JAMES HALSTEAD plc

Report & Accounts 2004

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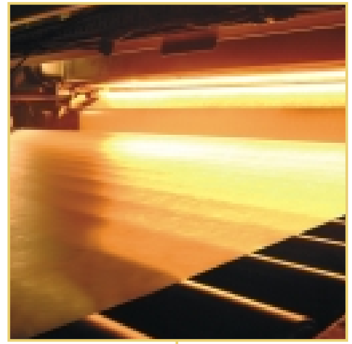
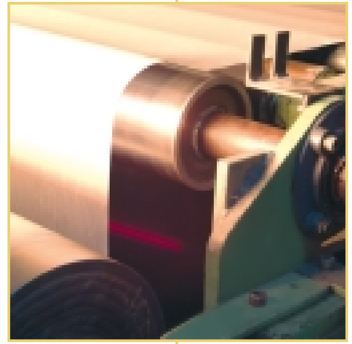
Raststätte Würzburg Germany, Expona Art and Design

Financial Highlights





James Halstead plc is an international group of companies which manufacture and distribute a comprehensive range of major flooring brands in commercial, contract and consumer markets around the world.

Pre-tax profit increased by 97% to £24.1 million (including an exceptional of £10.4 million)

Pre-tax profit before exceptional gain up by 12.2% to £13.7 million

Earnings per share – basic up 119%

– headline up 14.6%

Total dividend up 17.5% to 17.75p

Return of capital equivalent to 60p per ordinary share (to be proposed)

James Halstead 1915 - 2004


James Halstead

Forming James Halstead Ltd in 1915, this Edwardian textile entrepreneur perhaps didn't realise that he was laying the foundations of a family dynasty, which was to pioneer many significant developments within commercial flooring in the UK and compete effectively in the global flooring market.

The seeds of this successful British business were sown in the early part of the 20th century. Having weathered two world conflicts it was inspired by sound vision and a family dedicated to hard work and was to grow substantially in both post war periods.


Rubber-spreading 1940's

However, the company didn't start in flooring manufacture, rather as a dyeing and finishing operation which is where founder James Halstead's expertise lay. The business, based in Whitefield near Manchester, manufactured waterproofed cotton textiles, including rubberised fabrics used to manufacture ladies single texture rainwear.

In just four short years the business boomed. James' sons, John and Herbert were energetic and the company activities of dyeing and rubber and wax proofing soon occupied the entire factory site that they had acquired.

In parallel with Halsteads producing waterproof cloth, Belstaff Ltd. in Staffordshire was also producing waterproof outdoor and motorcycle clothing and gaining popularity. The natural business synergy of the two companies encouraged James Halstead Ltd to acquire the Belstaff company and brand.

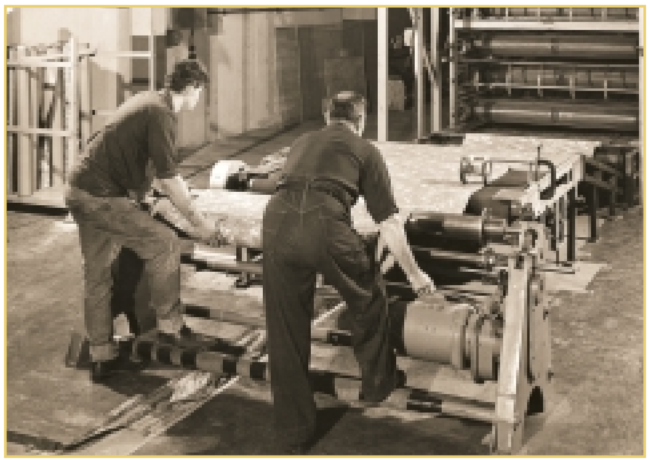

Motorcycle clothing

As far back as 1934, James Halstead Ltd was starting to manufacture its first flooring products led by James Halstead's sons, John and Herbert, following their father's untimely death in 1935. Under their management the business thrived and by 1948, to continue expansion, it required an injection of capital. A public flotation via a placing of shares was therefore carried out that year.

Halsteads employed a chemist, Bill Roberts, who had been involved in the development of a synthetic polymer called PVC, and they were keen to create the first plastic floor. After considerable effort and persistence, they succeeded in bonding a thin marbleised PVC layer to a bitumen paper backing in a tile format. Given the large market at the time for linoleum sheet, the company's real breakthrough came when they were able to make a homogeneous product from polymer plasticiser and mineral fillers. This was to become known as Polyflor sheet vinyl flooring, a true innovation in flooring manufacture. From that point Halstead's future was secure.


Early delivery van

Polyflor provided the momentum from which to significantly grow the flooring manufacturing business in the 1950's under John and Herbert Halstead. As demand grew, Halsteads looked overseas, setting up manufacturing and sales ventures in Australia, New Zealand and South Africa. These global connections remain vital today, with half of the manufacturing output exported.


Polyflor manufacturing 1963

By the end of the 1960's however, greater emphasis on technical innovation led the company to re-focus its manufacturing efforts in the UK. In that period too, John Halstead, the driving force behind expansion, died leaving his brother Herbert to preside in an uncertain economic climate. The company was managed by advisers and consultants until Herbert's death in 1974, when Geoffrey Halstead (son of John) took control of the business.

Polyflor fleet today

This heralded a new period of significant growth for Halsteads with Geoffrey at the head of a dynamic team of professional managers. The decade from 1980 to 1990 saw sales rocket from £21 million to £58 million.

Polysafe, a slip resistant flooring, was launched into the UK commercial market in 1986 and injected fresh impetus to the flagship Polyflor brand. Later in the decade Finesse and Panache, both non-directional floor covering products, were introduced into the range.

Changing market dynamics made it prudent for Halsteads to cease manufacturing textiles in 1992. From that date manufacturing has been entirely focused on flooring and the company has invested over £50 million in the last decade to develop the business.

At the same time, the James Halstead Group continued to market, licence or distribute its non flooring brands. Belstaff continued to be a mainstay of Phoenix, the motorcycle accessories distribution company, and became an acknowledged fashion brand. Phoenix remains a market leader in motorcycle accessories in the UK.

By the millennium, Group annual sales had risen from £58 million to £84 million. Halsteads were exporting products all over the world to schools, hospitals and public buildings, reacting quickly to market changes and responding with innovative products to suit commercial and niche consumer markets.


Expona installed at a motorcycle dealership

It is testament to the careful stewardship of four generations of Halsteads (now with Mark Halstead as the Chief Executive) that although a relatively small flooring manufacturer, the group holds its own against multi-national global competitors.

Now, a new generation of managers are in turn drawing inspiration and insight from the knowledge and tradition left to them by the founder. Whilst James Halstead might not be familiar with today's products, he would recognize the quality, technical ability and attention to customer service and be proud that the Group carries his signature as its emblem and guarantee.


Polyflor calender unit

Covering the World

UK and Ireland

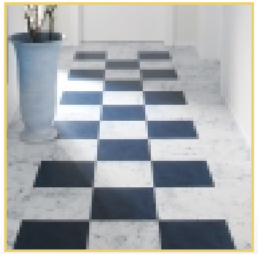

Polyflor Mystique

As our head office and manufacturing unit are based here, the markets of the UK and Eire are the heart of our sales effort. Over the years the Polyflor brand has grown to be a firm UK market leader, representing standards of quality and performance that have formed the core of our successful export policy. Today with stock locations both in the North and South of England, as well as Ireland, the aim to offer service and support is also part of the core strategy to maintain that leadership position.


Polyflor Prestige

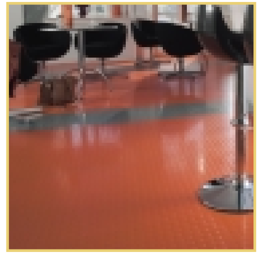
Western Europe

Since our products evolved around European standards, styles and designs, the markets of Western Europe have historically represented a huge opportunity for sales of all flooring products. However, until the establishment of our Central European subsidiaries, it was difficult to sell into these markets other than as a UK exporter. Today, we enjoy the benefit across Europe by selling as a 'domestic' supplier with our own stock in the various market places and sales forces of local nationality.


Expona Domestic

Far East, Australasia and Africa

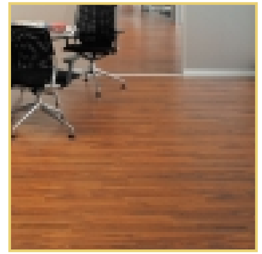
James Halstead today continues to enjoy the benefits established in the early 1960s as a manufacturer in Australia, New Zealand and South Africa. The markets of South East Asia have also benefited from the establishment of sales offices both in Hong Kong and Guangzhou. This policy of local stock-holding points (five in Australia and three in New Zealand) serviced by local sales offices and employing local sales teams, has allowed Polyflor Australia, Polyflor Hong Kong, Halstead Flooring (New Zealand) and Polyflor South Africa to replicate the successful formula on which Polyflor UK has been built.


Saarfloor Stud Tile

Emerging Markets

James Halstead and its products currently enjoy booming sales in many of the world's newly emerging markets. Notably these include representation in Russia, Poland and China which are poised to help with the growth planned in Eastern Europe and the new economies of the Great Asian land mass.

However, to ensure this growth is also secured across the Americas, much of Africa and the Middle East, Polyflor UK has a key export division focused to not only assist our subsidiaries around the world but also develop and service markets requiring direct links with the UK office.


Forest FX

Domotex 2004 Exhibition

James Halstead Flooring made a big impression on visitors to Hannover's International 2004 DOMOTEX Exhibition, the world's flagship fair for floor coverings.

The vibrant 'Art Gallery' theme of the stand perfectly exhibited the breadth and versatility of our product range to all the customers and competitors who viewed it.

