

established 1876

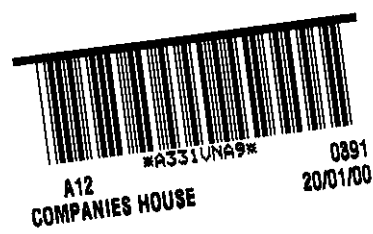
THE FINE ART SOCIETY PLC

REPORT AND ACCOUNTS

for the year ended 30th June 1999



Registered Office: 148 New Bond Street, London W1
Company Number: 10262



established 1876

THE FINE ART SOCIETY PLC

148 New Bond Street, London W1

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-fourth Annual General Meeting of the Shareholders of the Company will be held on Friday 5th November 1999 at 6.30 p.m. at 148 New Bond Street, London W1 for the transaction of the ordinary business of the Company.

A Member entitled to attend and vote at this meeting is entitled to appoint a Proxy to attend and vote instead of him/her and such Proxy need not also be a Member.

By order of the Board

8th October 1999

P.M. Clarke

Secretary

Registered Office:-
Registered Number:-

148 New Bond Street, London W1Y 0JT
10262

established 1876

THE FINE ART SOCIETY PLC

148 New Bond Street, London W1

Honorary President

Lord Macfarlane of Bearsden KT

DirectorsSir Angus Grossart CBE *Chairman*Robert George Holland-Martin *Deputy Chairman*Andrew Graham McIntosh Patrick *Managing Director*Peyton Stephen Skipwith *Deputy Managing Director*

Ng Lu Pat

Simon Harold John Edsor

John Gordon Churchill Cooke

Annamarie Stapleton

Secretary Paul Michael Clarke**Report of the Directors**

To be presented at the one hundred and twenty-fourth Annual General Meeting of The Fine Art Society plc, to be held at 148 New Bond Street, London W1 on 5th November 1999 at 6.30 pm.

The Directors submit to the Shareholders their one hundred and twenty-fourth report together with the balance sheet and profit and loss account for the twelve months which ended 30th June 1999.

Results and dividend for the year	1999	1998
	£	£
The profit for the year amounts to	262,031	176,180
Taxation payable	(54,597)	(39,332)
	<hr/>	<hr/>
	207,434	136,848
Recommended dividend	(43,562)	(36,301)
	<hr/>	<hr/>
Retained profit for the year	<u>163,872</u>	<u>100,547</u>

The Directors are recommending a dividend of 6p per ordinary share (1998: 5p).

Principal Activity

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

Review of Business

This time last year world financial markets were in a highly volatile state, which severely affected our business. Fortunately, however, by January, a degree of confidence began to return, and we are able to report better results than last year.

The scarcity of top quality works continues. However, we have a strong position in the market and have exhibited once again at the New York Winter Antiques Show and at The London Original Print Fair. As before, we are fortunate in the quality and commitment of our staff; this, combined with our breadth of stock, has enabled us to maintain The Fine Art Society's pre-eminent position in our field.

Report of the Directors

continued

The Board of Directors

Sir Angus Grossart CBE became Chairman at the retirement of Lord Macfarlane of Bearsden KT on 6th November 1998. Lord Macfarlane who had held that position since 1976 was elected Honorary President in recognition of his service to the Company.

Directors' Interests

The Directors who served during the year and their interests in the share capital of the Company at 30th June 1999 were as follows:-

	At 30th June 1999		At 30th June 1998	
	Issued	Share Option Scheme	Issued	Share Option Scheme
Lord Macfarlane of Bearsden KT (retired on 6.11.98)	45,152*	-	45,152	-
Sir Angus Grossart CBE	-	-	-	-
Mr R.G. Holland Martin	2,143	-	2,143	-
Mr A.G. McIntosh Patrick	44,080	7,000	27,080	7,000
Mr P.S. Skipwith	9,644	5,500	9,644	5,500
Mr Ng Lu Pat	-	-	-	-
Mr S.H.J. Edsor	2,849	4,500	2,849	4,500
Mr J.G.C. Cooke	795	-	795	-
Miss A. Stapleton	100	-	100	-

* at date of retirement

In addition, at 30th June 1999, Sir Angus Grossart had an indirect interest in 91,962 shares (1998: 86,814), Mr Holland-Martin had a non-beneficial interest in 3,000 shares (1998: 3,000), and at 6th November 1998 Lord Macfarlane of Bearsden had a joint interest in 110,000 shares as a trustee (1998: 110,000).

Creditor Payment Policy

Suppliers' invoices are normally paid in full in the month following that in which they are received.

