, only to the extent that certain performance criteria have been met. For the options to be fully exercisable, the growth in consolidated normalised earnings per share must be at least equal to the growth in earnings per share over the same period by the company which was the bottom company within the top quartile of the FTSE – All Share Index in respect of such criteria.

Options granted under the employee sharesave scheme are normally exercisable five years after the date of grant and expire six months after the exercise date.

The highest and lowest mid-market closing prices during the year to 31 March 1998 were 197p and 121.5p respectively. The closing mid-market price on 31 March 1998 was 197p.

Corporate Governance

The Board recognises the importance of effective corporate governance and has complied throughout the year with the Cadbury Code of Best Practice, with the exception of the number of non-executive directors on the Board which is referred to below.

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 32.

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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 executive and two non-executive directors including the Chairman. In common with many other groups of similar size, the composition of the Board does not meet the recommendation of the Cadbury Committee to have a minimum of three non-executive directors or the requirement of paragraph 4.3 of the Code for the Audit Committee to comprise a minimum of three non-executive directors. The Board will regularly consider whether the independent representation on the Board is sufficient to enable the views of non-executive directors to carry significant weight in Board decisions.

The Board 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 Remuneration Committee Report and the Directors' Report respectively, 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 strategy and operating budgets;
- appointment of directors;
- 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 four times a year with additional meetings called as required.

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

A number of issues are dealt with through committees of the Board, further details of which are given below. Reports of these committee meetings are presented to the Board.

a) Audit Committee

The Audit Committee is a formally constituted committee of the Board and its members comprise the Group's 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 the 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

The Remuneration Committee is a formally constituted committee of the Board. Its members comprise the Group's non-executive directors. Its responsibilities are described in the Remuneration Committee Report on page 11.

Corporate Governance

Continued

2. Internal financial control

The Board 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.

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

- Comprehensive annual budgets are prepared by local management at 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 and reviewed 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.
- There is central control and monitoring of the key functional areas of treasury, procurement, marketing and product development.

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On behalf of the Board, the Audit Committee has reviewed the effectiveness of the Group's system of internal financial control for the year to 31 March 1998. This was conducted by the review of internal financial 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 16 to 31 have been prepared on a 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 1998

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	Note	**1998** Continuing operations £'000	**1998** Discontinued operation £'000	**1998** Total £'000	1997 Continuing operations £'000	1997 Discontinued operation £'000	1997 Total £'000
Turnover	1	**37,669**	**4,531**	**42,200**	37,916	5,686	43,602
Cost of sales		**17,184**	**3,659**	**20,843**	17,162	2,927	20,089
Gross profit		**20,485**	**872**	**21,357**	20,754	2,759	23,513
Administrative expenses		**14,348**	**2,757**	**17,105**	15,070	2,545	17,615
Operating profit/(loss)		**6,137**	**(1,885)**	**4,252**	5,684	214	5,898
Loss on disposal of discontinued operation	24	**–**	**(5,127)**	**(5,127)**	–	–	–
Profit/(loss) on ordinary activities before interest		**6,137**	**(7,012)**	**(875)**	5,684	214	5,898
Net interest (payable)/ receivable	4	**(7)**	**–**	**(7)**	43	(26)	17
Profit/(loss) on ordinary activities before taxation	2	**6,130**	**(7,012)**	**(882)**	5,727	188	5,915
Taxation charge/(credit)	5	**1,837**	**(297)**	**1,540**	1,774	–	1,774
Profit/(loss) on ordinary activities after taxation		**4,293**	**(6,715)**	**(2,422)**	3,953	188	4,141
Dividends	6			**1,097**			1,118
Retained (loss)/profit for the year	15			**(3,519)**			3,023
Earnings/(loss) per share	7	**15.0p**		**(8.4p)**	13.1p		13.7p

The discontinued operation comprises the trade of Henry Ling & Son (London) Limited which was sold on 31 March 1998. No Group overhead has been attributed to the discontinued operation for the purposes of the disclosures shown above.

Statement of Total Recognised Gains and Losses

For the year ended 31 March 1998

	Note	**1998** £'000	1997 £'000
(Loss)/profit on ordinary activities after taxation		**(2,422)**	4,141
Exchange differences	15	**(59)**	161
Total recognised gains and losses for the year	16	**(2,481)**	4,302

Consolidated Balance Sheet

At 31 March 1998

	Note	1998 £'000	1997 £'000
Tangible fixed assets	8	**2,215**	2,276
Stock	10	**6,397**	7,395
Debtors	11	**5,121**	5,421
Cash at bank and in hand	21	**5,942**	7,393
Total current assets		**17,460**	20,209
Creditors: amounts falling due within one year	12	**9,189**	9,869
Net current assets		**8,271**	10,340
Net assets		**10,486**	12,616

Capital and reserves			
Called up share capital	14	**1,407**	1,510
Share premium account	15	**474**	223
Capital redemption reserve	15	**115**	–
Other reserves	15	**809**	1,045
Profit and loss account	15	**7,681**	9,838
Equity shareholders' funds	16	**10,486**	12,616

(17)

Approved by the Board of Directors on 1 June 1998

C. S. Brace M. D. Ball

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Company Balance Sheet

At 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed asset investments	9	**12,702**	18,096
Debtors	11	**8,964**	4,942
Creditors: amounts falling due within one year	12	**1,014**	1,021
Net current assets		**7,950**	3,921
Net assets		**20,652**	22,017
Capital and reserves			
Called up share capital	14	**1,407**	1,510
Share premium account	15	**474**	223
Capital redemption reserve	15	**115**	–
Other reserves	15	**8,006**	13,019
Profit and loss account	15	**10,650**	7,265
Equity shareholders' funds		**20,652**	22,017