POLYFLOR COVERING THE WORLD

PERFORMA

SaarFloor Systems

Colonia HOMELINE COLLECTION

expona domestic collection

Forestfx

art & design collection expona

KARNDEAN

CAMARO studioflor COLLECTION

KUDOS

VOYAGER TRANSPORT FLOORING

James Halstead

FLOORING

James Halstead Flooring is a major international group, with a portfolio of successful businesses and popular brands.

The group offers a comprehensive array of high quality commercial and residential floor coverings to an extensive global customer base.

POLYFLOR – COVERING THE WORLD

An established brand synonymous with high quality vinyl floor coverings, the clear market leader in the UK and a growing force internationally. Polyflor is used widely in healthcare, educational and commercial installations world wide. Polyflor continues to drive the market through innovation, ongoing product development and investment in manufacturing processes.

EXPONA art & design collection

A trail-blazing brand of luxury vinyl tiles that has built a reputation for offering flooring at the cutting edge of design and technology.

PERFORMA

The collection of homogeneous commercial floor coverings supplied across Central Europe by Objectflor.

KARNDEAN

A luxury vinyl tile brand recognised in continental Europe, where it has been operating successfully for many years.

SaarFloor Systems

A comprehensive collection of commercial quality rubber floor coverings offered under the Saarfloor brand to service an area of growth internationally.

CAMARO studioflor COLLECTION

A well established brand of luxury vinyl tiles that has built a significant presence in both the domestic and light-commercial markets with a mix of widely appealing designs and high product specification.

Colonia HOMELINE COLLECTION

A successful brand of luxury vinyl tiles, one of the first in this sector, now well established in the entry level position of this growing market.

KUDOS

A pioneer brand in introducing luxury vinyl tiles into the commercial market, using a successful formula of target customer awareness, wide specification and availability through distribution channels.

EXPONA domestic collection

A brand that has successfully taken the ethos of Expona Art and Design and turned it into an offer specifically for the domestic consumer, whilst maintaining the highest standards of innovative design and quality.

VOYAGER TRANSPORT FLOORING

A newly created division that exists specifically to provide flooring solutions to the international transport industry, including rail, bus and marine.

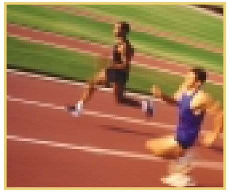
Forestfx

An international collection of wood-design flooring, in a proven sheet vinyl format. A new and rapidly growing brand that is creating a widely distributed product offer into multiple market categories.

Did You Know?

Did you know that…

…POLYFLOR specialist flooring was used in many of the sports venues and support buildings at the 2004 Olympics?



Our ability to satisfy the unique flooring requirements such as static control and acoustic needs for such a prestigious event, has meant that Halsteads, too, can celebrate their own triumph in Athens.

Did you know when…

…it's time to cool down or warm up, POLYFLOR's range of flooring fits the bill whatever the weather?

On Norway's Hurtigruten ships, our flooring regularly travels up to the Arctic Circle and 1000 miles beyond to Kirkenes, whilst on the other side of the world in Inner Mongolia a hospital is about to benefit from the POLYFLOR Mystique range. As you can see, our flooring products are made to withstand extreme temperature variances – they are truly well-seasoned travellers!

Did you know that…

…POLYFLOR beat McDonalds and Coca Cola to the trading punch in Vietnam by a number of years?

…EXPONA was the flooring chosen for Hong Kong's first McDonalds?

…POLYSAFE Astral and Vogue flooring appear in over 2,000 buses in China?

…POLYFLOR is fitted in the biggest Cancer Centre in the largest nation on the planet?

Did you know if…

…things seem all at sea, Halsteads still have the answer?

You would normally expect the venue for flooring to be at least on dry land. Not so! Polyflor KUDOS is facing up to a tough job in the North Sea on the Ekkofisk, Gullfax A and Snorre Oil Rigs.

Did you know how…

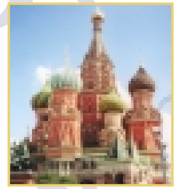
…Halsteads are 'poles apart' and are literally 'covering the world'?

Our flooring is laid both at Scott Base in Antarctica and the diametrically opposite extreme, on top of the World, in the Arctic. Svalbard, a mining town on the edge of the North Polar Ice Cap, is accessible only by airplane or, for a few months of the year, by sea. In this small town's hotel POLYFLOR 2000 is installed.

Of course if you wish to take a closer look at these venues, you'll need to avoid the perils of polar bears in the North and the slower moving, but equally deadly, icebergs in the South!

Did you know that…

…we at Halsteads can be real name-droppers? Who wouldn't be, with so many famous names associated with our products –



- The Nelson Mandela Academic Hospital in South Africa
- The Kremlin Conference Palace in Moscow
- 'Kongeskipet Norge', Royal Yacht to H.M. Harald V of Norway
- Port Stanley Airport in the Falkland Islands
- SATRA (the independent research and technology establishment for consumer goods industries) use POLYFLOR as their own choice of flooring – there could surely be no better recommendation!

Did you know when…

…the most exciting new building in the UK opens its doors, people will be tapping their feet on Saarfloor rubber flooring? The 'Sage' Gateshead International Music Centre designed by acclaimed architects Foster and Partners, is a landmark on Tyneside and specialist rubber flooring has been supplied by POLYFLOR.

Photo courtesy of Gateshead Council

Phoenix Distribution

Early example of Belstaff waterproof suit

Phoenix was founded in 1992, but was the successor to a much older company, Belstaff, founded in 1924. Incorporated by Eli BELovitch in STAFFordshire it was closely associated with the Halstead roots in textiles.

While James Halstead had begun by manufacturing a double textured rubber cloth in 1926 for use as a fabric for motorcycle clothing, Belstaff waterproof suits were already gaining popularity with motorcyclists. In 1948 Belstaff joined the Halstead Group of companies and the Group floated on the stock exchange. The first Black Prince motorcycle suit was launched in the 1950s and this classic stayed in production for more than a generation.

The focus on the motorcyclist market became vital to Belstaff, and continues to this day in Phoenix. Belstaff expanded into leisurewear from golf wear (under the Vent-O-Lite brand which was the official garment of the European Ryder Cup team in the 1980s), to one of the major 'greenwax' brands (Britton). These together with Driza-Bone (an Australian legend in clothing) were all part of the textile heritage of Halstead.

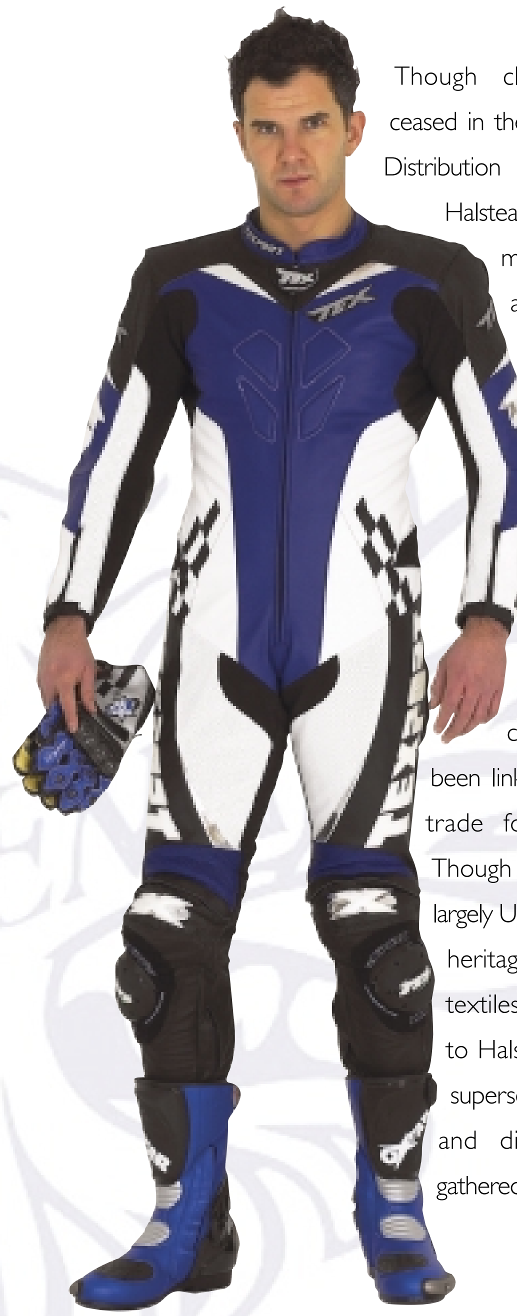
The motorcycle business prospered and the Group brought in associated products from around the world. Motorcycle tyres, from Metzeler in Germany, were important until that company was acquired by Pirelli. Arai helmets, probably the most respected in the world, have been distributed by Halstead through Belstaff and Phoenix for 28 years. Fieldsheer clothing, Shark helmets, Ferodo brake pads, Kappa luggage, Yoshimura exhausts, Nolan helmets and Fog City visors have all been part of the history of our motorcycle accessories distribution.

Arai Astro Race Schwantz

Kappa Expandable Panniers

Arai is the leading helmet brand in the UK, a position which Phoenix has developed with the manufacturer over the last 28 years. Arai has become known not just as an excellent product, but also as a brand which has unrivalled after sales support and back-up. Arai is also the choice of Champions on the race track and is currently worn by the 2004 British Superbike champion John Reynolds.

Kappa is a range of Italian luggage which provides stylish carrying capacity for virtually all motorcycles and scooters. As a brand it represents versatility, value for money and dependability.



Texport Podium Suit

Though clothing manufacture ceased in the early 1990s, Phoenix Distribution is as well known as Halsteads for its professional management, marketing and technical back-up. Their essential product skills and attention to detail are highly rated.

Whilst the product offering is constantly updated and the brand portfolio ever-changing, the Group has been linked to the motorcycle trade for nearly 80 years. Though our market today is largely UK based, the motorcycle heritage continues through textiles, and the original link to Halstead has largely been superseded by the marketing and distribution expertise gathered over four generations.

