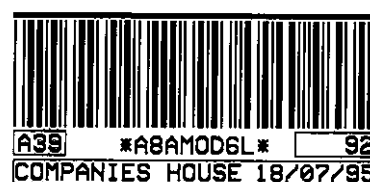


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THE FINE ART GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

REPORT AND ACCOUNTS
YEAR ENDED 31ST DECEMBER, 1994.



THE FINE ART GROUP LIMITED
CONSOLIDATED ACCOUNTS
DIRECTORS' REPORT
YEAR ENDED 31ST DECEMBER, 1994.

The principal activity of the Group continued to be that of Picture Print Publishers. *A Fine Art General Printers*

The activities of the subsidiary undertakings are shown in the notes to the accounts.

On 21st December 1994 the name of the parent undertaking was changed from Solomon & Whitehead Limited to The Fine Art Group Limited.

The Company is registered in England No 289529 and is a wholly owned subsidiary of Magnolia Group plc., which is registered in England.

The profit on ordinary activities, before taxation, was £121,299 (1993 £149,110) and after charging taxation and dividends £27,051 (1993 - £37,415) has been transferred to reserves.

The Directors consider the trading results and the state of the Group affairs to be satisfactory. The Directors look forward to progress in the coming year.

The changes in the fixed tangible assets of the Group are detailed in the notes to the accounts.

Charitable contributions made during the year amounted to £515 (1993 £132).

The Directors recommend the payment of a dividend of £18,000 (1993 £40,000).

The Directors throughout the year were :-

Mr. G.B. Jones
Mr. A.J. Stanley
Mr. R. Daffern (Resigned 1.11.1994)
Mr. D. Wallrock (Appointed 1.11.1994)

Mr. A. Stanley held 150 ordinary shares in Magnolia Group plc throughout the year, Mr. D. Wallrock held 472,510 ordinary shares in Magnolia Group plc throughout the year and Mr. D. Wallrock also held 500,000 ordinary shares in Magnolia Group plc throughout the year as Trustee. Mr. G.B. Jones and Mr. A.J. Stanley each held an option to purchase 5,000 ordinary shares in Magnolia Group plc throughout the year.

A resolution under Section 386 of the Companies Act 1985 is in force under which Kenneth Kyle & Partners are deemed to be reappointed as Auditors.

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

.....
G. B. Jones
Director

(Date) *2/5/95*

THE FINE ART GROUP LIMITED
CONSOLIDATED ACCOUNTS
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31ST DECEMBER, 1994.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to select suitable accounting policies and then apply them consistently ; to make judgements and estimates that are reasonable and prudent ; and to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company or Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
THE FINE ART GROUP LIMITED

We have audited the financial statements on pages 4 to 18 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and the accounting policies set out in note 1 to the accounts

Respective Responsibilities of Directors and Auditors

As described on page 2, the Company Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.


Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31st December, 1994 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KENNETH KYLE & PARTNERS,
Registered Auditor,
Chartered Accountants,
11 Weston Road,
Southend on Sea,
Essex.

(Date). 4th. May.. 1995.

THE FINE ART GROUP LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31ST DECEMBER, 1994.

		Continuing Operations 1994		Continuing Operations 1993	
	Note	£	£	£	£
Turnover	1,2	-	2,817,001		2,707,229
Cost of Sales			1,503,144		1,429,033
			<u>1,313,857</u>		<u>1,278,196</u>
GROSS PROFIT					
Distribution Costs		536,472		498,606	
Administrative Expenses		708,264		668,990	
			<u>1,244,736</u>		<u>1,167,596</u>
OPERATING PROFIT	3		69,121		110,600
Other Interest Receivable and similar income	4		54,583		40,900
			<u>123,704</u>		<u>151,500</u>
Interest payable and similar charges	5		2,405		2,390
			<u>121,299</u>		<u>149,110</u>
Profit on ordinary activities before taxation					
TAX on profit on ordinary activities	8		76,248		71,695
			<u>45,051</u>		<u>77,415</u>
PROFIT on ordinary activities after taxation	9				
DIVIDEND paid and proposed			18,000		40,000
			<u>27,051</u>		<u>37,415</u>
Retained profit for the year					
STATEMENTS OF PROFIT RETAINED					
Profit for the Year			27,051		37,415
Profit retained from previous years			1,923,319		1,885,904
			<u>1,950,370</u>		<u>1,923,319</u>
PROFIT RETAINED carried forward					

THE FINE ART GROUP LIMITED
 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
 YEAR ENDED 31ST DECEMBER, 1994.

