

Established 1876

THE FINE ART SOCIETY PLC

REPORT AND ACCOUNTS

for the year ended 31st July 2010



Registered Office 148 New Bond Street, London W1S 2JT

Company Number 00010262

Established 1876

THE FINE ART SOCIETY PLC

Registered Office 148 New Bond Street, London W1S 2JT

Registered Number 10262

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty-fifth Annual General Meeting of The Fine Art Society Plc ("Company") will be held on Wednesday 8th December 2010 at 5.30 p.m. at 148 New Bond Street, London W1S 2JT for the transaction of the routine business of the Company

A Member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote instead of him/her and such Proxy need not also be a Member of the Company


David Elliott

Secretary

Date. 10 November 2010**NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING****Appointment of proxies**

- 1 As a member of the Company you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
- 3 Unless otherwise instructed by you, your proxy will vote or abstain from voting at his or her discretion in relation to any matter which is put before the Meeting.

Appointment of proxy using proxy form

4 To appoint a proxy using the proxy form, the form must be completed and signed, sent or delivered to the Company at 148 New Bond Street, London W1S 2JT, and received by the Company no later than 5.30 p.m. on Monday 6 December 2010. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form. If you sign and return this proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

Appointment of proxy by joint members

5 In the case of joint holders of a share or shares where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

6 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions, any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the proxy form and would like to change the instructions using another proxy form, please contact the Company Secretary at 148 New Bond Street, London W1S 2JT. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

7 In order to revoke a proxy instruction you will need to inform the Company using the following method:

By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to 148 New Bond Street, London W1S 2JT. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Company no later than 5.30 p.m. on Monday 6 December 2010. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Communication

8 Except as provided above, members who have general queries about the Meeting should write to the Company Secretary at 148 New Bond Street, London W1S 2JT (no other methods of communication will be accepted). You may not use any electronic address provided either:

- in this notice of annual general meeting, or
- any related or other documents (including the proxy form).

Established 1876

THE FINE ART SOCIETY PLC

148 New Bond Street, London W1S 2JT

Honorary President

Lord Macfarlane of Bearsden KT

Directors

Sir Angus Grossart CBE DL *Chairman*
 Andrew Graham McIntosh Patrick *Deputy Chairman*
 Patrick Stather Bourne *Managing Director*
 Robert George Holland-Martin
 Ng Lu Pat
 Sir Jack Mervyn Frank Baer
 Simon Harold John Edsor
 John Gordon Churchill Cooke
 Annamarie Stapleton
 Annabel Thomas (Resigned 20 August 2010)
 Toby Clarke
 Emily Clare Walsh
 Secretary David Elliott

Report of the Directors

To be presented at the one hundred and thirty-fifth Annual General Meeting of The Fine Art Society plc, to be held at 148 New Bond Street, London W1S 2JT on 8 December at 5 30 pm

The Directors submit to the Shareholders their one hundred and thirty-fifth report together with the financial statements for the year which ended on 31st July 2010

Results and Dividend for the Year

	Year ended 31st July 2010 £	Year ended 31st July 2009 £
The consolidated loss for the year	(113,297)	(408,984)
Taxation (payable)/receivable	<u>12,648</u>	<u>91,621</u>
Loss for the financial period	(100,649)	(317,363)
Recommended dividend of nil per share (2009 Nil)	<u>-</u>	<u>-</u>
	<u>(100,649)</u>	<u>(317,363)</u>

Principal Activity

The Fine Art Society continued to trade as a dealer in works of art

Review of Business - Chairman's Statement

It was a challenging year, and we were not exempted from the economic and financial uncertainties which affected many companies and sectors. Indecision, and a reluctance to buy, were prevalent amongst buyers, and was the shared experience of our peer group.

After a reasonable first half year, it was disappointing to finish the year in loss. One or two major sales, which did not conclude, could have moved us into acceptable profit for the year and are an essential objective of each year. The effect on our balance sheet was more than balanced by the revaluation of the Edinburgh property, which we own, and by accounting gains from positive movement in our pension scheme.