Approved by the Board of Directors on 1 June 1998

C. S. Brace   M. D. Ball

Consolidated Cash Flow Statement

For the year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities			
Continuing operations		**6,384**	7,577
Discontinued operation		**22**	(565)
Net cash inflow from operating activities	20	**6,406**	7,012
Returns on investments and servicing of finance			
Interest received		**326**	459
Interest paid		**(313)**	(456)
Interest element of finance lease repayments		**(11)**	(22)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**2**	(19)
Taxation			
Corporation tax paid		**(1,645)**	(1,738)
Advance corporation tax paid		**(719)**	(253)
Taxation paid		**(2,364)**	(1,991)
Capital expenditure			
Purchase of tangible fixed assets		**(943)**	(445)
Sale of tangible fixed assets		**52**	70
Net cash outflow for capital expenditure		**(891)**	(375)
Acquisitions and disposals			
Purchase of unincorporated business	23	**(122)**	–
Net cash outflow from acquisitions and disposals		**(122)**	–
Equity dividends paid		**(1,081)**	(1,056)
Net cash inflow before financing		**1,950**	3,571
Financing			
Issue of ordinary shares (net of issue costs)		**80**	41
Purchase of own shares		**(3,287)**	–
Capital element of finance lease repayments	22	**(98)**	(131)
Repayment of loans	22	–	(248)
Net cash outflow from financing		**(3,305)**	(338)
(Decrease)/increase in cash	22	**(1,355)**	3,233

(19)

Accounting Policies

For the year ended 31 March 1998

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. The results of businesses acquired during the year have been consolidated from the date of acquisition and the results of businesses disposed of during the year consolidated up to the date of disposal. Transactions and balances between Group undertakings have been eliminated; profit on sales to subsidiary undertakings is eliminated on consolidation until products are sold to customers outside the Group.

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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, other than freehold land which is not depreciated. The annual rates of depreciation in use are:

Freehold buildings	2½%
Short leasehold buildings	Over period of lease
Plant and machinery	15%
Fixtures and equipment	15% - 33⅓%
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 tax rate applicable at the time of reversal.

Leasing commitments Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term 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 lease obligation is charged to the profit and loss account over the period of the lease.

Pensions For defined benefit schemes, the cost of providing pension benefits is charged to the consolidated profit and loss account on a systematic basis over the period during which benefit is derived from employees' services. In the case of defined contribution schemes, employer's contributions are written off to the consolidated profit and loss account as incurred.

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 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.

References to constant exchange rate growth within the annual report and accounts represent growth over the previous financial year excluding the effects of changes in Sterling exchange rates. Constant exchange rate numbers are calculated by retranslating the current year results of overseas subsidiary undertakings and significant foreign currency denominated earnings streams of UK subsidiary undertakings into Sterling assuming that the average exchange rates used for translation remained unchanged from those used in the previous year.

Notes to the Accounts

For the year ended 31 March 1998

1. Segmental analysis

The Group operates in a single business segment. All of the Group's turnover relates to the sale of consumer products. An analysis of turnover by location of customer is shown below together with growth in Sterling and at constant exchange rates.

	1998	1997		Constant exchange rates 1998	
	£'000	£'000	%Inc/(Dec)	**£'000**	%Inc/(Dec)
United Kingdom	**16,706**	16,691	0.1	**16,706**	0.1
Nordic subsidiaries	**5,050**	5,124	(1.4)	**5,751**	12.2
France	**2,807**	3,208	(12.5)	**3,495**	8.9
Germany	**2,726**	3,069	(11.2)	**3,573**	16.4
USA	**5,186**	5,070	2.3	**5,355**	5.6
Overseas third party distributors	**5,194**	4,754	9.3	**5,216**	9.7
Turnover from continuing operations	**37,669**	37,916	(0.7)	**40,096**	5.7
Discontinued operation - Lings	**4,531**	5,686	(20.3)	**4,531**	(20.3)
Group turnover	**42,200**	43,602	(3.2)	**44,627**	2.4

Turnover of the discontinued operation by location of customer was as follows: United Kingdom £4,429,000 (1996/97: £5,548,000), Overseas third party distributors £102,000 (1996/97: £138,000).

An analysis of turnover by location of subsidiary undertaking is as follows:

	1998	1997
	£'000	£'000
United Kingdom (excluding Lings)	**26,001**	26,027
Nordic subsidiaries	**5,054**	5,189
France	**2,867**	3,260
Germany	**2,726**	3,069
USA	**5,204**	5,070
Hong Kong	**4,131**	3,650
	45,983	46,265
Less: Intra-Group sales	**(8,314)**	(8,349)
External turnover from continuing operations	**37,669**	37,916
Discontinued operation - Lings	**4,536**	5,701
Less: Intra-Group sales	**(5)**	(15)
Group external turnover	**42,200**	43,602

By geographical segment of origin, all of the turnover relating to the discontinued operation arose within the United Kingdom. Intra-Group sales by segment of origin for continuing operations comprise United Kingdom £4,324,000 (1996/97: £4,784,000), USA £18,000 (1996/97: £Nil), Nordic subsidiaries £4,000 (1996/97: £66,000) and Hong Kong £3,968,000 (1996/97: £3,499,000).

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.

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Notes to the Accounts

For the year ended 31 March 1998 *continued*

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2. (Loss)/profit on ordinary activities before taxation

(Loss)/profit is stated after charging the following:	1998 £'000	1997 £'000
Rentals under operating leases		
– Land and buildings	**700**	644
– Other assets	**479**	485
Foreign exchange losses on borrowings and deposits	**16**	33
Auditors' remuneration for audit services	**78**	89
Auditors' remuneration for non-audit services*	**64**	52
Depreciation		
– Owned assets	**657**	746
– Assets held under finance leases	**56**	104

* Included in the costs of acquisitions are fees to the auditors for non-audit services of £2,000 (1996/97: £Nil).