	1994 £	1993 £
Retained Profit for the Year	27,051	37,415
Unrealised surplus on revaluation of freehold land and buildings	155,059	-
Total Gains and Losses recognised since last annual report	<u>182,110</u>	<u>37,415</u>

THE FINE ART GROUP LIMITED
CONSOLIDATED BALANCE SHEET
31ST DECEMBER, 1994.

	Note	1994 £	1993 £
FIXED ASSETS			
Tangible Assets	10	791,467	608,307
CURRENT ASSETS			
Stocks	13	552,706	604,999
Debtors	14	1,108,544	956,366
Cash at Bank and in Hand	15	360,850	446,513
		<u>2,022,100</u>	<u>2,007,878</u>
CREDITORS - Amounts falling due within one year	16	<u>589,904</u>	<u>591,740</u>
NET CURRENT ASSETS		<u>1,432,196</u>	<u>1,416,138</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,223,663	2,024,445
Less : Non Current Liabilities			
CREDITORS - Amounts falling due after more than one year	16	<u>18,234</u>	<u>1,126</u>
		<u>2,205,429</u>	<u>2,023,319</u>
CAPITAL AND RESERVES			
Called Up Share Capital	17	100,000	100,000
Revaluation Reserve	18	155,059	-
Profit and Loss Account	18	1,950,370	1,923,319
	19	<u>2,205,429</u>	<u>2,023,319</u>

The financial statements were approved by the Board of Directors on
(Date) 2/5/95.....

Signed on behalf of the Board of Directors

.....
G.B. Jones
Director

THE FINE ART GROUP LIMITED
BALANCE SHEET
31ST DECEMBER, 1994.

	Note	£	1994	£	£	1993	£
FIXED ASSETS							
Tangible Assets	10			15,092		29,599	
Investments	12			93,983		95,062	
				<u>109,075</u>		<u>124,661</u>	
CURRENT ASSETS							
Debtors	14	100,497			109,240		
Cash at Bank and in Hand	15	-			7,099		
				<u>100,497</u>		<u>116,339</u>	
CREDITORS - Amounts falling due within one year	16	100,260			132,273		
				<u>100,260</u>		<u>132,273</u>	
NET CURRENT ASSETS (LIABILITIES)				237		(15,934)	
TOTAL ASSETS LESS CURRENT LIABILITIES				<u>109,312</u>		<u>108,727</u>	
CAPITAL AND RESERVES							
Called Up Share Capital	17	100,000			100,000		
Profit and Loss Account	18	9,312			8,727		
				<u>109,312</u>		<u>108,727</u>	

These financial statements were approved by the Board of Directors on (Date).....

Signed on behalf of the Board of Directors

G.B. Jones
Director

THE FINE ART GROUP LIMITED
NOTES TO THE CONSOLIDATED ACCOUNTS
YEAR ENDED 31ST DECEMBER, 1994.

1. ACCOUNTING POLICIES

a. Basis of Accounts

The accounts are prepared according to the historical cost convention, modified by the revaluation of certain land and buildings as detailed in note 10, and in compliance with the Companies Act 1985 and with applicable accounting standards. The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings.

b. Basis of Consolidation

The Group financial statements consolidate the financial statements of The Fine Art Group Limited and its subsidiary undertakings for the financial year ended 31st December 1994. Unrealised profit resulting from trading between group undertakings has been eliminated on consolidation.

c. Turnover

Turnover, all of which is derived from continuing operations, represents sales, excluding Value Added Tax, to both outside customers and Magnolia Group undertakings after accounting for discounts allowed.

d. Depreciation

Depreciation is provided to write off the cost of assets in equal annual instalments over their anticipated useful lives. The principal rates in use are :-

Freehold Land	-	0% p.a.
Freehold Buildings	-	2-4% p.a. (straight line)
Short Leasehold Property	-	4% p.a. (straight line)
Plant and Machinery	-	10% p.a. (straight line)
Fixtures, Fittings, Tools and Equipment	-	10% p.a. (straight line)
Computer Equipment	-	12½% and 20% p.a. (straight line)
Motor Vehicles	-	25% (straight line)

Minor items are dealt with on a renewals basis.

e. Deferred Taxation

Deferred Taxation is provided on differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. The Directors are of the opinion that no liability is likely to crystallise in the foreseeable future.

f. Stocks

Stocks and Work-in-Progress are valued at the lower of cost or net realisable value. Cost, where applicable, includes an appropriate proportion of overheads.