Report of the Directors

Continued

Review of Business - Chairman's Statement (continued)

The costs of operating from Bond Street reflect the level at which we trade. Our reputation stands high, and our galleries are in first class shape. We are set on the right course, but we need some wind to fill our sails. Long experience should buttress our corporate resilience and sense of perspective at the present time.

Sir Angus Grossart

Review of Business - Managing Director's Statement

Trading performance for the financial year, as in 2008/9 reflected two differing halves. However, in contrast to the previous year, we started strongly and were in profit at the end of the half year. The traditionally stronger second half saw a significant slowdown, leaving us with a trading loss of £118,000. This experience was consistent with that of most of our competitors. We attribute this to the general economic climate allied to increasing nervousness in the run-up to the General Election. There was no noticeable change of mood afterwards.

Our stock sales during the year maintained a healthy gross profit margin, and have been consistent to previous profitable years. However, due to several large commission sales that made lower margins throughout the year, this has reduced the gross profit figure which appears in the consolidated accounts.

Our contemporary department was the most adversely affected sector of our activities, and Scottish paintings, after a good run over the last five years, became more difficult to sell. Modern British Paintings improved slightly on the previous year, as did Prints and we have continued to increase our sales of sculpture. This year we are looking to be more active in British sculpture of the post-war period whilst continuing to have a strong stock of new sculpture 1880 - 1920. During the year we sold a series of evocative studies of Essex fieldworkers particularly in the 1880s by George Clausen and we will publish a book on the artist, tying in with an exhibition which we will stage in 2011. Our successful small exhibition of paintings by the Scottish Colourist Peploe, held in both Edinburgh and London, confirms that that is a market we should continue to be involved in. Our single most successful sale was of a Venetian view by Canaletto to an English private collector.

We continued to sell successfully to museums especially in America and, due to the strength of their dollar, Australian museums have been active. However we expect sales to British museums to be more difficult this year when Government cuts flow through.

The new lease on our Bond Street property is still being negotiated but we anticipate that our rent will increase by about 50% which we have provided for in this year's accounts. This means that we must maximize our use of the building which we will do by making the gallery available for functions after business hours and increasing our hours of business at the weekends.

We remain convinced that, despite the high rent, New Bond Street is the best location in which to run a business of our quality in the U.K.

During this year Annabel Thomas resigned as a director after working for The Fine Art Society for 13 years. We wish her well in the future. We have also reduced our London staff by two during the last year but this is as low as we ought to go due to the requirement to take staff away from the gallery for fairs both in London and abroad. The Edinburgh gallery has maintained the same staff. The appointment of Robert Upstone as head of Modern British Paintings has increased our academic credentials. We will benefit, particularly from his experience as the head curator of Tate Britain's 2008 Camden Town exhibition, when we stage one of our own in 2011 to celebrate the centenary of the forming of the group.

The prospects for the year ahead look much as they did for last year with challenging trading conditions putting pressure on our margins. We have a tighter grip on our day to day financial position than we have ever had and everyone involved in both galleries knows what is required to achieve a return to profit.

Principal Risks

The Board have considered the main risks and uncertainties facing the business and, wherever possible, have implemented policies to mitigate the likelihood of the risks arising and to reduce any impact they might have should they arise.

Creditor Payment Policy

It is the Company's policy to pay suppliers' invoices in full in the month following that in which they are received. There are, however, a number of circumstances where different payment terms apply.

On average, trade creditors at the year end represented 20 (2009: 33) days' purchases.

Charitable and Political Contributions

The Company made charitable contributions during the year amounting to £1,180 (2009: £600).

No political contributions were made during the year (2009: £Nil).