3. Employment costs

	1998 £'000	1997 £'000
Wages and salaries	**7,918**	8,335
Social security costs	**1,183**	1,191
Other pension costs	**187**	211
	9,288	9,737

The average number of employees during the year was:	1998 Number	1997 Number
Production and warehousing	**191**	194
Office, sales and management	**285**	284
	476	478

Information concerning directors' emoluments and interests in share options is shown in the Remuneration Committee Report on page 11.

Notes to the Accounts

For the year ended 31 March 1998 *continued*

4. Net interest (payable)/receivable

	1998 £'000	1997 £'000
Bank loans and overdrafts	**(312)**	(426)
Finance lease interest	**(11)**	(22)
	(323)	(448)
Interest receivable	**316**	465
Net interest (payable)/receivable	**(7)**	17

5. Taxation

	1998 £'000	1997 £'000
UK corporation tax	**1,082**	1,468
Overseas taxation	**434**	306
Net taxation adjustments of prior years	**24**	–
	1,540	1,774

UK corporation tax is stated net of a £297,000 tax credit arising in respect of the operating loss and subsequent loss on disposal of the business and net trading assets of Henry Ling & Son (London) Limited.

6. Dividends

	1998 £'000	1997 £'000
Interim dividend 1.65p (1996/97 : 1.50p) per share net	**463**	453
Final dividend 2.42p (1996/97 : 2.20p) per share net	**681**	665
Over provision of prior year dividend	**(47)**	–
	1,097	**1,118**

The final dividend for the 1996/97 financial year was provided for on the basis of the number of shares in issue at 31 March 1997. The Company subsequently purchased and cancelled 2,300,000 of its ordinary shares and issued 146,137 shares under share option schemes, the combined effect being to reduce the actual final dividend payment by £47,000.

Notes to the Accounts

For the year ended 31 March 1998 *continued*

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7. Earnings per share

The calculation of basic earnings per share is based on the loss after taxation of £2,422,000 (1996/97: Profit £4,141,000) divided by the weighted average number of shares in issue during the period of 28,686,688 (1996/97: 30,175,171). Fully diluted earnings per share is not materially different to basic earnings per share in either year.

An alternative measure of earnings per share based only on continuing operations has also been presented as the directors believe this is a more appropriate measure of the underlying performance of the Group. This has been calculated as follows:

	1998 £'000	1997 £'000
(Loss)/profit on ordinary activities after taxation	**(2,422)**	4,141
Add: Loss on disposal of the discontinued operation	**5,127**	–
Add: Operating loss/(profit) attributable to the discontinued operation	**1,885**	(188)
Less: Taxation credit attributable to the discontinued operation	**(297)**	–
Profit on ordinary activities after taxation from continuing operations	**4,293**	3,953
Earnings per share (pence) from continuing operations	**15.0p**	13.1p

8. Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and equipment £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost						
At 1 April 1997	936	341	2,892	366	934	5,469
Exchange adjustments	–	–	(55)	(5)	–	(60)
Additions	–	5	415	36	379	835
Disposals	–	(81)	(790)	(133)	–	(1,004)
At 31 March 1998	**936**	**265**	**2,462**	**264**	**1,313**	**5,240**
Depreciation						
At 1 April 1997	157	158	2,007	234	637	3,193
Exchange adjustments	–	–	(30)	(3)	–	(33)
Charge for the year	15	54	432	72	140	713
Disposals	–	(66)	(683)	(99)	–	(848)
At 31 March 1998	**172**	**146**	**1,726**	**204**	**777**	**3,025**
Net book value						
At 31 March 1998	**764**	**119**	**736**	**60**	**536**	**2,215**
At 1 April 1997	779	183	885	132	297	2,276

The net book value above includes £26,700 (1997: £245,900) in respect of assets held under finance leases and hire purchase contracts.

Notes to the Accounts

For the year ended 31 March 1998 *continued*

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9. Investments in subsidiary undertakings

	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 April 1997 and 31 March 1998	**15,846**	**2,250**	**18,096**
Provisions			
At 1 April 1997	–	–	–
Charged in the year	5,394	–	5,394
At 31 March 1998	**5,394**	–	**5,394**
Net book value			
At 31 March 1998	**10,452**	**2,250**	**12,702**
At 1 April 1997	15,846	2,250	18,096

The provision reflects a permanent diminution in value of the investment in Elijo Limited, the immediate parent undertaking of Henry Ling & Son (London) Limited, the business and net trading assets of which were sold on 31 March 1998.

The following are the principal subsidiary undertakings of the Company as at 31 March 1998, all of which were wholly owned and have been included in the accounts.

Name	Principal Activity	Country of Incorporation
Filofax A/S*	Supplier of stationery products	Denmark
Filofax 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
Baybond Limited*	Manufacturer and supplier of stationery products	England

*Investment held by a subsidiary undertaking.
**Renamed Elijo (London) Limited on 9 April 1998.

10. Stock

	March 1998 £'000	March 1997 £'000
Raw materials	**712**	362
Work in progress	**567**	651
Finished goods and goods for resale	**5,118**	6,382
	6,397	7,395

Notes to the Accounts

For the year ended 31 March 1998 *continued*

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11. Debtors

	March 1998		March 1997	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade debtors	**3,971**	–	4,719	–
Amounts due from subsidiary undertakings	–	**8,794**	–	4,776
Other debtors	**179**	–	138	–
Prepayments and accrued income	**301**	–	398	–
Advance corporation tax recoverable	**170**	**170**	166	166
Amount due in respect of disposal of discontinued operation	**500**	–	–	–
	5,121	**8,964**	5,421	4,942