- g. **Foreign Currencies**
Transactions in foreign currencies are included at the rate ruling at the date of the transaction and assets and liabilities at the rates ruling at Balance Sheet date. Any exchange differences subsequently realised are adjusted against profits.
- h. **Financial Reporting Standard 1**
The ultimate parent company produces a consolidated cash flow statement. Under the exemptions in Financial Reporting Standard 1 the company has not produced a cash flow statement.
- i. **Pension Costs**
The anticipated cost of providing pensions is charged to the profit and loss account over the service lives of employees in the pension scheme in proportion to their pensionable salaries. Detail of the pension scheme operated is given in note 20.
- j. **Leased and Hire Purchased Assets**
There were no assets financed by leasing arrangements which give rights approximate to ownership. Rental costs under operating leases are charged to the profit and loss account as they are incurred.

Assets purchased under Hire Purchase contracts are treated in the same manner as assets acquired by outright purchase and the finance interest charge is allocated over the life of the agreement.

2. TURNOVER ANALYSIS

	1994 £	1993 £
United Kingdom	2,726,482	2,592,189
Sales to Group		
Undertakings	17,071	15,344
Rest of Europe	28,269	22,015
America	12,114	44,038
Asia and Australasia	28,749	14,392
Rest of World	4,316	19,251
	<u>2,817,001</u>	<u>2,707,229</u>

3. GROUP OPERATING PROFIT is after accounting for :		
	1994	1993
	£	£
Directors Emoluments	127,970	128,480
Auditors Remuneration -		
Group - Audit Fees	15,300	16,600
- Other Services	3,000	4,000
Company - Audit Fees	3,000	4,100
- Other Services	1,000	2,000
Depreciation of tangible assets -		
Owned	81,281	74,396
Subject to Hire Purchase	19,461	20,703
Loss (Profit) on disposal of tangible assets	(1,313)	2,488
Operating leases in respect of :		
- Leasehold Property	22,686	23,131
- Plant and Machinery	3,412	5,732
	<hr/>	<hr/>
4. OTHER INTEREST receivable and similar income :		
Building Society Interest	6,985	9,224
Money Market Interest	7,353	6,414
Other Income (Royalties)	15,450	9,872
Group Interest	24,795	15,390
	<hr/>	<hr/>
	54,583	40,900
	<hr/>	<hr/>
5. INTEREST PAYABLE AND SIMILAR CHARGES		
Hire Purchase Interest	2,405	2,390
	<hr/>	<hr/>
6. DIRECTORS EMOLUMENTS (excluding pension contributions)		
Chairman	58,347	57,857
Highest Paid Director	58,611	58,233
Other Directors (excluding above)		
	Number	Number
£0 - £5,000	1	1

7. STAFF COSTS (including Directors)

	1994 £	1993 £
Wages and Salaries	967,758	912,726
Social Security Costs	95,868	94,370
Other Pension Costs	20,865	29,334
	<u>1,084,491</u>	<u>1,036,430</u>

The average weekly number of employees during the year was as follows :-

Production	26	29
Sales and Marketing	14	15
Administration	24	21
	<u>64</u>	<u>65</u>

8. TAXATION

The tax on profit on ordinary activities charged to the profit and loss account comprises :

Current Year :

U.K. Corporation Tax at 25% (1993 - 25%)	2,304	1,748
Group Relief	73,944	69,947
	<u>76,248</u>	<u>71,695</u>

9. PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

The Group has taken advantage of S230(3) Companies Act 1985 and has not presented a separate profit and loss account for the Holding Company. The amount of holding company profit for the financial year dealt with in the consolidated profit and loss account is £18,585 (1993 - £28,436).