John Reynolds, 2004 Superbike champion, wearing Arai

Good products, excellent stock availability, and technical back-up, together with rock solid warranty and customer support are not just Phoenix hallmarks, they are the Halstead heritage.

Texport TX1 Glove

Texport is a range of Italian race-led motorcycle clothing, with a very good reputation for quality. Texport is a new addition to Phoenix's brand portfolio and is at an early stage of development. Endorsement on the race track is important to Texport and through Phoenix, Texport is worn by Karl Harris the British Supersport champion for 2004, and also the charismatic Japanese British Superbike rider Yukio Kagayama.

Shark RSF-2 Race de Puniet

Shark is a dynamic helmet brand with a versatile product offer. In a relatively short period of time Phoenix has established Shark as a major brand in UK motorcycling. Shark represents excellent value for money at all the different price points and has developed a name for innovative designs and features.

Yoshimura is a brand synonymous with racing, speed and success. Yoshimura end-cans and full exhaust systems are all developed on the race track and have an unrivalled heritage in this area.

Chairman's Statement

Geoffrey Halstead, Chairman

G Halstead

In presenting these record results, it is clear that the platform of our organisation around the world is focused on continuing progress. Sales of £104.7 million are 4.9% ahead of last year and the profit before tax at £24.1 million is well ahead of last year's £12.2 million. Obviously this includes an exceptional gain, the profit on the sale of Belstaff International Ltd and several associated brand names and trademarks. Nevertheless, our underlying profit after interest but before exceptionals and tax is £13.7 million, a 12.2% increase over last year.

The achievement of exceeding £100 million turnover for the first time represents another landmark for the Group. It is worthy of note that whilst education and healthcare are the primary markets for our flooring products the portfolio has a much broader appeal. Installations this year range from the Currimundi Hospital in Queensland, the Victoria Aged Care Village in Ontario and the Gloucester Hospital in the UK to the likes of the Manilov Restaurant in St Petersburg, the Tse Sui Luen jewellery chain in China, the Irina Eris beauty salon in Bogata and the Harley Davidson store in Hong Kong.

Dividend

The Board are proposing a final dividend of 11.75p per ordinary share being an increase of 17.5% over last year.

Return of capital

Given our healthy position and significant reserves, I am pleased to report that the Board are also planning to undertake a return of capital of £15 million, equivalent to 60p per ordinary share. This will require shareholder approval and we will give full details in a circular that will be sent to shareholders with the published accounts.

Acknowledgements

The efforts of our global team have played a significant part in our success and on behalf of the Board I offer my thanks and encouragement for their continued efforts.

Outlook

James Halstead plc is a significant manufacturer on the world stage for commercial floorings and, within its sector, is recognised as offering sound products, effective service levels and good after sales support. This gives me every confidence that progress will continue into the year ahead.

Board Directors

Geoffrey Halstead
Executive Chairman
has many years service with the group, having been instrumental in its inception, growth and development. After holding the position of chief executive for several years he stepped down from that position in April 2002, remaining on the board as executive chairman.

Mark Halstead
Group Chief Executive
has been with the group for over twenty years having held senior management positions both in the UK and abroad. He was appointed group chief executive in April 2002.

Jack Whittaker
Secretary
is a Fellow of the Chartered Institute of Management Accountants. He has many years' company secretarial experience gained in a wide spectrum of industrial companies.

Anthony Wild
Senior Independent Director
was appointed to the board as senior independent director in March 2001. He is a chartered accountant and prominent local businessman. He chairs the Audit and Remuneration committees of the board.

Gordon Oliver
Group Finance Director
is a chartered accountant. After qualifying with KPMG followed by financial positions in industry, he joined the company in 1987 as group financial controller. He was appointed group finance director in 1999.

Chief Executive's Review

Mark Halstead, Chief Executive

M Halstead

Camaro Studioflor

The results for the year are very good with turnover up 4.9% to £104.7 million and profits before tax and exceptionals up 12.2% to £13.7 million. The sale of Belstaff International Ltd and the sale of a number of textile brand names and trademarks, represents a significant break from part of the Group's history. In their time Belstaff, and previously Driza Bone and Conway trailers, were good contributors to Group profit. However, in the last decade, our core focus has been increasingly on flooring.

The safety flooring ranges under the Polysafe brand name are performing very well. Our transport sector collection, Voyager, is increasing our customer base and the volume growth is very encouraging. For example, several thousand buses in China are fitted with Polysafe flooring and the Forest FX commercial flooring collection is being very well received. This said, Polyflor XL, XL2000 and the core collections are still very successful performers in the portfolio.

Competitor activity is, as ever, fierce and prices are routinely under pressure. In my report last year, I noted pressure on UK manufacturing and our Company has coped well with this in the financial year. An additional challenge in the coming year is one of managing increasing raw material costs.

In this Olympic year, our products were installed in over a dozen of the Athens games venues and facilities, including the Athens Galatsi Stadium of Gymnastics (Electra), the Piraeus Weightlifting Stadium (Electra), the main Stadium (XL), the Olympic Stadium of Hellinico (SD) and the Olympic Doping Control Centre (XL).

Further away, Polyflor Mystique is being laid in a large hospital contract in Inner Mongolia, whilst nearer to home, one of the newer ranges, Saarfloor Rubber, was chosen for installation in the Music Centre, Gateshead, which was designed by acclaimed architects Foster and Partners.

The motorcycle accessory market has had a difficult year, with probably the worst market conditions since the return of the 'born-again biker' phenomenon a dozen years ago. Nevertheless, Phoenix made a good contribution to the overall Group result.

West Middlesex Hospital UK, Polyflor Mystique

Polyflor (the UK flooring business)

The core flooring business had another solid year of progress. Turnover in all areas increased: the UK, sales to other Group companies and export markets all moved forward with a total increase in turnover of 9.2%. Market conditions and the global low inflation environment precluded price increases even though there have been cost increases. Notwithstanding this, margins improved as a result of plant volume efficiencies, product mix and more beneficial exchange rates.

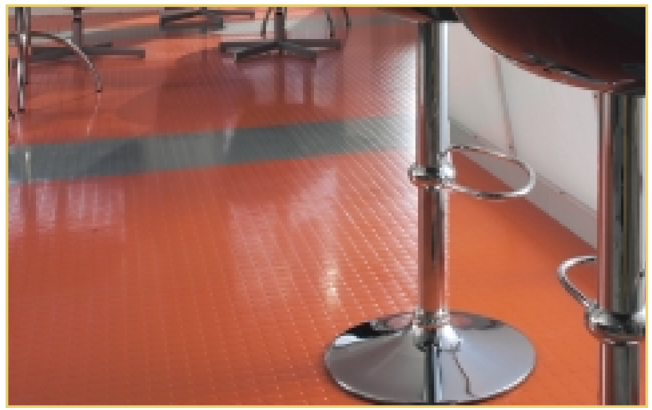
Increasingly the product offering is not just our own manufactured product but product manufactured to our specification, sourced from overseas. This allows a broader portfolio to be offered to our customer base. Significant capital investment in the year on a new extrusion line has resulted in improved productivity on flooring accessories. We firmly believe that Polyflor maintains its competitive edge in the production of sheet vinyl products because of its modern production plant. Increased energy costs have been somewhat mitigated late in the year by the use of gas as an energy source instead of oil, which has been our main source in recent years.

Increasing raw material prices have been a recent feature but we believe increases in selling prices are not yet appropriate given the market conditions and to date this has not had a detrimental effect on business. This situation will be monitored and controlled by the Board as the year progresses.

Objectflor (the Central European market)

Central Europe, and Germany in particular, faced a very challenging year. Overall, the market in Germany was sluggish, but, against this, Objectflor's performance shows significant improvement. With German turnover showing an increase of 8% and other Central European markets increasing by a corresponding amount, it was a satisfactory result all round. Volume growth was apparent in all major product lines and margin improvement further contributed to the bottom line. Objectflor's subsidiary company, Karndean, fared particularly well in sales of luxury vinyl tiles, where its value-for-money range is well received in many markets.

During the year, plans were drawn up for the construction of a new central distribution warehouse in Cologne, which should further streamline our operations in Europe. Building work has recently commenced and the facility should be opened early in the New Year.



Saarfloor Stud Tile

Chief Executive's Review

Continued

Halstead Flooring (Australia)

Australia improved on last year's growth with a further 12% increase in turnover. Without the disruption of business relocation, which affected last year's result, and with the benefit of established point-of-sale material and better sales co-ordination, the bottom line result was very good.

The management changes noted in last year's report have worked well and the company is trading satisfactorily.

Halstead Flooring Concepts (New Zealand)

New Zealand faced a difficult year. Turnover increased by 2.2%, but the company experienced significant problems around the middle of the year. Whilst domestic flooring sales (particularly carpet and underlay) increased significantly, these ranges were generally at a lower margin than the commercial products. The market conditions for commercial flooring were, for several months, adverse. These factors, combined with large increases in internal distribution costs, meant the company experienced margin erosion.

The Board felt decisive action was needed to correct this situation and instigated a complete structural review. This led to several redundancies, including at the highest levels of management. This had the effect of both reducing costs and focusing the company on the core commercial business. Whilst profits slipped back significantly, the actions taken have had the effect of putting profitability back on track by the year end.

Polyflor Hong Kong

Hong Kong leads our sales in many Asian markets and with an 8.7% increase in turnover the situation is more than satisfactory. Hong Kong, China, Japan, Malaysia and Singapore all showed good sales growth. It is clear that there were a large number of commercial projects in the region and we are confident that we won our fair share of the market.

As a result of the good year for sales, profits have risen. Our team continue to win significant specification work for our products across the region, though it would be prudent to recognise that the coming year may see fewer projects available.