12. Creditors: amounts falling due within one year

	March 1998		March 1997	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade creditors	**3,685**	–	3,622	–
Amounts due to subsidiary undertakings	–	**41**	–	71
Corporation tax payable	**1,515**	–	2,386	–
Advance corporation tax payable	**286**	**286**	279	279
Other taxes and social security	**646**	–	691	–
Other creditors	**136**	–	102	–
Accruals	**2,185**	**6**	1,971	6
Finance lease obligations	**55**	–	153	–
Proposed dividend	**681**	**681**	665	665
	9,189	**1,014**	9,869	1,021

Notes to the Accounts

For the year ended 31 March 1998 *continued*

13. Obligations under finance lease agreements

	March 1998 £'000	March 1997 £'000
Falling due within one year	59	168
Less: finance charges relating to future periods	(4)	(15)
Total obligation included within creditors falling due within one year	55	153

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14. Share capital

	Authorised		Issued & fully paid up	
	Number	£'000	Number	£'000
Ordinary Shares of 5p				
At 1 April 1997	50,000,000	2,500	30,201,389	1,510
Nominal value of shares issued under share option schemes	–	–	235,325	12
Purchase of own shares	–	–	(2,300,000)	(115)
At 31 March 1998	**50,000,000**	**2,500**	**28,136,714**	**1,407**

Share options

There were outstanding at 31 March 1998 options granted to directors and employees within the Group to subscribe for 140,006 ordinary shares under the Employee Sharesave Scheme at prices ranging from 90.4p to 205.6p. The weighted average exercise price is 173.9p. These options are normally capable of being exercised over varying periods up to July 2001.

There were outstanding at 31 March 1998 options granted to directors and employees within the Group to subscribe for 1,232,925 ordinary shares under the approved and unapproved Executive Share Option Schemes at prices ranging from 30p to 234p. The weighted average exercise price is 139.2p. These options are normally capable of being exercised over varying periods up to August 2007.

Details of directors' interests in the Company's share options are given in the Remuneration Committee Report on page 11.

Purchase of own shares

At the 1997 Annual General Meeting, shareholders gave the Company authority to purchase a maximum of 4,500,000 ordinary shares of 5p representing approximately 14.9% of the Company's issued share capital at that time. Prior to the 1997 Annual General Meeting, the Company had authority to purchase 1,506,174 ordinary shares under a resolution passed at the 1996 Annual General Meeting.

During the year, the Company purchased and cancelled 1,050,000 ordinary shares under the 1996 authority and, subsequent to the 1997 Annual General Meeting, purchased and cancelled a further 1,250,000 ordinary shares under the 1997 authority. The consideration for the total of 2,300,000 ordinary shares purchased during the year was £3,250,000 (representing an average price of 141.3p per ordinary share) plus £37,000 of associated costs, and has been charged against the Profit and Loss Account Reserve. Advance Corporation Tax of £452,750 was paid during the year in relation to these transactions.

A resolution seeking renewal of the authority to purchase a further 14.9% of the Company's issued share capital will be put to the forthcoming Annual General Meeting.

Notes to the Accounts

For the year ended 31 March 1998 *continued*

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15. Reserves

(a) Group	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total reserves £'000
At 1 April 1997	223	–	1,045	9,838	11,106
Retained loss for the year	–	–	–	(3,519)	(3,519)
Goodwill realised on disposal	–	–	4,777	–	4,777
Transfer between reserves	–	–	(5,013)	5,013	–
Exchange differences	–	–	–	(59)	(59)
Premium on shares issued during the year under share option schemes	251	–	–	–	251
Transfer in respect of QUEST	–	–	–	(183)	(183)
Purchase of own shares	–	115	–	(3,287)	(3,172)
Goodwill written off on acquisition	–	–	–	(122)	(122)
At 31 March 1998	**474**	**115**	**809**	**7,681**	**9,079**

The transfer of £5,013,000 from Other Reserves to the Profit and Loss Account Reserve relates to the premium on shares issued in connection with the acquisition of Elijo Limited, the immediate parent undertaking of Henry Ling & Son (London) Limited, in 1994. As this business was disposed of on 31 March 1998, and the goodwill originally pertaining to the acquisition has become a realised loss, the premium against which the goodwill was written off on acquisition has also been transferred to the Profit and Loss Account Reserve.

During the year ended 31 March 1998, the Company received £234,000 from the issue of shares in respect of the exercise of options under the Employee Sharesave Scheme administered by the Qualifying Employee Share Ownership Trust (QUEST). Employees paid £51,000 to the Group for the issue of these shares and the balance of £183,000 comprised contributions to the QUEST from subsidiary undertakings and is shown as a transfer from the Profit and Loss Account Reserve.

The cumulative amount of goodwill resulting from acquisitions (adjusted for disposals) written off to reserves at 31 March 1998 amounted to £14,678,000 (1997: £19,333,000).

(b) Company	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total reserves £'000
At 1 April 1997	223	–	13,019	7,265	20,507
Retained profit for the year	–	–	–	1,659	1,659
Transfer between reserves	–	–	(5,013)	5,013	–
Premium on shares issued during the year under share option schemes	251	–	–	–	251
Purchase of own shares	–	115	–	(3,287)	(3,172)
At 31 March 1998	**474**	**115**	**8,006**	**10,650**	**19,245**

As permitted by section 230 of the Companies Act 1985, the Company has not presented its profit and loss account. The profit for the financial year dealt with in the accounts of the Company amounts to £2,756,000 (1996/97: £4,519,000).