Auditors

The auditors, Kingston Smith LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Report of the Directors
Continued

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Statement of Disclosure to Auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally, the Directors have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



Sir Angus Grossart
Chairman
Date: 27 October 2010

Independent Auditors' Report to the Shareholders of The Fine Art Society plc

We have audited the financial statements of The Fine Art Society plc for the year ended 31st July 2010 which comprise the Consolidated Profit and Loss Account, the Statement of Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the matters and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or fraud. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31st July 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Andrew Follows (Senior Statutory Auditor)
For and on behalf of Kingston Smith LLP

Chartered Accountants
Statutory Auditor
Date 27 October 2010

Devonshire House
60 Goswell Road
London
EC1M 7AD

Consolidated Profit and Loss Account
Year ended 31st July 2010

	Note	2010 £	2009 £
Turnover	2	20,281,108	15,082,321
Cost of sales		(17,214,360)	(12,085,418)
Gross Profit		3,066,748	2,996,903
Administrative expenses		(3,039,576)	(3,201,293)
Operating Profit/(Loss)	3	27,172	(204,390)
Interest receivable and similar income		2	204
Interest payable and similar charges	5	(140,471)	(204,798)
Loss on Ordinary Activities before Taxation		(113,297)	(408,984)
Tax on (loss) on ordinary activities	6	12,648	91,621
Loss for the Financial Year		(100,649)	(317,363)

All operations relate to continuing activities

Statement of Total Recognised Gains and Losses

Year ended 31st July 2010

	2010 £	2009 £
Loss for the Financial Year	(100,649)	(317,363)
Actuarial gains/(losses) relating to retirement benefit obligations		
Experience gains and losses arising on the pension scheme liabilities	135,000	(9,000)
Actual return expected less expected return on pension scheme assets	223,000	(118,000)
Changes in assumptions underlying the present value of the pension scheme liabilities	(132,000)	(95,000)
Movement on the deferred tax arising on the actuarial gains/ losses in the year	(70,280)	41,600
Unrealised surplus on revaluation of properties	228,940	-
Total Recognised Gains and Losses for the Year	284,011	(497,763)


Notes 1 to 17 form part of the financial statements


Balance Sheets
Year ended 31st July 2010

	Note	31 July 2010		31 July 2009	
		Group £	Company £	Group £	Company £
Fixed Assets					
Tangible assets	8	1,522,450	391,840	1,370,578	460,961
Investments - shares in group undertakings	9	-	719,040	-	719,040
		<u>1,522,450</u>	<u>1,110,880</u>	<u>1,370,578</u>	<u>1,180,001</u>
Current Assets					
Stock		8,428,540	7,044,115	8,451,662	7,200,318
Debtors	10	1,870,902	1,609,447	2,026,596	1,769,084
Cash at bank and in hand		26,242	364	19,107	792
		<u>10,325,684</u>	<u>8,653,926</u>	<u>10,497,365</u>	<u>8,970,194</u>
Creditors amounts falling due within one year	11	<u>(4,406,238)</u>	<u>(3,880,607)</u>	<u>(4,531,895)</u>	<u>(4,131,555)</u>
Net Current Assets		<u>5,919,446</u>	<u>4,773,319</u>	<u>5,965,470</u>	<u>4,838,639</u>
Total Assets less Current Liabilities		<u>7,441,896</u>	<u>5,884,199</u>	<u>7,336,048</u>	<u>6,018,640</u>
Provision for Liabilities and Charges	12	<u>(7,973)</u>	<u>(3,421)</u>	<u>(5,416)</u>	<u>-</u>
Net Assets excluding Pension Liability		<u>7,433,923</u>	<u>5,880,778</u>	<u>7,330,632</u>	<u>6,018,640</u>
Pension liability	17	<u>(144,000)</u>	<u>(144,000)</u>	<u>(324,720)</u>	<u>(324,720)</u>
Net Assets		<u><u>7,289,923</u></u>	<u><u>5,736,778</u></u>	<u><u>7,005,912</u></u>	<u><u>5,693,920</u></u>
Capital and Reserves					
Equity Interests					
Called up share capital	16	1,612,340	1,612,340	1,612,340	1,612,340
Share premium account	16	2,381,356	2,381,356	2,381,356	2,381,356
Other reserves	16	427,425	-	427,425	-
Revaluation reserve	16	228,940	-	-	-
Profit and loss account	16	2,639,862	1,743,082	2,584,791	1,700,224
		<u>7,289,923</u>	<u>5,736,778</u>	<u>7,005,912</u>	<u>5,693,920</u>
Shareholders' Funds		<u><u>7,289,923</u></u>	<u><u>5,736,778</u></u>	<u><u>7,005,912</u></u>	<u><u>5,693,920</u></u>