Year 2000

Ensuring the ongoing operation of our business and computer systems into the next millennium is a key focus of the directors. A comprehensive review of all systems is being carried out to ensure that:

1. All business and computer systems will correctly process future dates.
2. Trading relationships with suppliers and customers will continue to operate without disruption.

The total expected cost of these reviews have not been quantified but are not expected to be material.

Charitable and Political Contributions

The company made charitable contributions during the year amounting to £1,842 (1998: £1,672).

No political contributions were made during the year (1998: £nil).

Auditors

Kingston Smith have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act it is proposed that they be re-appointed auditors to the Company for the ensuing year.

Amy m holt act

By order of the Board
Sir Angus Grossart CBE
Chairman

8th October 1999

Statement of Directors' Responsibilities

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 of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to select suitable accounting policies and then apply them consistently; make judgments and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the Members of The Fine Art Society plc

We have audited the financial statements on pages 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out in the notes to the accounts.

Respective responsibilities of Directors and Auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes 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 judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30th June 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Kingston Smith
Registered Auditors
Chartered Accountants
Devonshire House
60 Goswell Road
London EC1M 7AD

8th October 1999

Profit and Loss Account
Year ended 30th June 1999

	Note	1999	1998
		£	£
Turnover - continuing activities	2	4,019,232	4,036,588
Cost of sales		(2,629,158)	(2,787,955)
Gross Profit		<u>1,390,074</u>	<u>1,248,633</u>
Distribution expenses		(23,828)	(16,554)
Administration expenses		(1,030,192)	(961,826)
Operating Profit	3	<u>336,054</u>	<u>270,253</u>
Interest receivable and similar income		113	1,697
Interest payable and similar charges	5	(74,136)	(95,770)
Profit on ordinary activities before taxation		<u>262,031</u>	<u>176,180</u>
Taxation	6	(54,597)	(39,332)
Profit on ordinary activities after taxation		<u>207,434</u>	<u>136,848</u>
Dividend on Equity Shares	7	(43,562)	(36,301)
Retained profit for the financial year		<u><u>163,872</u></u>	<u><u>100,547</u></u>

Recognised gains and losses

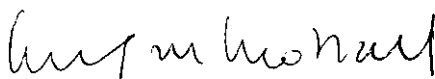
There are no recognised gains or losses other than the profit for the year.

The notes on pages 8 to 13 form part of these accounts.

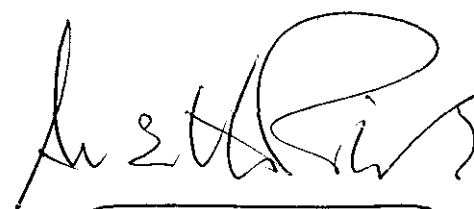
Balance Sheet
30th June 1999

	Note	1999	1998
		£	£
Fixed Assets			
Tangible assets	8	65,389	72,117
Current Assets			
Stocks		4,839,713	4,008,937
Debtors	9	577,436	1,472,326
Cash at bank and in hand		292	516
		<u>5,417,441</u>	<u>5,481,779</u>
Creditors: amounts falling due within one year	10	<u>(1,927,959)</u>	<u>(2,162,897)</u>
Net current assets		<u>3,489,482</u>	<u>3,318,882</u>
Total Assets less Current Liabilities		<u><u>3,554,871</u></u>	<u><u>3,390,999</u></u>
Capital and Reserves:			
Equity Interests			
Called up share capital	13	726,029	726,029
Share premium account	13	411,443	411,443
Profit and loss account	13	2,417,399	2,253,527
Shareholders' Funds		<u><u>3,554,871</u></u>	<u><u>3,390,999</u></u>

Approved by the Board of Directors on 8th October 1999



Sir Angus Grossart CBE
Chairman



Andrew McIntosh Patrick
Managing Director

The notes on page 8 to 13 form part of these accounts.

Cash Flow Statement
Year ended 30th June 1999

	1999 £	1998 £
Net cash inflow (outflow) from operating activities	183,958	(82,223)
Returns on investment and servicing of finance (note 1)	(74,023)	(94,073)
Taxation	(34,297)	(29,449)
Capital expenditure (note 1)	(6,078)	(3,910)
	<u>69,560</u>	<u>(209,655)</u>
Equity dividends paid	(36,301)	(36,301)
Increase (decrease) in cash	<u>33,259</u>	<u>(245,956)</u>

Reconciliation of operating profit to net cash flows from operating activities

Operating profit	336,054	270,253
Depreciation charges	12,806	13,132
(Increase) in stocks	(830,776)	(161,812)
(Increase) / Decrease in debtors	894,890	(526,491)
Increase / (Decrease) in creditors	(229,016)	322,695
Net cash inflow (outflow) from operating activities	<u>183,958</u>	<u>(82,223)</u>