Wythenshawe Hospital UK, Polyflor Mystique

Polyflor Nordic

Norway and Sweden are both operated and managed from Oslo. The Swedish branch is a new venture this year and results are, to date, below budget and expectations, albeit in the first year of operation. The progress in Norway, however, continues to be very good with a 25% increase in turnover. The results, after a move to our new warehouse which is based in a more central location, have exceeded the planned growth and provided increased profit. The market continues to offer opportunities for expansion and Polyflor Nordic is expanding its operations into other Scandinavian countries.

Phoenix Distribution (motorcycle accessories)

In a very difficult year the UK sales were 96% of last year, which is a creditable performance in view of the market conditions. Profitability has decreased by 10% but still made a significant contribution to the Group's result. Tight overhead control was put in place during the financial year, and a cautious stance taken. Stock levels have risen and will take some months to come into line with current sales levels, but, in a Group context, the additional working capital is modest. Structurally, the business remains a simple distribution organisation and the core brands are very well recognised in the trade.

The disposal of the Belstaff brands means that the management of Phoenix will no longer be responsible for design, sourcing and marketing of this range. This will bring savings to the overhead base of this company.

Whilst any backward movement in business is a cause of some concern, Phoenix remains financially sound and will be structured commensurate with market conditions.

Outlook

The sale of Belstaff removes a profit stream of royalties (some £900,000 in the year) but at the same time frees Board time for the consideration of new opportunities. Given the strength of our balance sheet, the network of sales operations and the plans for further investment, including acquisition, I am confident of continued success.

Raststätte Würzburg Germany, Expona Art and Design

Gordon Oliver, Group Finance Director

G R Oliver

Accounting policies

The accounts have been prepared in accordance with generally accepted accounting principles, using accounting policies, which the directors consider are appropriate to give a true and fair view. The directors do not take their responsibility in signing the accounts lightly and the fundamental principles of going concern, matching of costs and revenues, consistency and prudence, established by the first accounting standards of the late 20th century and written into the Companies Act 1985, are the basis for their policies.

Results for the year

Looking at the various ratios for measuring performance and the key statistics, the financial performance has been good.

- Group turnover at £104.7 million (2003: £99.8 million) up 4.9%
- Profit before taxation at £24.1 million (2003: £12.2 million) up 97% (of which £10.4 million is an exceptional gain)
- Taxation at £5.9million (2003: £3.6 million) up 63%
- Basic earnings per share 72.2p (2003: 33.0p) up 119%
- Headline earnings per share at 38.5p (2003: 33.6p) up 14.6%
- Dividends at 17.75p (2003: 15.1p) up 17.5%
- Stock at £21.9 million (2003: £21.4 million) up 2.3%
- Net cash at £37 million (2003: £19 million) up 95.4%

Forest FX

Share buy backs

Over the last year £1.88 million (including costs) was used to buy back shares – at an average price of 294p per share. With regard to the yield on our shares, the Board felt this was a sound use of cash.

FRS 17 – Retirement benefits

I would draw shareholders' attention to the pensions disclosures in note 21 on pages 46 to 48.

The Group operates several pension schemes but these disclosures relate mainly to the defined benefit scheme (more commonly referred to as a final salary scheme) for UK employees. The FRS 17 figures are the current method of disclosing the position on pensions, together with SSAP 24, but are far from complete in presenting all the issues involved and indeed are likely to be augmented and further amended by a new standard.

The management team is focused on the commitment to contain total earnings increases, including merit, across all pension scheme members within RPI growth and to actively continue to promote saving for retirement.

International accounting standards

We question the cost/benefit of these vast standards for a relatively small group such as James Halstead, listed on AIM. In particular IAS 14 conflicts with both SSAP 25 and the Companies Act 1985 which both allow an exemption where segmental disclosure is seriously prejudicial to the entity's interests. Our competitors would be very interested in any additional analysis and the Group has always sought and been given this exemption. In my opinion the standard on share options confuses shareholder dilution with company paid remuneration and pension standards have elements that challenge the going concern concept. In general it would seem the move to IAS will not be smooth.

In the 21st century, Financial Reporting Standard 18 ("Accounting Policies") has dropped prudence as an underlying principle and, in my view, accounting standards have lost some credibility as a result. Furthermore the rush to adopt extensive and detailed International Accounting Standards (reminiscent of the futile attempts to introduce inflation accounting in the early 1980s) is likely to result in confusion rather than greater clarity. Under the weight of all the changes a clear précis of the year's results is in danger in being lost in the detail. In the eyes of the general public, particularly the growing number who are financially aware, the actions of a minority in recent years have somewhat tarnished the reputation of accountants, auditors and other professionals. It is incumbent on responsible boards of directors to combat this by continuing to produce reports based on sound principles and basic common sense.

Employee profit share

Note 2 on page 36 shows the number of shares held, on behalf of employees, by the trustees of the employee profit sharing schemes. This reflects the longer-term objective of rewarding employees for the success of the Company. Rewarding employees by way of shares has extended the shareholder base.

Cash flow

Cash inflow from operating activities remained strong at £17.4 million (2003: £17.3 million). The overall increase in cash, of £18.1 million is after net capital expenditure of £1.35 million, payment of taxation and dividends less interest of £7.66million and purchase of own shares of £1.88 million. The main other source of cash was the £10.8 million raised from disposals (net of deductions for deferred consideration on a previous acquisition). The net funds at £37.05 million (2003: £18.96 million) show a healthy ungeared position.

Net assets

The overall increase in net assets is £12.37 million, with the increase from retained profits of £13.67 million being offset by the effects of net changes in share capital and exchange movements of £1.3 million. Net assets per ordinary share increased to 253.4p (2003: 201.6p).

Financial Review

Continued

Treasury

The Group's UK cash and bank balances are managed centrally at the Group's head office. As a norm, the Group makes use of foreign currency bank balances and fixed forward exchange contracts rather than more exotic financial derivatives in managing its currency exposures. Foreign currency bank accounts are operated in all major currencies in which the Group's UK subsidiaries have transactional exposures. Balances on these accounts are monitored daily.

Where appropriate, overseas subsidiaries have borrowing facilities with their local banks. At 30 June 2004 all overseas subsidiaries had positive bank balances.

The Group has significant transactional exposures relating to both sales and purchases denominated in foreign currencies. In particular it is the Group's stated policy to undertake much of its export trade in local currency. This works to our advantage by ensuring the sales volume does not fluctuate as a result of exchange rate movements and removes risks from our trading partners.

The Group's central treasury function manages foreign currency exposures, which are covered by a combination of foreign currency bank accounts, forward contracts and occasionally currency options. The level of forward cover in place is reported to the Group board on a regular basis.

Overall, our approach to treasury management is to identify appropriate instruments to facilitate the Group's trading activities, and to be risk averse. There is no intention to trade in financial instruments or for the Group treasury department to act as a profit centre in its own right and, consequently, "speculative" instruments and practices are avoided.

Detailed disclosures on financial instruments are contained in note 23 on pages 50 and 51.

Advisers

Secretary
W J Whittaker FCMA

Registered office
Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Company registration No.
140269

Bankers
The Royal Bank of Scotland plc
100 Barbirolli Square
Manchester
M60 2FT

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Nominated adviser
Westhouse Securities
Church House
90 Deansgate
Manchester
M3 2GP

Stockbrokers
Westhouse Securities
Clements House
14-18 Gresham Street
London
EC2V 7NN

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
101 Barbirolli Square
Manchester
M2 3PW

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2004.

The audited financial statements are set out on pages 30 to 51.

Principal activities

The principal activities of the group are described in the chief executive's review.

Results and dividends

Group profit in the year before tax amounted to £24,095,000. The profit for the financial year after taxation was £18,157,000 and the directors propose that this be dealt with as follows:

	£'000
Preference dividend – paid	11
Ordinary dividends – interim paid	1,525
– final proposed	2,951
Retained profit, transferred to reserves	13,670

The directors are recommending a final dividend of 11.75p per share on the ordinary share capital for payment on 6 December 2004 to those shareholders whose names appear on the register at 5 November 2004. This final dividend together with the interim dividend paid on 27 May 2004 makes a total of 17.75p per share (2003: 15.10p).

Directors

Mr Anthony Wild, the director retiring by rotation, offers himself for re-election at the annual general meeting. The interests of the directors and their families in the share capital of the company were as follows:

	30 June 2004		30 June 2003	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	1,018,989	105,650	977,910	105,650
G R Oliver	16,242	–	14,430	–
M Halstead	1,689,685	1,398,240	1,688,863	1,398,240
J A Wild	17,927	1,602,386	17,927	1,602,386
Preference shares				
G Halstead	83,405	–	500	–
J A Wild	–	8,750	–	8,750

Details of the directors' options under the terms of the executive share option scheme are set out in note 20.

There have been no changes in the directors' interests between the year-end and 24 September 2004.

Substantial interests

As at 24 September 2004 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
Forest Nominees Limited	980,000	3.90
J Halstead and Ms G Halstead	4,544,515	18.10
J Halstead and A Halstead	1,369,150	5.45
Vidacos Nominees Limited	1,002,727	3.99

Share capital

On 14 October 2003 239,500 new ordinary shares, on 23 October 2003 40,000 new ordinary shares and on 27 April 2004 40,000 new ordinary shares were issued and allocated as fully paid to enable share options to be exercised.

Share buy back

At the annual general meeting held on 5 December 2003, members renewed the company's authority under section 166 of the Companies Act 1985 to make market purchases on the London Stock Exchange of up to 15% of the ordinary shares of the company at not more than 5% above their average middle market quotation in the London Stock Exchange Daily Official List (AIM) on the five dealing days prior to the date of purchase. Pursuant to this authority the company has, in the financial year ended 30 June 2004, purchased an aggregate of 634,500 ordinary shares of 10p each having a nominal value of £63,450 (representing 2.5% of the company's issued ordinary share capital at 30 June 2003) for an aggregate consideration of £1,862,595 plus costs of £20,288. The company considers that these purchases were beneficial to members given the yield on the shares relative to the share price.