Notes 1 to 17 form part of these financial statements

Approved by the Board of Directors and authorised for issue on 27 October 2010


Sir Angus Grossart
Chairman


Patrick Bourne
Managing Director

Consolidated Cash Flow Statement
Year ended 31st July 2010

	2010 £	2009 £
Net cash inflow from operating activities	341,645	2,342,370
Returns on investment and the servicing of finance		
Interest received	2	204
Interest paid	<u>(140,471)</u>	<u>(204,798)</u>
	(140,469)	(204,594)
Taxation	7,149	(66,540)
Capital expenditure		
Payments to acquire tangible fixed assets	(26,605)	(184,721)
Receipts from sales of tangible fixed assets	<u>431</u>	<u>-</u>
	(26,174)	(184,721)
	182,151	1,886,515
Dividends paid	-	(154,946)
Increase in cash (note a)	<u>182,151</u>	<u>1,731,569</u>
Reconciliation of operating Profit/(Loss) to net cash flow from operating activities		
Operating Profit/(Loss)	27,172	(204,390)
FRS17 pension adjustment	(71,000)	(108,000)
Depreciation charges	103,242	179,701
(Increase)/decrease in stock	23,122	511,604
(Increase)/decrease in debtors	155,694	2,412,843
Increase/(decrease) in creditors	<u>103,415</u>	<u>(449,388)</u>
Net cash inflow from operating activities	<u>341,645</u>	<u>2,342,370</u>

Note a Analysis of changes in net debt

	At 31st July 2008 £	Cash flows 2009 £	At 31st July 2009 £	Cash flows 2010 £	At 31st July 2010 £
Cash at bank and in hand	11,594	7,514	19,107	7,135	26,242
Bank overdraft	(4,883,745)	1,724,055	(3,159,690)	175,016	(2,984,674)
	<u>(4,872,151)</u>	<u>1,731,569</u>	<u>(3,140,583)</u>	<u>182,151</u>	<u>(2,958,432)</u>

Notes to the Accounts

Year ended 31st July 2010

1 Accounting Policies

a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards

b) Basis of Consolidation

Consolidated figures for The Fine Art Society Plc and group companies have been included in these financial statements for the year ended 31st July 2010. Companies acquired by the group are consolidated on an acquisition basis i.e. fair values are attributed to the Group's share of the net tangible assets and where the cost of acquisition (being the fair value of the purchase consideration and the expenses of the acquisition) is less than the fair values attributable to such net assets, the difference is treated as a consolidation reserve

c) Turnover

Turnover represents the invoiced amount of art sold and services provided, and is net of Value Added Tax.

d) Pension costs

The Company currently operates five pension schemes: a defined benefit scheme, three money purchase schemes and a stakeholder scheme.

As more fully described in note 17, the Company has fully adopted the accounting and disclosure requirements of Financial Reporting Standard 17 "Retirement Benefits".

e) Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less depreciation. Assets are depreciated on a straight line basis at the following annual rates estimated to write off their cost, less estimated residual value, over their expected useful lives:

Freehold land and buildings	1%
Leasehold improvements	Over the length of the lease
Furniture and fittings	10% - 20%
Motor vehicles	20%
Computer equipment	33 1/3%

f) Assets held under operating leases

Rental payments in respect of leased assets used within the business are charged against operating profit as incurred.

g) Stock

Stock, which comprise works of art for resale, have been valued at the lower of cost and estimated net realisable value. The Directors consider the replacement cost of stock to be significantly higher than its cost. However, due to the unique nature of the Company's stock, it is considered that any estimation of replacement cost is inappropriate.

h) Deferred taxation

In accordance with Financial Reporting Standard 19, deferred tax is recognised as a liability or asset if transactions or events that give the Group the obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the Balance Sheet date.

i) Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into Sterling at rates of exchange ruling at the end of the financial period.

j) Dividends

Dividends are charged in the financial statements to the extent that they have been approved at the Balance Sheet date.