Notes to the Accounts

For the year ended 31 March 1998 *continued*

16. Reconciliation of movements in equity shareholders' funds

	1998 £'000	1997 £'000
At beginning of year	**12,616**	9,391
Total recognised gains and losses for the year	**(2,481)**	4,302
Equity dividends	**(1,097)**	(1,118)
Goodwill realised on disposal	**4,777**	–
Goodwill written off on acquisition	**(122)**	–
Purchase of own shares	**(3,287)**	–
Issue of shares	**80**	41
At end of year	**10,486**	12,616

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17. Pension commitments

The Group operates a variety of pension arrangements for the benefit of employees in their retirement. The pension charge for the year may be analysed by type of pension scheme as follows:

	1998 £'000	1997 £'000
Defined benefit scheme	**–**	67
Defined contribution schemes	**187**	144
	187	211

The principal scheme is the Filofax Staff Pension Plan which provides benefits under both defined benefit and defined contribution arrangements. As from 1 April 1997, the defined benefit section of the scheme, which provides benefits based on final pensionable earnings, was closed to new entrants. The benefits of deferred members and pensioners were either transferred to alternative schemes or bought out through insurance policies, and active members had transfer values paid to the money purchase section of the scheme.

The assets of the Filofax Staff Pension Plan are held separately from those of the Company and its subsidiary undertakings and are invested in externally managed funds. Under the terms of the trust deed, the scheme is administered by the trustees who delegate certain routine tasks to external administrators.

In the year to 31 March 1997, the Group contributed to the defined benefit section of the scheme at the rate of 10.3% of pensionable salaries, inclusive of death in service benefit premiums, and employees contributed to the scheme at a rate of 5% of pensionable salaries. No contributions were made by the Company in respect of the defined benefit section of the Filofax Staff Pension Plan in the year to 31 March 1998 and there was no charge in the profit and loss account as no benefits accrued to members.

Notes to the Accounts

For the year ended 31 March 1998 *continued*

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18. Operating lease commitments

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

	March 1998		March 1997	
	Land and buildings £'000	**Other assets £'000**	Land and buildings £'000	Other assets £'000
Expiring:				
Within one year	**100**	**104**	118	108
Within two to five years	**113**	**152**	149	325
Over five years	**372**	**–**	449	–
	585	**256**	716	433

19. Other commitments

Guarantees

The Company has guaranteed rentals payable by Filofax Inc amounting to £33,000 (1997 : £33,000) per annum until 30 September 1999.

Contingent liabilities

With the exception of the guarantees referred to above, and other guarantees given in the ordinary course of business, the Group had no material unprovided contingent liabilities at 31 March 1998.

20. Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	1998			1997		
	Continuing operations £'000	**Discontinued operation £'000**	**Total £'000**	Continuing operations £'000	Discontinued operation £'000	Total £'000
Operating profit/(loss)	**6,137**	**(1,885)**	**4,252**	5,684	214	5,898
Depreciation	**639**	**74**	**713**	775	75	850
(Increase)/decrease in stocks	**(1,333)**	**1,832**	**499**	298	(373)	(75)
(Increase)/decrease in debtors	**(441)**	**326**	**(115)**	190	(266)	(76)
Increase/(decrease) in creditors	**1,382**	**(325)**	**1,057**	630	(215)	415
Net cash inflow/(outflow) from operating activities	**6,384**	**22**	**6,406**	7,577	(565)	7,012

21. Analysis of net funds

	1 April 1997 £'000	Cash flows £'000	Exchange movements £'000	**31 March 1998 £'000**
Cash at bank and in hand	7,393	(1,355)	(96)	**5,942**
Less: Finance leases	(153)	98	–	**(55)**
Net funds	7,240	(1,257)	(96)	**5,887**

Notes to the Accounts

For the year ended 31 March 1998 *continued*

22. Reconciliation of net cash flow to movement in net funds

	1998 £'000	1997 £'000
(Decrease)/increase in cash as shown in cash flow statement	**(1,355)**	3,233
Adjust for:		
Finance lease repayments	**98**	131
Term loan repaid	**–**	248
Change in net funds resulting from cash flow	**(1,257)**	3,612
Exchange movements	**(96)**	(176)
Movement in net funds in the year	**(1,353)**	3,436
Opening net funds	**7,240**	3,804
Closing net funds	**5,887**	7,240

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23. Purchase of unincorporated business

On 24 June 1997, the Group acquired the goodwill, intellectual property and customer lists of 'A' Time, an unincorporated business, for a cash consideration of £119,000 plus related expenses of £3,000.

	£'000
Net assets acquired:	
Goodwill	122
Satisfied by:	
Cash	122

24. Disposal of discontinued operation

On 31 March 1998, the Group disposed of the business and net trading assets of Henry Ling & Son (London) Limited for an initial consideration of £0.5m. The results attributable to this business have been treated as a discontinued operation in the year to 31 March 1998 and prior year figures have been restated accordingly.

The loss on disposal of £5,127,000 includes reinstatement of £4,777,000 of goodwill originally written off to reserves on acquisition; the balance of £350,000 represents creditors and accruals arising in respect of the disposal. The write down of net trading assets to the value shown in the acquirer's proposed completion balance sheet has been included within the operating loss for the year to 31 March 1998 for the discontinued operation. As the business was sold on 31 March 1998, and the acquirer prepared the accounts as at that date, it was not practical to distinguish between the underlying trading results and the write downs of assets to the values shown in the completion balance sheet.

The consideration of £0.5m was received in cash on 1 April 1998. No cash was included within the net assets disposed of.

The cash flows attributable to the discontinued operation were as follows:

	1998 £'000	1997 £'000
Net cash inflow/(outflow) from operating activities	**22**	(565)
Net cash outflow from returns on investments and servicing of finance	**–**	(26)
Taxation paid	**(3)**	(111)
Net cash outflow from investing activities	**(29)**	(42)
Decrease in cash	**(10)**	(744)

Auditors' Report

To the shareholders of Filofax Group plc

We have audited the accounts on pages 16 to 31 which have been prepared on the basis of the accounting policies set out on page 20. We have also examined the amounts disclosed relating to emoluments, share options and pension benefits of the directors which form part of the report to shareholders by the Remuneration Committee on pages 11 to 13.

Respective responsibilities of directors and auditors

As described on page 15, 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.