The directors believe that it is in the best interests of the company for the authority to be renewed at a similar level at the forthcoming annual general meeting for a period of twelve months to expire at the next annual general meeting. Accordingly, it is intended to propose as special business, at the forthcoming annual general meeting, a special resolution to renew the directors' existing authority to purchase shares in the company which shall be limited to 15% of the ordinary share capital of the company at 30 June 2004.

Special business at the annual general meeting

Resolution 5 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2005.

Resolution 6 authorises the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 for a further period of twelve months from the date of the annual general meeting in 2004.

Resolution 7 invites shareholders to renew for a further period of five years the board's authority to issue shares for cash to other than existing shareholders.

Resolution 8 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 15% of the issued capital at prices not exceeding 5% of the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Return of capital

The group will be circulating a proposal to return capital of £15 million, equivalent to 60p per ordinary share, subject to shareholder approval.

Employment policies and involvement

The company operates a totally non-discriminatory employment policy, an integral part of which is the proper consideration of all applications for employment from disabled persons who, after appointment, receive training for career development and promotion consistent with both the needs of the company and their own particular abilities. Employee involvement in the overall performance of the group continues to be encouraged through the employee profit sharing scheme and the share option plan. There are in existence various well established committees and discussion groups which range from formal structures to less formal gatherings and which deal with a whole range of issues from the company's financial performance to health and safety issues. Copies of this annual report are made available to all employees.

Environmental policy

A policy has been issued and implemented on safeguarding against air, water, noise and land pollution. The management team constantly reviews and implements at every opportunity the most effective use of materials and energy. A number of control measures have been introduced and these, combined with materials storage and handling methods together with training, form the basis of the environmental programme. The policy is fully endorsed by the directors and is under constant review to ensure full compliance with the UK Environmental Protection Act 1990. All employees, suppliers and contractors are made aware of the environmental policy which is also freely available to the general public and regulatory authorities.

Health and safety

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities continues to be a matter of primary concern. It is therefore the group's policy to manage its activities so far as to avoid causing any unnecessary or unacceptable risk to the health and safety of all those affected by its activities. In order to ensure that the group's high standards in this area are maintained, a substantial programme of training and retraining of employees took place throughout the year.

Research and development

We remain totally committed to the continuing development of our processes and our products to both satisfy the needs of our customers and ensure that we remain at the forefront of our businesses.

Policy and practice on payment of creditors

Operating businesses are responsible for agreeing the terms and conditions under which business transactions are conducted. It is group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. At 30 June 2004 there were 41 (2003: 39) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £4,143 (2003: £1,357) for charitable purposes. There were no political contributions.

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 group and the company as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements the directors have:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- stated whether applicable accounting standards have been followed
- prepared financial statements on the going concern basis.

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. 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.

Going concern

After making enquiries the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Auditors' remuneration – non-audit related fees

Our auditors have undertaken non-audit related work in respect of taxation and actuarial matters. This work is tendered for separately from audit work.

The board has always sought to ensure that the auditors do not automatically receive additional fees. This approach, the board believes, enables the company to ensure value for money on the company's part, and maintains the independence of the auditors. See note 6 on page 37.

Auditors

A resolution to re-appoint the auditors will be proposed at the forthcoming annual general meeting.

W J Whittaker
Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester M26 1JN
28 September 2004

Remuneration committee

The remuneration committee comprises Mr J A Wild, as chairman and Mr G Halstead. The committee meets at least once a year, although usually more frequently, to determine the remuneration packages of the executive directors of the group.

The remuneration policy for the non-executive director is determined by the board as a whole by reference to market rates. He does not participate in the group bonus scheme, pension scheme or share option scheme. No director can vote in regard to his own remuneration.

Mr G Halstead's salary is determined by the full board.

Remuneration policy

The remuneration policy is to provide terms of employment such that the recruitment, motivation and retention of high calibre personnel is achieved and maintained to the mutual benefit of shareholders and employees. The committee is assisted from time to time by data supplied by independent professional remuneration consultants as to comparable companies, although identical circumstances are rarely found. Details of the directors' remuneration and pension entitlements are given in note 7 on page 37 and an analysis of directors' share options is given in note 20 on page 44.

Basic salary and bonus payments

Annual bonus schemes are in place which reward the executive directors on achieving performance objectives. Performance is determined by index-linked profit improvements through a trend of earnings per share growth. Executives are eligible members of the employee share scheme and they are provided with fully expensed cars and medical benefits insurance. Pension entitlements are calculated on basic salary only.

Share option schemes

The remuneration committee believes that share option plans are an important long term incentive to executive directors and other senior employees. They are intended to link the exercise of the option to a sustained and significant improvement in the underlying financial performance of the group. Having considered a number of alternative schemes to replace the previous share option scheme, the validity of which expired in 1996, a new share option plan was proposed to and approved by shareholders at the 1998 annual general meeting.

The share option plan is reviewed by the remuneration committee and is open to executive directors and selected employees of the group. The option price per ordinary share will not be less than the market value on the day of grant. A limit of four times earnings has been placed on the value of the aggregate price payable on the exercise of all options or rights to subscribe for ordinary shares granted to an individual employee under the share option plan and under all other discretionary schemes.

Additional options over 130,000 shares were granted in the financial year ended 30 June 2004, and options over 319,500 shares were exercised during this period.

Pensions

The company operates Inland Revenue Approved defined benefits and defined contributions pension schemes. All the executive directors in the group are members of the defined benefits scheme. The directors are accruing benefits at a rate which will be sufficient to provide a maximum pension of two-thirds of pensionable salary at normal retirement age.

All members of the schemes are required to contribute a percentage of their pensionable earnings.

Other benefits within the schemes are death in service lump sums, spouse's and dependants' pensions following death in service of the member and ill health early retirement where the appropriate circumstances arise.

Service agreements

The chairman and the group chief executive do not have service agreements. The other executive director has a service agreement which terminates within or is terminable by the company and the executive on not more than one year's notice. The remuneration committee has taken the view that notice periods of one year are reasonable and in the interests of both the company and its executive directors having regard to prevailing market conditions and current practice. The non-executive director does not have a service agreement.

J A Wild
Chairman of the Remuneration Committee

The Board

The membership of the board during the year comprised three executive directors and one non-executive director.

The board, which meets regularly (seven times during the last financial year including the annual general meeting) determines the policies and objectives of the group and provides overall strategic direction to ensure that the policies and objectives are carried out. There is a list of matters which are specifically the responsibility of the board to resolve. Monthly management accounts are circulated to the directors. An agenda of matters to be discussed, including latest group management accounts, is circulated to board members in advance of each main board meeting and discussions and decisions taken at those meetings are minuted in full.

The board believes the non-executive director to be independent.

Given the size of the group, the board does not consider it necessary to change the ratio of non-executive to executive directors, or to have formal procedures for the directors, in the furtherance of their duties, to take independent professional advice at the company's expense. All directors have access to company secretarial services and advice.

Board committees

The following board committees have been in operation throughout the year:

The Audit Committee – comprising the non-executive director as chairman and Mr G Halstead meets twice a year. The external auditors are present at the meetings and the executive directors may attend at the request of the committee.

The Remuneration Committee – comprising the non-executive director as chairman and Mr G Halstead decides on the remuneration of the executive directors, excluding the chairman.

The Nomination Committee – comprising the whole board is chaired by Mr G Halstead and considers the appointment of directors. As a result, the committee consists of three executive directors and one non-executive director.

Internal control

The Board has ultimate responsibility for the system of internal control operating throughout the group and for reviewing its effectiveness. Internal control systems in any group are designed to meet the particular needs of that group and the risks to which it is exposed. No system of internal control can provide absolute assurance against material misstatement or loss. The group's system is designed to manage rather than eliminate the risk of failure in order to achieve business objectives and to provide the board with reasonable assurance that potential problems will normally be prevented or will be detected in a manner which will enable appropriate action to be taken.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

- The group directors are responsible for establishing, maintaining and reviewing the group's system of internal control and meet regularly to consider group financial performance, business development and management issues, and to review these against predetermined objectives.
- The group board establishes corporate strategy and business objectives. Management of subsidiary companies integrate these objectives into their business strategies for presentation to the group board with supporting financial objectives.
- Subsidiary company budgets, containing financial and operating targets, capital expenditure proposals and performance/profitability indicators, are presented to and reviewed by the group executive directors. The consolidated group budget is approved by the group board.
- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. These risks are appraised and evaluated by responsible executives and endorsed by subsidiary and group management. This process has been in place throughout the year and up to the date of approval of the annual accounts.

- As part of the regular monitoring and review, the group executive directors hold regular meetings with the management of the subsidiary companies at which reports covering such areas as forecasts, business development, strategic planning, risk exposure and performance against budget, are presented and discussed. These are then reported to the group board, on a quarterly basis.
- The group board reviews and considers any major problem which may have occurred and assesses how the risks have changed in the period under review.
- There is a group-wide policy governing appraisal and approval of capital expenditure and asset disposals.
- To underpin the effectiveness of controls, it is the group's policy to recruit management and staff of high calibre, integrity and appropriate disciplines. High standards of integrity, business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels.
- The Audit Committee keeps under review the effectiveness of the system of internal control and reports its conclusions to the full board.
- The board also conducts an assessment of the effectiveness of the internal control system. This assessment consists of a review of all the significant areas of internal control, including risk assessment, the control environment, control activities, information and communication, and monitoring.

Relations with shareholders

The executive directors are available to meet institutional shareholders and fund managers, given reasonable notice. The entire board is available to answer shareholders' questions at the annual general meeting.

Independent Auditors' Report to the Members

Independent auditors' report to the members of James Halstead plc

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses, the reconciliation of movements in group shareholders' funds, the statement of accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the board report on remuneration, the chief executive's and financial reviews and the statement of corporate governance.