Notes to the Accounts
Year ended 31st July 2010

	12 Months to 31 July 2010 £	12 Months to 31 July 2009 £
2 Turnover		
Analysis of turnover by geographical market		
United Kingdom	15,670,809	11,010,325
Rest of Europe	2,041,249	2,864,720
North America	2,030,026	1,156,799
Asia	524,041	21,697
Australasia	14,133	1,280
Middle East	850	27,500
	<u>20,281,108</u>	<u>15,082,321</u>
3 Operating Profit/(Loss)		
This is stated after charging	£	£
Depreciation	103,242	179,701
Auditors' remuneration		
auditing the Group's financial statements	23,500	22,000
accountancy and other services - current year	21,400	12,000
accountancy and other services - under provision for prior period	8,630	54,854
Operating lease rental - buildings	<u>436,892</u>	<u>301,669</u>
4 Staff and Directors	£	£
a) Wages and salaries	1,032,308	1,001,337
Social security costs	114,291	109,030
Defined benefit scheme service cost	39,000	24,000
Other pension costs excluding contributions to the defined benefit scheme	<u>65,835</u>	<u>40,754</u>
	<u>1,251,434</u>	<u>1,175,121</u>
Directors' Remuneration		
Directors' fees	12,000	12,000
Other emoluments (including pension contributions)	<u>688,079</u>	<u>767,257</u>
	<u>700,079</u>	<u>779,257</u>

The emoluments, excluding pension contributions, of the highest paid Director amounted to £106,000 (2009 £107,629) Pension contributions paid into the Group Personal Pension Plan were £10,600 (2009 £10,600)

The average number of employees during the period was (includes all Executive Directors)	<u>No 25</u>	<u>No 25</u>
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One Director (2009 one) was in the Group's defined benefit pension scheme. Contributions amounting to £20,687 were paid in the year (2009 £15,640). In addition the Company paid for death in service benefit and has also been making further contributions of £76,800 towards the elimination of the Scheme's deficit.

One Director (2009 one) was in the Group's money purchase pension scheme. During the period contributions amounting to £1,885 were made by the Group (2009 £1,769).

Five Directors (2009 five) were in the Group's personal pension plan. During the year the Group's contributions towards this scheme amounted to £37,340 (2009 £36,618).

Notes to the Accounts
Year ended 31st July 2010

4 Staff and Directors (Continued)

b) Related Parties

The Directors are customers of the gallery. In the year ended 31st July 2010, the aggregate of purchases by Directors amounted to £406,046 (2009 £169,622), and the aggregate of items purchased from them amounted to £237,092 (2009 £2,935,097)

The aggregate of balances in respect of sales to and purchases from Directors at the year end amounted to £58,548 (2009 £137,514) being owed by the Directors and £640 (2009 £2,307) being owed to the Directors. There was also a loan to a director of £24,941 (2009 £Nil) during the year that was outstanding at the year end and subsequently repaid on 1 November 2010. These are reflected in the Balance Sheet.

5 Interest Payable

	2010 £	2009 £
Pension expense	46,000	45,000
Bank overdraft interest	94,471	159,798
	<u>140,471</u>	<u>204,798</u>

6 Tax on Profit on Ordinary Activities

a) Analysis of charge in the year

	£	£
Current tax		
Total current tax (note 6(b))	(15,205)	(86,739)

Deferred tax

Timing differences	<u>2,557</u>	<u>(4,882)</u>
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Tax charge/(credit) on profit/(loss) on ordinary activities	<u>(12,648)</u>	<u>(91,621)</u>
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b) Factors affecting the tax charge for the year

	£	£
Loss on ordinary activities before tax	<u>(113,297)</u>	<u>(408,984)</u>

Loss on ordinary activities multiplied by the average standard rate of Corporation Tax of 21% (2009 - 21%)	(23,792)	(85,887)
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Effects of

Expenses not deductible for tax purposes	11,122	15,632
Depreciation in excess of capital allowances	6,944	13,076
Losses carried back at different tax rates	(4,705)	(16,885)
FRS 17 Pension adjustment	(5,250)	(12,675)
Losses carried forward	476	.