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Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 circumstances of the Company and the Group, 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 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn
Chartered Accountants and Registered Auditors

1 June 1998

Auditors' Report

To Filofax Group plc

In addition to our audit of the accounts we have reviewed the directors' statements on pages 14 and 15 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company and Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company and Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and on going concern on page 15, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and are not inconsistent with the information which came to our attention as a result of our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 14 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Binder Hamlyn, Chartered Accountants
20 Old Bailey, London EC4M 7BH

1 June 1998

Notice of Annual General Meeting

Thursday 16 July 1998

Notice is hereby given that the Annual General Meeting of the Company will be held at the Filofax Centre, 21 Conduit Street, London, W1R 9TB on 16 July 1998 at 11.00 a.m. for the transaction of the following business:

Ordinary business

1. **To consider and adopt the Directors' Report and the audited Annual Accounts for the year ended 31 March 1998.**

2. **To re-elect R. D. Collischon as a director of the Company.**

3. **To elect M. D. Ball as a director of the Company.**

4. **To re-appoint Binder Hamlyn as auditors to the Company and to authorise the directors to determine their remuneration.** 33

5. **To declare a final dividend of 2.42p per Ordinary Share.**

Special business

To consider and, if thought fit, to pass the undermentioned Resolutions, of which Numbers 6 and 7 will be proposed as Special Resolutions, and Number 8 as an Ordinary Resolution.

6. **Disapplication of Pre-emption Rights (Special Resolution)**

   That the directors be and are hereby empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred on the directors by the Ordinary Resolution on 28 July 1994 as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited:

a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them; and

b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £70,342, representing approximately 5% of the issued share capital of the Company.

   Such authority shall expire on the date of the next Annual General Meeting of the Company to be held in 1999 or, if earlier, 27 July 1999, save that the Company may before such expiry make an offer, agreement or other arrangements as if the power conferred hereby had not expired.

7. **Purchase of Own Shares by the Company (Special Resolution)**

   That the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) on The London Stock Exchange Limited (the "Stock Exchange") of Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") provided that:

(a) The maximum aggregate number of Ordinary shares hereby authorised to be purchased is 4,200,000 (representing approximately 14.9 per cent of the Company's issued Ordinary share capital);

(b) The minimum price which may be paid for such shares is 5p per share (exclusive of Advance Corporation Tax and expenses);

(c) The maximum price (exclusive of Advance Corporation Tax and expenses) which may be paid for an Ordinary share shall be not more than 5 per cent above the average of the market values of an Ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased;

Notice of Annual General Meeting

Thursday 16 July 1998

(d) Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 1999, or within 12 months from the date of passing this resolution, whichever shall be the earlier; and

(e) The Company may make a contract or contracts to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

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8. Approval of the Filofax Group plc 1998 Sharesave Scheme (Ordinary Resolution)

That:

(a) the Filofax Group plc 1998 Sharesave Scheme (the "Scheme") (the main features of which are summarised in an Appendix to the Annual Report which accompanies this Notice and the rules of which are produced to the Meeting and for the purpose of identification initialled by the Chairman) be and is hereby approved, and the directors be and are hereby authorised to do all such acts and things as may be necessary or expedient to carry the same into effect, including making such modifications as are necessary to ensure compliance with any statutory, fiscal or securities regulations as may apply to the Scheme or any participant therein; and

(b) the directors be and are hereby authorised to vote and be counted in the quorum on any matter connected with the Scheme, notwithstanding that they may be interested in the same (except that no director may be counted in the quorum in respect of his own participation in the Scheme) and the prohibition on voting by interested directors contained in the Articles of Association of the Company be and is hereby relaxed accordingly.

By Order of the Board

M. D. Ball
Secretary

Registered Office:
Waverley House
7/12 Noel Street
London
W1V 4NE

12 June 1998

Notes:

Any member who is entitled to be present and vote at the above Meeting may appoint a proxy to attend and, on a poll, vote on his/her behalf. Any proxy so appointed need not be a member. Forms of proxy must be deposited with the Company's registrars not less than 48 hours before the appointed time of the meeting.

Completion of the proxy card does not preclude the member from attending the Meeting and voting thereat. The following documents are available for inspection during normal business hours at the Company's registered office on any weekday except Saturdays and public holidays, from the date of this notice until the conclusion of the above Meeting, and at the place of the Meeting for a period of fifteen minutes prior to, and for the duration of, the Meeting.

1. The Register of Directors' Interests.
2. Copies of all contracts of service whereunder directors of the Company are employed by the Company or any of its subsidiaries.
3. The draft rules of the Filofax Group plc 1998 Sharesave Scheme.

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Explanatory notes on the special business

Resolution 6: Disapplication of Pre-emption Rights

This Special Resolution seeks to empower the directors to allot ordinary shares for cash without first offering them proportionately to existing shareholders in the manner set out in the Companies Act 1985. This authority, which is restricted to ordinary shares with a nominal value of £70,342 (equivalent to 5 per cent of the issued share capital of the Company), could be necessary to finance any acquisition opportunities which may arise, and shall expire at the end of the next Annual General Meeting of the Company after the passing of this Resolution or on 27 July 1999, whichever is earlier.

Resolution 7: Purchase of Own Shares by the Company

This Special Resolution seeks to provide the Company with general authority to make market purchases of its own shares up to a maximum of just under 15 per cent of its current issued share capital. During the year to 31 March 1998 the Company repurchased 2,300,000 shares under pre-existing authorities. The directors have indicated their intention to resume the share repurchase programme when conditions are judged appropriate. However, purchases of the Company's own shares would only be made if they could be expected to result in an increase in earnings per share and to be in the best interests of shareholders generally.

Resolution 8: Approval of a Replacement Sharesave Scheme

The Company is proposing to introduce an Inland Revenue approved savings related share option scheme to replace the existing scheme, authority for which expired last year. The principal terms of the new scheme are summarised in an appendix to the Annual Report and Accounts. The directors believe that it is appropriate to set up a new scheme to enable employees to share in the ownership of the Company and incentivise them accordingly.