Basis of audit 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 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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors	101, Barbirolli Square, Lower Mosley Street, Manchester M2 3PW 28 September 2004

Consolidated Profit and Loss Account

for the year ended 30 June 2004

	Note	2004 £'000	2003 £'000
Turnover	1	104,703	99,775
Operating profit	3	13,150	11,792
Exceptional item	4	10,396	–
Net interest receivable	5	549	419
Profit on ordinary activities before taxation	6	24,095	12,211
Taxation on ordinary activities	9	(5,938)	(3,646)
Profit on ordinary activities after taxation		18,157	8,565
Dividends (including non-equity)	10	(4,487)	(3,797)
Retained profit for the year	20	13,670	4,768
Earnings per ordinary share	11		
– basic		72.2p	33.0p
– headline		38.5p	33.6p
– diluted		71.7p	32.8p

All the above results derive from continuing operations, apart from the exceptional item.

The notes on pages 36 to 51 form part of these accounts.

Balance Sheets

as at 30 June 2004

	Note	Group 2004 £'000	Group 2003 £'000	Parent company 2004 £'000	Parent company 2003 £'000
Fixed assets					
Intangible assets	12	2,564	2,737	–	–
Tangible assets	13	18,308	20,331	436	444
Investments	14	–	–	30,466	30,466
		20,872	23,068	30,902	30,910
Current assets					
Stocks	15	21,930	21,436	–	–
Debtors	16	18,533	17,639	9,892	9,493
Cash at bank, in hand and on short-term deposit		37,045	18,956	30,330	13,263
		77,508	58,031	40,222	22,756
Creditors - amounts falling due within one year	17	(33,302)	(27,484)	(15,348)	(19,205)
Net current assets		44,206	30,547	24,874	3,551
Total assets less current liabilities		65,078	53,615	55,776	34,461
Creditors - amounts falling due after more than one year	18	(213)	(204)	–	–
Provisions for liabilities and charges	19	(1,040)	(1,960)	–	–
		63,825	51,451	55,776	34,461
Capital and reserves	20				
Equity share capital		2,511	2,543	2,511	2,543
Non-equity share capital		200	200	200	200
Called up share capital		2,711	2,743	2,711	2,743
Share premium account		5,221	4,442	5,221	4,442
Revaluation reserve		3,544	3,544	–	–
Capital reserve		720	656	720	656
Profit and loss account		51,629	40,066	47,124	26,620
Total shareholders' funds		63,825	51,451	55,776	34,461

These financial statements were approved by the board on 28 September 2004 and are signed on behalf of the board of directors.

M Halstead
Director

G R Oliver
Director

The notes on pages 36 to 51 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 30 June 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	22(i)	17,383	17,261
Returns on investments and servicing of finance	22(ii)	616	397
Taxation paid		(4,262)	(3,838)
Capital expenditure	22(ii)	(1,346)	(1,626)
Acquisitions and disposals	22(ii)	10,828	–
Equity dividends paid		(4,014)	(3,645)
Cash inflow before financing		19,205	8,549
Financing:			
Purchase of own shares		(1,883)	(3,505)
Shares issued		811	76
Increase in cash		18,133	5,120
Reconciliation of net cash flow to movement in net funds	22(iii)		
Increase in cash		18,133	5,120
Change in net funds resulting from cash flows		18,133	5,120
Effect of exchange differences		(44)	81
Movement in net funds for the period		18,089	5,201
Net funds as at 1 July		18,956	13,755
Net funds as at 30 June		37,045	18,956

Statement of Group Total Recognised Gains and Losses

for the year ended 30 June 2004

	2004 £'000	2003 £'000
Profit for the financial year	18,157	8,565
Currency translation differences on foreign currency net investments	(224)	513
Total recognised gains relating to the year	17,933	9,078

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 30 June 2004

	Note	2004 £'000	2003 £'000
Profit for the financial year		18,157	8,565
Dividends (including non-equity)	10	(4,487)	(3,797)
		13,670	4,768
Other recognised gains and losses relating to the year		(224)	513
Purchase of own shares		(1,883)	(3,505)
New share capital subscribed		811	76
Net increase in shareholders' funds for the year		12,374	1,852
Opening shareholders' funds		51,451	49,599
Closing shareholders' funds		63,825	51,451
Equity shareholders' funds		63,625	51,251
Non-equity shareholders' funds		200	200
		63,825	51,451

The group accounts consolidate the accounts of the holding company and its subsidiaries made up to 30 June 2004 and have been prepared in accordance with applicable Accounting Standards. The accounting policies adopted are those that are judged to be the most applicable for giving a true and fair view, and which are consistent with the requirements of accounting standards, UITF abstracts and company legislation.

A summary of the principal accounting policies adopted by the directors is set out below. These are consistent with the previous year, having been reviewed in accordance with FRS 18 "Accounting Policies" issued in December 2000.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain freehold land and buildings.

Turnover

Turnover comprises the invoiced value of goods and services recognised on despatch, after deducting value added tax or other sales related taxes, trade discounts and transactions between group companies.

Trading results

The disclosure of turnover, profit and net assets by segment as laid down by Statement of Standard Accounting Practice No. 25 and the disclosure of turnover by business class as laid down by the Companies Act 1985 paragraph 55 of schedule 4, would, in the opinion of the directors, be seriously prejudicial to the interests of the group. Consequently these disclosures have not been made.

Research and development

Research and development expenditure is written-off in the year in which it is incurred.

Tangible fixed assets

FRS 15 'Tangible Fixed Assets' was adopted with effect from 1 July 1999. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements. Otherwise fixed assets are stated at cost, which includes the costs of transport, installation and commissioning. Interest is not capitalised. Depreciation of freehold buildings has been calculated at a rate of 2% of cost or valuation. No depreciation has been provided in respect of the group's interests in land or for assets in the course of construction. Depreciation of plant, machinery and equipment is provided mainly on the straight line method and has been calculated at appropriate rates varying between 5% and 40% as determined by reference to the anticipated life of each asset.

Leased assets

Expenditure on operating leases is charged to the profit and loss account as incurred.

Stock

Stock is valued at the lower of cost and net realisable value. In the case of finished and partly finished goods, cost represents the cost of materials, labour and related production overheads on bases consistently applied from year to year.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the purchase consideration over the fair value of the assets acquired. Goodwill arising on the acquisition of subsidiaries and businesses prior to 1 July 1998 was written off immediately against reserves. From that date goodwill has been capitalised and amortised on a straight line basis over its useful economic life, a maximum of 20 years subject to impairment review.

Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

Foreign currencies

Assets, liabilities and trading results in foreign currencies are converted into sterling at the rates ruling at the balance sheet date except where forward contracts exist. Gains or losses on exchange arising from trading operations are taken into account in arriving at the trading profit and differences arising from retranslating net assets at the beginning of the year are dealt with through reserves.

Pensions

The company and its UK subsidiaries operate a defined benefits pension scheme whose assets are independent of the group's finances. The expected cost of pensions in respect of the group's defined benefit scheme are charged to the profit and loss account so as to spread the cost of the pensions over the service lives of the employees within the scheme. Pension costs for a number of employees both inside and outside the UK are also incurred under money purchase schemes accounted for on a payments basis. This policy, which is in accordance with SSAP 24, will, under the transitional arrangements of the new accounting standard FRS 17 "Retirement Benefits", continue to be applied until FRS 17 becomes mandatory. In the meantime the group will make additional disclosures regarding pensions as required by FRS 17.

Derivative financial instruments

The group uses forward currency contracts, for risk management purposes only, to reduce its exposure to exchange rate fluctuations. These contracts are accounted for as hedges, with their impact on profit being deferred until the underlying hedged transaction is recognised in the profit and loss account.

1. Turnover

	2004 £'000	2003 £'000
Geographical markets supplied		
United Kingdom	49,280	48,256
Europe	30,882	28,273
Australasia	19,797	18,897
Others	4,744	4,349
	104,703	99,775

The origination of the above turnover is not materially different from the geographical markets supplied save that supplies mainly originate in the UK.

2. Employee profit sharing

Profit for the year is after charging the cost of the James Halstead plc share ownership plan.

Since 1980 the group has operated an employee share scheme, approved under the Finance Act 1978. In December 2001 the shareholders approved a new share ownership plan in line with the requirements of legislative changes. The aim of this scheme is to enable employees to build up a personal shareholding in James Halstead plc and to participate in its continued expansion and success as shareholders as well as employees.

Under the rules of the scheme up to 5% of profit before taxation of the subsidiaries is paid out in profit share. In the case of UK employees this is paid to the trustees of the scheme who then acquire shares in the group. These shares are appropriated unconditionally to eligible employees by reference to their earnings and length of service.

	2004	2003
Shares held by the trustees as at 30 June on behalf of the employees	470,174	471,926
As a percentage of shares in issue	1.87%	1.85%

3. Operating profit

	2004 £'000	2003 £'000
Turnover	104,703	99,775
Cost of sales	(57,744)	(56,644)
Gross profit	46,959	43,131
Selling and distribution costs	(24,174)	(22,682)
Administrative expenses	(9,635)	(8,657)
Operating profit	13,150	11,792

The company has taken advantage of the exemption conferred by section 230 (1) of the Companies Act 1985 and has not presented its own profit and loss account.

4. Exceptional item

The exceptional gain of £10,396,000 relates to the sale of Belstaff International Limited together with several brands and trademarks, all related to clothing. Until 1990, this subsidiary manufactured outerwear and jackets. In 1990 the manufacturing operation was closed and licensing arrangements were put in place for various brands within various markets, notably wax cotton, golf wear and leisurewear.

The royalty received in the year to 30 June 2004 amounted to £900,279, (2003: £852,115). This royalty ceases on the disposal.