Current tax charge for the period (note 6(a))	<u>(15,205)</u>	<u>(86,739)</u>
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Notes to the Accounts
Year ended 31st July 2010

7 Profit/(Loss) of the Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements. The parent Company's operating profit for the year ended 31st July 2010 amounted to £8,433 (2009 loss £333,844) and loss before tax amounted to £124,646 (2009 loss £483,280)

8 Tangible Fixed Assets

Group	Freehold Land & Buildings £	Leasehold Improvements £	Furniture, Fittings & Equipment £	Motor Vehicles £	Computer Equipment £	Total £
Cost						
As at 1st August 2009	915,562	997,970	399,611	56,146	104,521	2,473,810
Additions	-	10,042	5,633	-	10,930	26,605
Disposals	-	-	(1,360)	-	-	(1,360)
Revaluation	184,438	-	-	-	-	184,438
As at 31st July 2010	1,100,000	1,008,012	403,884	56,146	115,451	2,683,493
Depreciation						
As at 1st August 2009	44,502	657,185	332,612	22,533	46,400	1,103,232
Revaluation reversal	(44,502)	-	-	-	-	(44,502)
Charge for the period	-	65,000	9,348	11,000	17,894	103,242
Disposals	-	-	(929)	-	-	(929)
As at 31st July 2010	-	722,185	341,031	33,533	64,294	1,161,043
Net Book Value						
As at 31st July 2010	1,100,000	285,827	62,853	22,613	51,157	1,522,450
As at 1st August 2009	871,060	340,785	66,999	33,613	58,121	1,370,578

Company	Leasehold Improvements £	Furniture, Fittings & Equipment £	Motor Vehicles £	Computer Equipment £	Total £
Cost					
As at 1st August 2009	997,970	308,151	24,705	104,521	1,435,347
Additions	10,043	5,094	-	10,930	26,067
As at 31st July 2010	1,008,013	313,245	24,705	115,451	1,461,414
Depreciation					
As at 1st August 2009	657,185	265,860	4,941	46,400	974,386
Charge for the period	64,999	7,354	4,941	17,894	95,188
As at 31st July 2010	722,184	273,214	9,882	64,294	1,069,574
Net Book Value					
As at 31st July 2010	285,829	40,031	14,823	51,157	391,840
As at 1st August 2009	340,785	42,291	19,764	58,121	460,961

Notes to the Accounts
Year ended 31st July 2010

9 Investments - Shares in Group Undertakings

£

Cost as at 31st July 2009 & 31st July 2010

719,040

The following details relate to the Company's subsidiary undertakings

Name	Location	Incorporation	Percentage of shares held	Class of shares held
Bourne Fine Art Limited	Edinburgh, Scotland	United Kingdom	100%	Ordinary shares of £1
Bourne Frames & Restoration Limited	Edinburgh, Scotland	United Kingdom	100% (held by Bourne Fine Art Ltd)	Ordinary shares of £1

The above subsidiary undertakings' results are all included in the Consolidated Financial Statements

The subsidiary undertakings have prepared accounts for the year to 31st July 2010

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

	Principal Activity	Capital and reserves 2010	Profit for the year 2010
Bourne Fine Art Limited	Art gallery	2,122,509	4,370
Bourne Frames and Restoration Limited	Framing and restoration of paintings	155,676	7,844

10 Debtors

	31 July 2010		31 July 2009	
	Group £	Company £	Group £	Company £
Trade debtors	1,358,555	1,051,560	1,704,581	1,471,662
Amounts owed by group undertakings	-	77,961	-	20,305
Other debtors	164,242	150,302	170,412	148,587
Prepayments and accrued income	348,105	329,624	151,603	128,530
	<u>1,870,902</u>	<u>1,609,447</u>	<u>2,026,596</u>	<u>1,769,084</u>

11 Creditors amounts falling due within one year

	31 July 2010		31 July 2009	
	Group £	Company £	Group £	Company £
Bank overdraft	2,984,674	2,674,988	3,159,690	2,897,874
Trade creditors	1,055,839	905,893	1,213,331	1,107,923
Other creditors	37,171	13,447	16,143	3,006
Corporation tax	-	-	7,827	-
Social security and other taxes	142,626	106,304	41,254	32,601
Accruals and deferred income	185,928	179,975	93,650	90,150
	<u>4,406,238</u>	<u>3,880,607</u>	<u>4,531,895</u>	<u>4,131,555</u>