Form of Proxy

Please complete in BLOCK CAPITALS

I/We

of

being (a) member(s) of Filofax Group plc hereby appoint the Chairman of the Meeting, or Secretary or*

(36)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 July 1998 at 11.00 am and at any adjournment thereof.

I/We direct my/our proxy to vote on the Resolution as set out in the Notice convening the Annual General Meeting as follows.

Resolution	**For**	**Against**
1. To receive and adopt the accounts	❑	❑
2. To re-elect R. D. Collischon	❑	❑
3. To elect M. D. Ball	❑	❑
4. To re-appoint Binder Hamlyn as auditors and to authorise the directors to agree their remuneration	❑	❑
5. To declare a final dividend	❑	❑
6. To disapply pre-emption rights	❑	❑
7. To give the Company authority to purchase up to 14.9 per cent of its own shares	❑	❑
8. To approve the Filofax Group plc 1998 Sharesave Scheme	❑	❑

Signed this day of 1998 Signature

*If it is desired to appoint any person as proxy, strike out "the Chairman of the Meeting, or Secretary" above and insert the name of the proxy you wish to appoint in the space provided.

Please indicate how you wish your proxy to vote by placing a tick in the appropriate box.

Unless otherwise indicated the proxy will exercise his discretion both as to how to vote and as to whether he abstains from voting.

In the case of joint holders, the vote of the senior who tenders a vote will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.

In case of a corporation the proxy should be executed under its common seal or under the hand of an officer, duly authorised in writing on its behalf.

For the proxy to be valid it must be lodged with the Company's registrars not later than 48 hours before the time fixed for holding the Meeting.

Please complete and return to: Independent Registrars Group Limited, Balfour House 390 - 398 High Road, Ilford, Essex IG1 1NQ.

Advisers

Secretary and Registered Office

Michael Ball BCom ACA,
Filofax Group plc,
Waverley House,
7/12 Noel Street,
London W1V 4NE

Stockbrokers

Hoare Govett,
4 Broadgate,
London EC2M 7LE

Financial Advisers

N M Rothschild & Sons Limited,
New Court,
St. Swithin's Lane,
London EC4P 4DU

Bankers

Bank of Scotland,
The Mound,
Edinburgh EH1 1YZ

Registrars and Transfer Office

Independent Registrars
Group Limited,
Balfour House,
390 - 398 High Road,
Ilford,
Essex IG1 1NQ

Auditors

Binder Hamlyn,
20 Old Bailey,
London EC4M 7BH

Cover Back Inner 37

Registered in England

Number 175064

Financial Calendar

16 July 1998	Annual General Meeting
2 October 1998	Record date for 1997/98 final ordinary dividend
30 October 1998	Payment date for 1997/98 final ordinary dividend
November 1998	Announcement of 1998/99 interim results
March 1999	Payment of 1998/99 interim ordinary dividend
June 1999	Announcement of 1998/99 full year results

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Appendix to Annual Report and Accounts

Summary of the Principal Features of the Filofax Group plc 1998 Sharesave Scheme (The "Scheme")

1. Introduction

The Company is proposing to introduce an Inland Revenue approved savings-related share option scheme to replace the existing scheme, authority for which expired last year. The principal terms of the new Scheme are summarised below. A resolution for the adoption of the new Scheme (Resolution No. 8) is set out in the Notice of the AGM on page 33 of the Annual Report.

2. General

It is proposed that, subject to the Scheme being approved by the Company in general meeting, it is approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988.

3. Eligibility

Following an invitation made under the Scheme, all UK employees and directors of the Company or a participating subsidiary (who work at least 25 hours per week) may apply for the grant of options. Certain other Group employees and directors may be included at the Board's discretion.

4. Grant of options

Invitations to apply for options may only be issued within 42 days of the formal approval of the Scheme by the Inland Revenue and thereafter within 42 days after the announcement of the Company's final or interim results. Options may be granted over either new or existing ordinary shares in the Company. No option may be granted more than 10 years after the approval of the Scheme by the Company in general meeting.

5. Option price

The price per share payable on the exercise of an option shall not be less than 80% of (a) the average market value over the three dealing days immediately preceding the date invitations are issued or (b) the market value of a share at such other time as may be agreed with the Inland Revenue. The option price may not in any event be less than the nominal value of a share.

6. Savings contracts

A savings contract must be taken out with an approved savings body under which the participant agrees to save a regular monthly amount. The minimum monthly amount a participant may save is £5. The maximum monthly amount a participant may save under all such savings contract held by him is that prescribed by the legislation (currently £250). Savings may, at the Board's discretion, be made for three years or five years (with an option to leave the savings for a further two years, making a total of seven years) and bonuses are payable at the end of the relevant savings period. Bonuses are equal to a multiple of the monthly contribution and are fixed by the savings body from time to time.

An option is granted over that number of shares which may be acquired at the option price with the repayment proceeds (including the bonus) of the relevant savings contract.

7. Exercise of options

Options will normally be exercisable for a period of 6 months from the date the bonus is payable on the savings contract. If a participant ceases to be an employee or director of a Group company his option will lapse automatically unless the participant's employment ceases as a result of injury, disability, redundancy, retirement at normal retirement age, the participant's employing company or business being transferred outside the Group or, provided that the option has been held for at least 3 years, early retirement or pregnancy, in which case the option is exercisable for 6 months following the cessation of employment after which time it will lapse.

If a participant dies his option may be exercised within 12 months of his death unless death occurs within 6 months of the date the bonus is payable, in which case the option is exercisable for 12 months from the bonus date. The option will lapse at the end of the 12 month period.

If a participant reaches 60 and remains as an employee or director he may exercise his option in the 6 month period from that date.