10. TANGIBLE ASSETS - GROUP

	Freehold and Leasehold Property £	Fixtures Fittings Plant and Equipment £	Motor Vehicles £	Total £
Cost				
1st January, 1994	244,283	890,773	169,337	1,304,393
Revaluation Surplus	100,544	-	-	100,544
Additions	-	66,950	77,349	144,299
Disposals	-	(43,615)	(42,773)	(86,388)
31st December, 1994	<u>344,827</u>	<u>914,108</u>	<u>203,913</u>	<u>1,462,848</u>
Accumulated Depreciation				
1st January, 1994	51,433	544,933	99,720	696,086
Provision for the Year	5,620	48,100	47,022	100,742
Disposals	-	(40,171)	(30,761)	(70,932)
Revaluation Surplus	(54,515)	-	-	(54,515)
31st December, 1994	<u>2,538</u>	<u>552,862</u>	<u>115,981</u>	<u>671,381</u>
Net Book Value				
31st December, 1994				
- owned	342,289	322,914	71,105	736,308
- hire purchased	-	38,332	16,827	55,159
	<u>342,289</u>	<u>361,246</u>	<u>87,932</u>	<u>791,467</u>
31st December, 1993				
- owned	192,850	345,840	32,088	570,778
- hire purchased	-	-	37,529	37,529
	<u>192,850</u>	<u>345,840</u>	<u>69,617</u>	<u>608,307</u>

Freehold and leasehold property includes cost of £9,827 (1993 - £9,827) and net book value of £7,289 (1993 - £7,682) in respect of alterations to short leasehold premises. The remaining cost and net book value relates to freehold land and buildings.

On 1st March 1995 the freehold land and buildings were revalued by Connell Wilson, Commercial Surveyors and Property Consultants. The valuation is based upon the best price at which the sale of an interest in the property might reasonably be expected to have been completed unconditionally for a cash consideration on the date of valuation, assuming a willing buyer and a reasonable period prior to the date of valuation to market the interest. The balances at 31st December 1994 in relation to freehold land and buildings are :-

	Cost or Valuation £	Net Book Value £
Historical Cost Basis	234,456	179,941
Valuation Basis	335,000	335,000

The Directors are of the opinion that if the revalued amounts in respect of freehold land and buildings were realised, no liability to taxation would arise in the foreseeable future.

TANGIBLE ASSETS - PARENT COMPANY

	Motor Vehicles £	Total £
Cost		
1st January 1994 and 31st December 1994	<u>58,729</u>	<u>58,729</u>
Accumulated Depreciation		
1st January, 1994	29,130	29,130
Provision for the Year	<u>14,507</u>	<u>14,507</u>
31st December, 1994	<u>43,637</u>	<u>43,637</u>
Net Book Value		
31st December, 1994		
- owned	<u>15,092</u>	<u>15,092</u>
31st December, 1993		
- owned	819	819
- hire purchased	<u>28,780</u>	<u>28,780</u>
	<u>29,599</u>	<u>29,599</u>

11. CAPITAL COMMITMENTS - GROUP

	1994 £	1993 £
Not provided in the accounts :		
Authorised and Contracted	-	11,641
Authorised	192,900	116,000
	<u>192,900</u>	<u>127,641</u>

12. INVESTMENTS

	1994 £	1993 £
Shares in subsidiary undertakings at cost less amounts written off :		
1st January and 31st December	200	200
Loans to subsidiary undertakings less amounts written off :		
1st January	94,862	90,394
Provision written back (provision)	<u>(1,079)</u>	<u>4,468</u>
31st December	<u>93,783</u>	<u>94,862</u>
	<u>93,983</u>	<u>95,062</u>

13. STOCKS

	1994 £	Group 1993 £
Raw Materials and Consumables	79,141	79,222
Work-in-Progress	10,351	17,837
Finished Goods and Goods for resale	<u>463,214</u>	<u>507,940</u>
	<u>552,706</u>	<u>604,999</u>

In the opinion of the directors there was no material difference between the amounts stated above and replacement costs.

14. DEBTORS

Amounts falling due within one year :

	Group		Company	
	1994	1993	1994	1993
	£	£	£	£
Trade Debtors	734,690	664,940	-	-
Amounts owed by ultimate parent undertaking	254,618	201,105	-	-
Amounts owed by fellow subsidiary undertakings	718	1,994	-	-
Amounts owed by subsidiary undertakings	-	-	90,538	104,774
Other Debtors	13,569	1,244	3,105	267
Prepayments and Accrued Income	104,949	87,083	6,854	4,199
	<u>1,108,544</u>	<u>956,366</u>	<u>100,497</u>	<u>109,240</u>

There are no amounts falling due after more than one year.