A legal charge is held by the Company's bank, The Bank of Scotland, over all assets

Notes to the Accounts

Year ended 31st July 2010

12 Provision for Liabilities and Charges

	31 July 2010		31 July 2009	
	Group £	Company £	Group £	Company £
Deferred tax - arising on accelerated capital allowances				
As at 1 August 2009	5,416	-	8,154	-
Released to the profit and loss account	2,557	3,421	(2,738)	-
Balance Carried Forward	<u>7,973</u>	<u>3,421</u>	<u>5,416</u>	<u>-</u>

No provision has been made in these financial statements for Corporation Tax estimated to be in the order of £150,000 which would arise were a subsidiary's freehold property to be sold at the value of £1,100,000 at which it is included in these accounts

13 Capital Commitments

No capital expenditure had been authorised or committed by the Board at 31st July 2010 (2009 - £Nil)

14 Operating Lease Commitments

At 31st July 2010 the Company had the following annual commitments under non-cancellable operating leases

	2010 Buildings	2009 Buildings
Expiring in		
2-5 years	<u>20,300</u>	<u>20,300</u>

15 Contingent liabilities

At the balance sheet date, the Company was involved in ongoing negotiations with its landlord regarding an increase in the rent payable for its business premises. The rent is expected to increase and be backdated to 26 June 2009 and an accrual of £127,000 has been made in the accounts. This is the directors best estimate of the liability at the current point in the negotiations

16 Share Capital, Movement on Reserves and Reconciliation of Movements in Shareholders' Funds

Group	Called Up Share Capital £	Share Premium Account £	Consolidation Reserve £	Revaluation Reserve £	Profit and Loss Account £	Total £
Balance at 1st August 2009	1,612,340	2,381,356	427,425	-	2,584,791	7,005,912
Loss attributable to the Members of the Group	-	-	-	-	(100,649)	(100,649)
Decrease in pension liability under FRS 17	-	-	-	-	155,720	155,720
Revaluation in the period	-	-	-	228,940	-	228,940
Balance at 31st July 2010	<u>1,612,340</u>	<u>2,381,356</u>	<u>427,425</u>	<u>228,940</u>	<u>2,639,862</u>	<u>7,289,923</u>

Notes to the Accounts

Year ended 31st July 2010

16 Share Capital, Movement on Reserves and Reconciliation of Movements in Shareholders' Funds (Continued)

Company	Called Up Share Capital £	Share Premium Account £	Profit and Loss Account £	Total £
At 1st August 2009	1,612,340	2,381,356	1,700,224	5,693,920
Loss attributable to the Members of the Company	-	-	(112,862)	(112,862)
Decrease in pension liability under FRS 17	-	-	155,720	155,720
Balance at 31st July 2010	<u>1,612,340</u>	<u>2,381,356</u>	<u>1,743,082</u>	<u>5,736,778</u>

The authorised share capital comprises 2,000,000 ordinary shares of £1 each (2009 2,000,000)

At 31st July 2010, 1,612,340 ordinary shares had been called-up, allotted and were fully paid (2009 1,612,340)

17 Pension Schemes

Details of the four Group pension schemes are as follows

Defined benefit scheme

The Company operates a pension scheme in the UK to provide benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company, being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the current projected unit method.

The following additional information is provided in accordance with Financial Reporting Standard 17 (Retirement Benefits)

A full actuarial valuation was carried out with an effective date of valuation of 6th April 2008, and an updated valuation has been made as at 31st July 2010 by a qualified independent actuary.