4. Exceptional item (continued)

Phoenix Distribution (N.W.) Limited (Phoenix), our motorcycle accessories division, has designed, sourced and distributed motorcycle clothing under one of the brands, and the sale agreement allows Phoenix to continue to sell the branded products for a period. Phoenix and the new owner of the brands have commenced discussions regarding Phoenix distributing a new range of motorcycle clothing.

The gain represents cash proceeds received of £11.2 million, less costs directly related to this disposal.

5. Interest

	2004 £'000	2003 £'000
Interest receivable		
On bank deposits	807	631
Other	1	–
	808	631
Interest payable		
On bank loans and overdrafts repayable within 5 years	(151)	(200)
Other	(108)	(12)
	(259)	(212)
Net interest receivable	549	419

6. Charges before arriving at profit on ordinary activities before taxation

	2004 £'000	2003 £'000
Depreciation of tangible fixed assets	3,324	3,397
Amortisation of goodwill	173	172
Hire of plant and machinery	41	53
Leasing charges – land and buildings	823	771
– other	739	624
Auditors' remuneration – audit fees	88	81
Auditors' remuneration – non-audit related fees	53	64
Research and development	1,571	1,738
(Profit)/loss on sale of fixed assets	(10)	9

Audit fees for the parent company were £25,000 (2003: £24,000).

7. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £935,490 (2003: £578,749) of which £494,772 (2003: £186,067) relates to performance. Pension contributions amounted to £36,265 (2003: £34,652). The emoluments of the highest paid director, excluding pension contributions were £316,687 (2003: £200,880). The performance related element of directors' remuneration has been an increasing proportion of total remuneration in accordance with corporate governance best practice. Given the current issues surrounding final salary related schemes, the Remuneration Committee concurs with the executive directors' decision to specifically exclude performance related pay from pensionable earnings.

Benefits are accruing to two directors (2003: 2) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £61,650 (2003: £Nil); of these Nil (2003: £Nil) related to the highest paid director.

8. Staff numbers and costs, excluding group directors

Employee costs	2004 £'000	2003 £'000
Wages and salaries	17,287	16,876
Social security costs	1,739	1,622
Other pension costs	1,076	1,109
	20,102	19,607

Employee numbers	2004 Number	2003 Number
The average monthly number of persons employed by the group during the year by activity was:		
Manufacturing, selling and distribution	580	568
Administration	102	105
	682	673

9. Taxation

	Non-exceptional £'000	Exceptional £'000	2004 £'000	2003 £'000
a) Current taxation				
UK Corporation tax at standard rate 30% (2003: 30%)	4,723	1,759	6,482	4,005
Double taxation relief	(4)	–	(4)	(46)
Overseas tax	672	–	672	196
Adjustment in respect of prior years	107	–	107	(493)
	5,498	1,759	7,257	3,662
Deferred taxation (Note 19)	(1,319)	–	(1,319)	(16)
	4,179	1,759	5,938	3,646
b) Factors affecting the tax charge for the period				
Profit on ordinary activities before taxation	13,699	10,396	24,095	12,211
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	4,110	3,119	7,229	3,663
Effects of:				
Expenses not deductible for tax purposes	278	–	278	106
Accelerated capital allowances and other timing differences	1,006	–	1,006	408
Differences in overseas tax rates	(3)	–	(3)	1
Adjustments to tax in respect of prior periods	107	–	107	(493)
Income not chargeable to corporation tax	–	(3,329)	(3,329)	(23)
Adjustments in respect of capital items	–	1,969	1,969	–
Current tax charge for the period	5,498	1,759	7,257	3,662

c) Factors that may affect future tax charges

The group's overseas tax rates are higher than those in the United Kingdom, primarily because profits in Germany and New Zealand are taxed at rates between 33% and 40%.

10. Dividends

	2004 £'000	2003 £'000
Non-equity dividends		
On 200,000 preference shares - at 5.5p per annum	11	11
This equates to a weighted average interest rate of 5.5% (2003: 5.5%).		
Equity dividends		
Interim dividend of 6.0p (2003: 5.1p)	1,525	1,297
Final proposed dividend of 11.75p (2003: 10.0p)	2,951	2,489
	4,487	3,797

11. Calculation of earnings per ordinary share

	2004 £'000	2003 £'000
Profit on ordinary activities after taxation	18,157	8,565
Preference dividend	(11)	(11)
Basic earnings	18,146	8,554
Goodwill amortisation charge	173	172
Exceptional item	(8,637)	–
Headline earnings	9,682	8,726
Weighted average number of ordinary shares in issue	25,137,174	25,960,207
Weighted average number of ordinary shares in issue (diluted for the effect of outstanding share options)	25,293,497	26,083,850
Basic earnings per ordinary share	72.2p	33.0p
Headline earnings per ordinary share	38.5p	33.6p
Diluted earnings per ordinary share	71.7p	32.8p

12. Intangible fixed assets – goodwill

	£'000
Cost	
At 30 June 2003 and 30 June 2004	3,442
Amortisation	
At 30 June 2003	705
Charge for the year	173
At 30 June 2004	878
Net book value at 30 June 2004	2,564
Net book value at 30 June 2003	2,737

13. Tangible fixed assets

	Group			Parent company		
	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000	Freehold land and buildings £'000	Fixtures, fittings and vehicles £'000	Total £'000
Cost						
At 30 June 2003	7,019	41,127	48,146	367	271	638
Additions	255	1,169	1,424	–	63	63
Disposals	–	(208)	(208)	–	(19)	(19)
Exchange rate adjustments	(33)	(56)	(89)	–	–	–
	7,241	42,032	49,273	367	315	682
Accumulated depreciation						
At 30 June 2003	1,863	25,952	27,815	34	160	194
Charge to profit and loss account	250	3,074	3,324	5	61	66
Disposals	–	(140)	(140)	–	(14)	(14)
Exchange rate adjustments	(6)	(28)	(34)	–	–	–
	2,107	28,858	30,965	39	207	246
Net book values at 30 June 2004	5,134	13,174	18,308	328	108	436
Net book values at 30 June 2003	5,156	15,175	20,331	333	111	444

The amounts at 30 June 2004 for freehold land and buildings include valuations as of the dates noted (of which £676,509 relates to land which is not depreciated)

	£
30 June 1993	4,350,000
30 June 1999	576,192

Freehold land and buildings shown at valuation have been revalued regularly throughout the group's history. Consequently, historical cost information is no longer retained by the group and the earliest valuation which can be obtained without unreasonable expense and delay is shown above. These revalued assets are included in cost as permitted by FRS 15.

The group's interests in land and buildings, within the United Kingdom, were independently revalued at open market value for existing use as at 30 June 1993 by Edward Rushton Son & Kenyon. The group's interests in land and buildings, within Australia, were independently revalued at open market value as at 30 June 1999 by Herron Todd White, Registered Valuers.

Capital commitments	2004 £'000	2003 £'000
Contracted but not provided for	345	238

Commitments under operating leases for the year to 30 June 2005	Land and buildings 2004 £'000	Land and buildings 2003 £'000	Other 2004 £'000	Other 2003 £'000
analysed as to leases which expire:				
within the next 12 months	128	175	168	204
between 2 and 5 years	493	367	243	252
after 5 years	117	230	–	5

14. Investments – interests in subsidiary undertakings

	Country of incorporation and operation	Proportion held (group) %	Proportion held (parent company) %	Shares at cost (parent company) £'000
Particulars of subsidiary undertakings				
*Polyflor Limited	England	100	100	3,000
JHT Limited	England	100	100	–
JHL Limited	England	100	100	–
Titan Leisure Group Limited	England	100	100	15,200
Titan CPL Limited	England	100	–	–
*Phoenix Distribution (N.W.) Limited	England	100	–	–
Halstead Flooring Concepts Pty Limited	Australia	100	100	6,176
*Polyflor Australia Pty Limited	Australia	100	–	–
*Halstead Flooring Concepts Limited	New Zealand	100	–	–
*Objectflor Art und Design Belags GmbH	Germany	100	100	4,776
*Karndean International GmbH	Germany	100	–	–
				29,152

* The activities of these trading subsidiaries, which are those which, in the directors' opinion, principally affect the results shown in the financial statements, are described in the chief executive's review.

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
At 30 June 2004 and 30 June 2003	29,152	1,314	30,466

15. Stocks

	Group 2004 £'000	Group 2003 £'000
Raw materials	901	856
Consumable stores	400	439
Work in progress	592	601
Finished goods	20,037	19,540
	21,930	21,436

16. Debtors

	Group 2004 £'000	Group 2003 £'000	Parent company 2004 £'000	Parent company 2003 £'000
Amounts falling due within one year				
Trade debtors	16,720	16,236	–	–
Current accounts with subsidiary undertakings	–	–	9,456	9,156
Other debtors	1,093	620	353	274
Prepayments and accrued income	720	783	83	63
	18,533	17,639	9,892	9,493

17. Creditors – amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Parent company 2004 £'000	Parent company 2003 £'000
Trade creditors	15,099	13,417	167	116
Current accounts with subsidiary undertakings	–	–	7,594	14,576
Corporation tax payable	6,240	3,445	1,922	346
Other taxation and social security	822	891	48	35
Other creditors	1,470	1,760	496	460
Deferred consideration	–	267	–	–
Accruals and deferred income	6,720	5,215	2,170	1,183
Proposed final dividend	2,951	2,489	2,951	2,489
	33,302	27,484	15,348	19,205

Certain United Kingdom group companies have given unlimited cross guarantees to support overdraft facilities with The Royal Bank of Scotland plc and National Westminster Bank Plc.