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continued

7. Exercise of options *continued*

In the event of a takeover of the Company, a scheme of arrangement or its voluntary liquidation, options may also be exercised early, within a limited period after which time the options will lapse.

In the event that another company obtains control of the Company, options may, in certain circumstances, be exchanged for options over the shares in the acquiring company (or an associated company).

Where options are exercised before the bonus date of the relevant savings contract, the participant may only acquire the number of shares that can be purchased with the accumulated savings up to the date of exercise plus interest (if any).

8. Scheme limits

The number of shares which may be allocated on any day under the Scheme, when aggregated with the number of shares allocated under the Scheme and any other employees' share scheme of the Company in the preceding 10 years, may not exceed 11% of the ordinary share capital of the Company in issue immediately prior to that day.

The number of shares which may be allocated on any day under the Scheme, when aggregated with the number of shares allocated under the Scheme and any other employees' share scheme of the Company (other than under an employees' scheme in which participation is at the discretion of the Board) in the preceding 5 years, may not exceed 5% of the ordinary share capital of the Company in issue immediately prior to that day.

References to "allocation" of shares mean, in the case of a share option scheme, the placing of unissued shares under option and, in the case of other employees' share schemes, the issue and allotment of shares.

The Board may also impose a maximum number of shares over which options may be granted on any operation of the Scheme.

Where applications are received for options over a number of shares in excess of the limits outlined above, the number of shares to be placed under option the length of the savings contract and monthly contributions may be scaled down by the Board.

9. Rights of shares and listing

Shares issued or transferred to participants on the exercise of options will rank equally with the shares then in issue save for rights attaching to shares by reference to a record date preceding the date of exercise. The Company will apply for a listing of any new shares issued.

10. Adjustment of options

In the event of a variation in the Company's share capital, such as a rights or capitalisation issue or reduction of capital, the Board may make an appropriate adjustment to the number of shares over which an option has been granted and the option price.

11. Amendments to the Scheme

The Board may at any time amend the Scheme in any respect provided that any amendment to the advantage of participants must be approved by the Company in general meeting unless it is minor and to benefit the administration of the Scheme or to take account of changes in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for the Company or the Group.

12. Pension

The benefits under the Scheme are not pensionable.

Appendix to Annual Report and Accounts

Summary of the Principal Features of the Filofax Group plc 1998 Sharesave Scheme (The "Scheme")

1. Introduction

The Company is proposing to introduce an Inland Revenue approved savings-related share option scheme to replace the existing scheme, authority for which expired last year. The principal terms of the new Scheme are summarised below. A resolution for the adoption of the new Scheme (Resolution No. 8) is set out in the Notice of the AGM on page 33 of the Annual Report.

2. General

It is proposed that, subject to the Scheme being approved by the Company in general meeting, it is approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988.

3. Eligibility

Following an invitation made under the Scheme, all UK employees and directors of the Company or a participating subsidiary (who work at least 25 hours per week) may apply for the grant of options. Certain other Group employees and directors may be included at the Board's discretion.

4. Grant of options

Invitations to apply for options may only be issued within 42 days of the formal approval of the Scheme by the Inland Revenue and thereafter within 42 days after the announcement of the Company's final or interim results. Options may be granted over either new or existing ordinary shares in the Company. No option may be granted more than 10 years after the approval of the Scheme by the Company in general meeting.

5. Option price

The price per share payable on the exercise of an option shall not be less than 80% of (a) the average market value over the three dealing days immediately preceding the date invitations are issued or (b) the market value of a share at such other time as may be agreed with the Inland Revenue. The option price may not in any event be less than the nominal value of a share.

6. Savings contracts

A savings contract must be taken out with an approved savings body under which the participant agrees to save a regular monthly amount. The minimum monthly amount a participant may save is £5. The maximum monthly amount a participant may save under all such savings contract held by him is that prescribed by the legislation (currently £250). Savings may, at the Board's discretion, be made for three years or five years (with an option to leave the savings for a further two years, making a total of seven years) and bonuses are payable at the end of the relevant savings period. Bonuses are equal to a multiple of the monthly contribution and are fixed by the savings body from time to time.

An option is granted over that number of shares which may be acquired at the option price with the repayment proceeds (including the bonus) of the relevant savings contract.

7. Exercise of options

Options will normally be exercisable for a period of 6 months from the date the bonus is payable on the savings contract. If a participant ceases to be an employee or director of a Group company his option will lapse automatically unless the participant's employment ceases as a result of injury, disability, redundancy, retirement at normal retirement age, the participant's employing company or business being transferred outside the Group or, provided that the option has been held for at least 3 years, early retirement or pregnancy, in which case the option is exercisable for 6 months following the cessation of employment after which time it will lapse.

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Appendix to Annual Report and Accounts

continued

7. Exercise of options *continued*

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Where options are exercised before the bonus date of the relevant savings contract, the participant may only acquire the number of shares that can be purchased with the accumulated savings up to the date of exercise plus interest (if any).

8. Scheme limits

The number of shares which may be allocated on any day under the Scheme, when aggregated with the number of shares allocated under the Scheme and any other employees' share scheme of the Company in the preceding 10 years, may not exceed 11% of the ordinary share capital of the Company in issue immediately prior to that day.

The number of shares which may be allocated on any day under the Scheme, when aggregated with the number of shares allocated under the Scheme and any other employees' share scheme of the Company (other than under an employees' scheme in which participation is at the discretion of the Board) in the preceding 5 years, may not exceed 5% of the ordinary share capital of the Company in issue immediately prior to that day.

References to "allocation" of shares mean, in the case of a share option scheme, the placing of unissued shares under option and, in the case of other employees' share schemes, the issue and allotment of shares.

The Board may also impose a maximum number of shares over which options may be granted on any operation of the Scheme.

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12. Pension

The benefits under the Scheme are not pensionable.