Reconciliation of defined benefit obligation	At 31st July 2010 £	At 31st July 2009 £
Scheme liabilities brought forward	2,521,000	2,430,000
Current service costs	39,000	24,000
Interest cost	154,000	152,000
Contributions from members	1,000	1,000
Actuarial (gains)/losses	(3,000)	34,000
Past services costs/(gains)	-	-
Estimated benefits paid	<u>(119,000)</u>	<u>(120,000)</u>
Closing defined benefit obligation	<u>2,593,000</u>	<u>2,521,000</u>
Reconciliation of fair value of employer assets	At 31st July 2010 £	At 31st July 2009 £
Opening fair value of employer assets	2,070,000	2,138,000
Expected return on assets	108,000	107,000
Contributions by members	1,000	1,000
Contributions by the employer	110,000	132,000
Actuarial gains/(losses)	223,000	(188,000)
Benefits paid	<u>(119,000)</u>	<u>- (120,000)</u>
Closing fair value of employer assets	<u>2,393,000</u>	<u>2,070,000</u>

Notes to the Accounts
Year ended 31st July 2010

17 Pension Scheme (Continued)

	At 31st July 2010 £	At 31st July 2009 £
Reconciliation of amounts charged to the profit and loss account		
Service cost	39,000	24,000
Interest cost	154,000	152,000
Expected return on employer assets	<u>(108,000)</u>	<u>(107,000)</u>
	<u>85,000</u>	<u>69,000</u>
 Split between		
Charged to operating loss - operating expenses	39,000	24,000
Charged to other finance costs	<u>46,000</u>	<u>45,000</u>
	<u>85,000</u>	<u>69,000</u>
 Reconciliation of amounts charged to STRGL		
	At 31st July 2010 £	At 31st July 2009 £
Actuarial gain/(loss) arising during the year	226,000	(222,000)
Total gain/(loss) recognised in the STRGL for the year	226,000	(222,000)
Cumulative loss recognised in the STRGL at the year end	<u>(194,000)</u>	<u>(420,000)</u>
 Principal actuarial assumptions used by the actuary		
	At 31st July 2010	At 31st July 2009
Rate of increase in salaries	2.2%	2.0%
Rate of increase in pension payments	3.0%	3.0%
- earned before 6 April 1997	3.2%	3.2%
- earned after 6 April 1997	5.4%	6.2%
Discount rate	3.2%	3.2%
Retail Price Inflation	3.2%	3.2%
Revaluation of early leavers' benefits	3.2%	3.2%

The mortality assumptions are based on the S1PMA and S1PFA tables. Based on these assumptions, the average future life expectancy at age 65 is 22.3 years and 24.9 years for male and female members respectively for current pensioners and 23.6 years and 26.0 years for male and female members respectively for future pensioners.

Notes to the Accounts
Year ended 31st July 2010

17 Pension Scheme (Continued)

Reconciliation to the balance sheet	At 31st July 2010 £	At 31st July 2009 £
Opening net pension liability	(324,720)	(207,320)
Disclosed pension income/(expense) for the year	(85,000)	(69,000)
Employer contributions	110,000	132,000
Gain/(Loss) recognised via the STRGL	<u>155,720</u>	<u>(180,400)</u>
Closing net pension liability	<u>(144,000)</u>	<u>(324,720)</u>

Five year history of assets, liabilities and surplus or deficit in the scheme

	At 31st July 2010 £	At 31st July 2009 £	At 31st July 2008 £	At 31st July 2007 £	At 30th June 2006 £
Defined benefit obligation	(2,593,000)	(2,521,000)	(2,430,000)	(2,354,000)	(2,583,000)
Plan assets	<u>2,393,000</u>	<u>2,070,000</u>	<u>2,138,000</u>	<u>2,275,000</u>	<u>2,264,000</u>
Deficit	<u>(200,000)</u>	<u>(451,000)</u>	<u>(292,000)</u>	<u>(79,000)</u>	<u>(319,000)</u>
Experience adjustments on plan liabilities	135,000	(9,000)	(212,000)	(69,000)	(21,000)
Experience adjustments on plan assets	<u>223,000</u>	<u>(118,000)</u>	<u>(229,000)</u>	<u>19,000</u>	<u>9,000</u>

The information provided for 2008 and earlier has not been restated following the change in FRS 17 which requires quoted securities to be valued at current bid price rather than mid price as the actuarial difference is small and therefore immaterial