Note 1 Gross cash flows

Returns on investment and servicing of finance

Interest received	113	1,697
Interest paid	<u>(74,136)</u>	<u>(95,770)</u>
	<u>(74,023)</u>	<u>(94,073)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(6,078)	(3,910)
Receipts from sales of tangible fixed assets	<u>-</u>	<u>-</u>
	<u>(6,078)</u>	<u>(3,910)</u>

Note 2 Analysis of changes in net debt

	At 1st July 1998 £	Cash flows £	At 30th June 1999 £
Cash at bank and in hand	516	(224)	292
Bank overdraft	(878,949)	33,483	(845,466)
	<u>(878,433)</u>	<u>33,259</u>	<u>(845,174)</u>

Notes to the Accounts
Year ended 30th June 1999

1 Accounting Policies

Accounting convention

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

Turnover

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

Rent receivable

Rent due to the Company is accounted for on a receivable basis.

Pension costs

The Company currently operates two pension schemes; a defined contribution scheme and a defined benefit scheme. The relevant details are contained within note 15.

Tangible fixed assets and depreciation

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

Furniture and fittings	10%
Motor vehicles	20%
Short leasehold premises	20%
Computer equipment	33 1/3%

Assets held under operating leases

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

Stocks

Stocks, which comprise works of art for resale, have been valued at the lower of cost and estimated net realisable value.

Deferred taxation

Deferred taxation, on differences between the treatment of certain items for accounting and taxation purposes, is accounted for to the extent that a liability or an asset is expected to crystallize within the foreseeable future.

2 Turnover

Analysis of turnover by geographical market:

	1999	1998
	£	£
United Kingdom	1,602,394	2,328,125
Rest of Europe	880,929	65,613
North America	1,269,436	1,478,734
Africa	11,000	3,942
Asia	246,797	160,174
Australasia	8,676	-
	<u>4,019,232</u>	<u>4,036,588</u>

Notes to the Accounts
Year ended 30th June 1999

3 Operating Profit

a)	This is stated after charging:	1999	1998
		£	£
	Depreciation	12,806	13,132
	Auditors' remuneration - for audit services	9,798	9,250
	Operating lease rental - buildings	<u>168,500</u>	<u>168,500</u>
b)	Directors' Remuneration:		
	Directors' fees	9,634	12,140
	Other emoluments (including pension contributions)	393,357	374,094
		<u>402,991</u>	<u>386,234</u>

4(a) Staff and Directors

	1999	1998
	£	£
Wages and salaries	437,464	407,990
Social Security costs	43,189	37,407
Other pension costs	58,169	64,824
	<u>538,822</u>	<u>510,221</u>

The emoluments, excluding pension contributions, of the highest paid Director amounted to £100,503 (1998: £94,029).

	1999	1998
The average number of employees during the year was: (includes Directors)	8	8

Three Directors were in the Company's defined benefit pension scheme; in this scheme, the accrued pension at the end of the year in respect of the highest paid Director amounted to £36,628 (1998: £36,250).

Three Directors were in the Company's money purchase pension scheme. During the year the Company's contributions towards this scheme amounted to £21,104 (1998: £20,305), of which contributions in respect of the highest paid Director amounted to £12,816 (1998: £12,398).

Within the cost of superannuation provision has been accrued for premiums payable on behalf of employees entitled to join the Company pension scheme once proposed new arrangements have been finalized. (See note 15). This provision amounts to £22,784 (1998: £10,375).

4(b) Related Parties

The Directors are customers of the gallery. In the year ended 30th June 1999, the aggregate of sales to Directors amounted to £377,316 (1998: £81,592), and the aggregate of items sold on their behalf amounted to £51,761 (1998: £60,198). The aggregate of balances due at the year end from Directors to the Company in respect of such transactions amounted to £512 (1998: £7,808).