15. CASH AT BANK AND IN HAND

Cash at Bank	360,744	446,218	-	7,099
Cash in Hand	106	295	-	-
	<u>360,850</u>	<u>446,513</u>	<u>-</u>	<u>7,099</u>

16. CREDITORS

Amounts falling due within one year :

	Group		Company	
	1994	1993	1994	1993
	£	£	£	£
Bank Loans and Overdrafts	-	80,585	1,164	-
Trade Creditors	235,449	168,214	230	237
Amounts owed to ultimate parent undertaking	-	-	59,716	75,672
Amounts owed to fellow subsidiary undertakings	694	5,834	-	-
Other Creditors	133,218	124,909	12,388	18,207
Social Security and Other Taxes	91,714	94,109	18,742	16,827
Accruals and Deferred Income	115,712	98,946	8,020	8,663
Hire Purchase	13,117	19,143	-	12,667
	<u>589,904</u>	<u>591,740</u>	<u>100,260</u>	<u>132,273</u>

Amounts falling due after more than one year :

Hire Purchase (all due within two to five years)	<u>18,234</u>	<u>1,126</u>	<u>-</u>	<u>-</u>
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17. SHARE CAPITAL

The share capital comprises 200,000 authorised ordinary shares of £1 each of which 100,000 have been issued, called up and fully paid.

18. RESERVES

	Revaluation Reserve £	Profit and Loss Account £
GROUP		
At 1st January 1994	-	1,923,319
Revaluation Surplus	155,059	-
Retained Profit for the Year	-	27,051
	<u>155,059</u>	<u>1,950,370</u>
At 31st December, 1994	<u>155,059</u>	<u>1,950,370</u>
COMPANY		
At 1st January 1994		8,727
Retained Profit for the Year		585
		<u>9,312</u>
At 31st December, 1994		<u>9,312</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1994 £	1993 £
Profit for the financial year	45,051	77,415
Dividend	(18,000)	(40,000)
Other recognised gains relating to the year.	155,059	-
	<u>182,110</u>	<u>37,415</u>
Net addition to shareholders' funds	182,110	37,415
Opening Shareholders' Funds	<u>2,023,319</u>	<u>1,985,904</u>
Closing Shareholders' Funds	<u>2,205,429</u>	<u>2,023,319</u>

20. PENSION SCHEME

The Group operates a defined benefit pension scheme, the assets of which are held in a separate trustee administered fund. Contributions are made by both employer and employee.

The basis of contribution to the pension scheme is determined by independent actuaries according to the results of triennial valuations using the Projected Unit Method. The actuarial review gives the following information :

Valuation type	full
Valuation date	6th April, 1992
Principal assumptions	
Investment return	9% p.a.
Earnings increase	7% p.a.
Pension increases	none
Service lives	9 years
Valuation	
Actuarial asset valuation	£417,200
Market Value	£318,100
Past service liability	£341,100
Funding level	122%

The actuarial valuations indicate that the scheme is adequately funded and no adjustment to the profit and loss account charge is required.

21. OPERATING LEASE COMMITMENTS

The Group occupies premises subject to operating leases. The lease agreements include a clause providing for periodic adjustment of rentals payable at current market rates. The annual amount currently payable of £22,686 is payable for a period in excess of five years.

22. ULTIMATE PARENT COMPANY

The ultimate Parent Company is Magnolia Group plc, a Company incorporated in England. Copies of the Parent Company's accounts can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.

23. WHOLLY OWNED SUBSIDIARY UNDERTAKINGS

	<u>Country of Registration</u>	<u>Principal Activities</u>
Solomon & Whitehead Limited (formerly Solomon & Whitehead (Guild Prints) Limited)	England	Picture Print Publishers
Albany House Limited	England	Commercial General Printers
The Bournemouth Gallery Limited	England	Retail and Wholesale Picture Distributors
Russell Greetings Limited } Shipqueens Limited }	England	Non-Trading

The share capital of each subsidiary undertaking comprises solely of ordinary shares.

24. BANK LOANS AND OVERDRAFTS

The Company is jointly and severally liable for overdraft facilities granted to the Magnolia Group of Companies.

As at 31st December, 1994 the total outstanding under these facilities was £2,877,453.

25. CHARGES OVER ASSETS

As security against borrowings of the Magnolia Group of Companies, Midland Bank plc, the bankers of the Magnolia Group of Companies hold the deeds relating to the freehold properties at Lynn Lane, Shenstone and Unit 2 Station Road, Coleshill ; hold a fixed charge over the book and other debts, goodwill, uncalled capital and intellectual property dated 27th May 1994 ; and hold a floating charge over all other assets dated 27th May 1994.