Notes to the Accounts
Year ended 30th June 1999

5 Interest payable

Interest payable comprises:	1999	1998
	£	£
Bank overdraft interest	74,136	95,597
Other interest	-	173
	<u>74,136</u>	<u>95,770</u>

6 Taxation

	1999	1998
	£	£
Corporation Tax payable at 20% (1998 21%)	55,525	39,012
(Over)/Underprovision of Corporation Tax in previous year	(928)	320
	<u>54,597</u>	<u>39,332</u>

7 Dividends

	1999	1998
	£	£
Proposed dividend 6p per share (1998:5p per share)	<u>43,562</u>	<u>36,301</u>

8 Tangible Fixed Assets

	Short Leasehold Premises £	Furniture and Fittings £	Motor Vehicles £	Computer Equipment £	Total £
Cost					
As at 1st July 1998	119,873	76,006	7,900	11,289	215,068
Additions	-	6,078	-	-	6,078
Disposals	-	-	-	-	-
As at 30th June 1999	<u>119,873</u>	<u>82,084</u>	<u>7,900</u>	<u>11,289</u>	<u>221,146</u>
Depreciation					
As at 1st July 1998	119,873	14,466	3,555	5,057	142,951
On disposals	-	-	-	-	-
Charge for the year	-	7,463	1,580	3,763	12,806
As at 30th June 1999	<u>119,873</u>	<u>21,929</u>	<u>5,135</u>	<u>8,820</u>	<u>155,757</u>
Net Book Value					
As at 30th June 1999	<u>-</u>	<u>60,155</u>	<u>2,765</u>	<u>2,469</u>	<u>65,389</u>
As at 30th June 1998	<u>-</u>	<u>61,540</u>	<u>4,345</u>	<u>6,232</u>	<u>72,117</u>

Notes to the Accounts
Year ended 30th June 1999

9 Debtors

	1999	1998
	£	£
Trade debtors	458,841	1,345,992
Prepayments and accrued income	68,595	66,334
Deferred revenue expenditure	50,000	60,000
	<u>577,436</u>	<u>1,472,326</u>

10 Creditors: amounts falling due within one year

	1999	1998
	£	£
Bank overdraft	845,466	878,949
Trade creditors	838,191	1,063,327
Other creditors	42,881	33,481
Corporation Tax	45,605	25,305
Social Security and other taxes	63,707	78,670
Accruals and deferred income	48,547	46,864
Proposed dividend	43,562	36,301
	<u>1,927,959</u>	<u>2,162,897</u>

The bank overdraft is secured by a first legal charge over the Company's leasehold premises at 148 New Bond Street.

11 Capital Commitments

No capital expenditure had been authorised or committed by the Board at 30th June 1999 (1998: £ Nil).

12 Operating Lease Commitments

At 30th June 1999, and at 30th June 1998, the Company had the following annual commitments under non-cancellable operating leases:-

	Expiring next year	Expiring in 2-5 years	Expiring in more than 5 years
	£	£	£
Buildings	14,500	-	133,500

Notes to the Accounts
Year ended 30th June 1999

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

	Called up Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1st July 1997	726,029	411,443	2,152,980	3,290,452
Profit attributable to the Members of the Company	-	-	136,848	136,848
Dividend	-	-	(36,301)	(36,301)
Balance at 1st July 1998	726,029	411,443	2,253,527	3,390,999
Profit attributable to the Members of the Company	-	-	207,434	207,434
Dividend	-	-	(43,562)	(43,562)
Balance at 30th June 1999	<u>726,029</u>	<u>411,443</u>	<u>2,417,399</u>	<u>3,554,871</u>

The authorised share capital comprises 1,000,000 ordinary shares of £1 each (1998: 1,000,000).
 At 30th June 1999, 726,029 had been called-up, allotted and fully paid (1998: 726,029).

14 Employee Share Option Scheme

On 30th June 1999, the following options over shares of the Company were outstanding under the above scheme:

Date of Grant	No. of Shares	Exercise Price	Exercise Period	
			From	To
25.1.1990	17,500	£4.50 per share	8.2.1994	8.2.2000

The adoption of the above scheme was approved by the Shareholders on 1st November 1985 and was approved by the Inland Revenue under paragraph 1, Schedule 10, Finance Act 1984 on 5th December 1985. During the year no person exercised his option.

Notes to the Accounts
Year ended 30th June 1999

15 Pension Schemes

The Company currently operates two pension schemes. These are:

A defined benefit scheme

The Company operates this pension scheme 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. Contributions to the scheme are charged in the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the current unit method. The most recent valuation was at 30th April 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 7% per annum and that future pensions would increase at the rate of 3% per annum.

The pension charge for the year was £21,766 (1998: £34,675).

No adjustment has been made in respect of the amortisation of the experience surplus of £195,600 which would normally be recognised over the average remaining service lives of the employees.

The most recent actuarial valuation showed that the market value of the scheme's assets was £878,300 and that the actuarial value of those assets represented 156% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The Company's contribution rate for retirement benefits is 6.4% of total pensionable salary.

A money purchase scheme

The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £21,104 (1998: £20,305).

(Note: The Company intends to start a new pension scheme for recent and new employees of the Company.)