18. Creditors – amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000
Overseas pension liability and other creditors	213	204
	213	204

19. Provisions for liabilities and charges

Deferred tax	Group 2004 £'000	Group 2003 £'000
Accelerated capital allowances	2,195	2,616
Short-term timing differences	(1,155)	(656)
	1,040	1,960
Opening balance	1,960	1,976
Credit to profit and loss account	(1,319)	(16)
Transfer to debtors	399	–
Balance at 30 June	1,040	1,960

20. Capital and reserves

	Authorised 2004	Authorised 2003	Allotted, issued and fully paid 2004	Allotted, issued and fully paid 2003
(a) Called up share capital				
Authorised and issued share capital				
Number of shares (000's)				
Ordinary shares at 10p each	50,000	50,000	25,112	25,427
5.5% (2003: 5.5%) preference shares of £1 each	200	200	200	200
Nominal value of shares	£'000	£'000	£'000	£'000
Ordinary shares of 10p each	5,000	5,000	2,511	2,543
5.5% (2003: 5.5%) preference shares of £1 each	200	200	200	200
	5,200	5,200	2,711	2,743

The 5.5% (2003: 5.5%) cumulative preference shares of £1 shall confer on the holders thereof the right to receive in priority to all other shares in the capital of the company out of the profits of the company which it shall be determined to distribute, a fixed cumulative preferential dividend at the rate of 5.5% (2003: 5.5%) per annum on the capital for the time being paid up thereon and the right in the event of a winding up, in priority to all other shares in the capital of the company, to repayment of the capital paid up thereon together with a premium of 5p per share and a sum equivalent to any arrears and accruals of the said fixed cumulative preferential dividend thereon (whether earned or declared or not) calculated up to the date of such repayment of capital but shall not confer any further right to participate in profits or assets of James Halstead plc.

The company shall not be at liberty to create or issue any further share ranking in priority to or pari passu with the preference shares without the consent in writing of the holders of three-fourths of the issued preference shares or the sanction of an extraordinary resolution of the holders of such preference shares passed at a separate general meeting of such holders.

The preference shares shall not confer upon the holders thereof the right to attend or vote at any general meeting of the company or to receive notice thereof, unless either:

(i) At the date of the notice convening the meeting the fixed cumulative preferential dividend on the preference shares is six months in arrears and then so long only as such dividend shall remain unpaid, and so that for this purpose the dividend on the preference shares shall be deemed to accrue due and be payable by equal half-yearly instalments on 30 June and 31 December in every year, or

20. Capital and reserves (continued)

(ii) The business of the meeting includes the consideration of a resolution for reducing the capital or winding up the company or for the sale of its undertaking or of any resolution directly abrogating or varying any of the special rights or privileges attached to the preference shares.

The preference shares shall nevertheless entitle the holders thereof to receive notice of every general meeting.

At a general meeting at which the holders of preference shares are entitled to attend and vote, the preference shares shall entitle a holder thereof, or his proxy, to vote only for every preference share held by him.

Purchase of own shares

Under the authority given to the directors at the previous annual general meeting, the company purchased 2.5% of its own ordinary shares during the year, as follows:

29 July 2003 540,000 shares @ 283.5p each

14 October 2003 94,500 shares @ 351.0p each

being not more than 105% of the average middle market quotations for five business days preceding the purchase.

Issue of shares

To enable share options to be exercised, the company issued 239,500 new ordinary shares on 14 October 2003, 40,000 new ordinary shares on 23 October 2003 and 40,000 new ordinary shares on 27 April 2004.

Under the terms of the executive share option schemes approved on 5 December 1986 and 3 December 1998 options were exercised on 319,500 shares during the year. Further options were granted during the year and details of these, together with those options remaining outstanding, are as follows:

Director's name	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.03	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.04
G Halstead	8 Nov 93	7 Nov 96	7 Nov 03	341.00	40,000	(40,000)	–	–
	7 May 99	6 May 02	6 May 09	202.50	35,000	–	–	35,000
	6 Oct 00	5 Oct 03	5 Oct 10	200.00	20,000	–	–	20,000
	8 Oct 01	7 Oct 04	7 Oct 11	203.66	20,000	–	–	20,000
	25 Oct 02	24 Oct 05	24 Oct 12	259.33	9,000	–	–	9,000
	24 May 04	23 May 07	23 May 14	442.00	–	–	9,000	9,000
G R Oliver	8 Nov 93	7 Nov 96	7 Nov 03	341.00	12,500	(12,500)	–	–
	6 Oct 00	5 Oct 03	5 Oct 10	200.00	20,000	(20,000)	–	–
	8 Oct 01	7 Oct 04	7 Oct 11	203.66	20,000	–	–	20,000
	25 Oct 02	24 Oct 05	24 Oct 12	259.33	9,000	–	–	9,000
	24 May 04	23 May 07	23 May 14	442.00	–	–	9,000	9,000
M Halstead	6 Oct 00	5 Oct 03	5 Oct 10	200.00	20,000	(20,000)	–	–
	8 Oct 01	7 Oct 04	7 Oct 11	203.66	20,000	–	–	20,000
	25 Oct 02	24 Oct 05	24 Oct 12	259.33	9,000	–	–	9,000
	24 May 04	23 May 07	23 May 14	442.00	–	–	9,000	9,000
Total - Directors					234,500	(92,500)	27,000	169,000

20. Capital and reserves (continued)

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.03	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.04
0 (2003: 4)	8 Nov 93	7 Nov 96	7 Nov 03	341.00	95,000	(75,000)	(20,000)	–
0 (2003: 3)	6 Oct 00	5 Oct 03	5 Oct 10	200.00	122,000	(112,000)	(10,000)	–
1 (2003: 5)	23 Apr 01	22 Apr 04	22 Apr 11	180.30	50,000	(40,000)	–	10,000
13 (2003:15)	8 Oct 01	7 Oct 04	7 Oct 11	203.66	142,000	–	(16,000)	126,000
18 (2003: 18)	25 Oct 02	24 Oct 05	24 Oct 12	259.33	106,000	–	(8,767)	97,233
18 (2003: Nil)	24 May 04	23 May 07	23 May 14	442.00	–	–	103,000	103,000
Total - Others					515,000	(227,000)	48,233	336,233
Grand Total					749,500	(319,500)	75,233	505,233

The market price of the shares at 30 June 2004 was 483.5p (2003: 288p)

The share price during the year ranged from 286p to 483.5p

(b) Reserves	Share premium account £'000	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
Movements on reserves during the year were as follows:				
Group				
Balance at 30 June 2003	4,442	3,544	656	40,066
Currency translation differences on foreign currency net investments	–	–	–	(224)
Premium on share issues	779	–	–	–
Purchase of own shares	–	–	64	(1,883)
Retained profit for the year	–	–	–	13,670
Balance at 30 June 2004	5,221	3,544	720	51,629
Parent company				
Balance at 30 June 2003	4,442	–	656	26,620
Premium on share issues	779	–	–	–
Purchase of own shares	–	–	64	(1,883)
Retained profit for the year	–	–	–	22,387
Balance at 30 June 2004	5,221	–	720	47,124

(c) Goodwill

The cumulative goodwill, resulting from acquisitions, written off on consolidation against reserves amounts to £2,963,091 (2003: £2,963,091).

(d) The consolidated profit for the financial year includes a profit before dividends of £26,874,116 (2003: £4,712,017) which is dealt with in the accounts of the parent company.

21. Pension arrangements

Within the UK, the Group operates a pension scheme of the defined benefit type, which provides benefits based on final pensionable remuneration. The assets of the scheme are held in separate trustee administered funds. In addition some employees are provided with benefits through defined contribution arrangements.

The pension cost for the defined benefit scheme has been assessed in accordance with the advice of qualified actuaries and an actuarial valuation of the scheme was carried out by PricewaterhouseCoopers as at 5 April 2002 using the projected unit method.

In the valuation of the scheme, and for the purpose of assessing future pension costs for compliance with Statement of Standard Accounting Practice No. 24 (SSAP 24), the principal actuarial assumptions adopted were as follows: an investment return of 6.8% per annum, future increases in pensionable earnings of 3.9% per annum, price inflation of 2.9% per annum and future increases to (non-GMP) pensions in payment of 2.7% per annum. Assets were assessed at their market value.

At 5 April 2002, the assets were sufficient to cover 92.8% of the benefits that had accrued to members after allowing for expected future increases in pensionable earnings. Company contribution rates were adjusted to account for the removal of the past service deficit over the expected remaining service lives of the employees in the scheme. The market valuation of the assets at 5 April 2002 was £31,392,000.

The pension cost of the defined benefit scheme for the year was £930,000 (2003: £966,000).

FRS 17, "Retirement benefits" was issued in November 2000 to replace SSAP 24. Under the extended transitional arrangements for FRS 17, full adoption of the new accounting standard is not mandatory and the group will continue to account for pension costs under SSAP 24.

The transitional arrangements require disclosure of the following amounts relating to the UK's defined benefit pension scheme measured in accordance with FRS 17 at 30 June 2004:

	2004 £'000	2003 £'000	2002 £'000
Total market value of assets	31,785	27,708	28,922
Present value of liabilities	(43,980)	(41,792)	(39,870)
Deficit in the scheme	(12,195)	(14,084)	(10,948)
Related deferred tax asset	3,659	4,225	3,284
Net pension liability	(8,536)	(9,859)	(7,664)

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	2004 £'000	2003 £'000
Net assets excluding pension provision	63,825	51,451
Pension provision	(8,536)	(9,859)
Net assets including pension provision	55,289	41,592
Profit and loss reserve excluding pension provision	51,629	40,066
Pension provision	(8,536)	(9,859)
Profit and loss reserve including pension provision	43,093	30,207

21. Pension arrangements (continued)

The assets of the scheme, measured at fair value and the expected rates of return thereon were:

	Long-term rate of return expected At 30 June 2004	At 30 June 2003	At 30 June 2002	Value at 30 June 2004 £'000	Value at 30 June 2003 £'000	Value at 30 June 2002 £'000
Equities	8.0%	8.0%	8.0%	25,625	21,422	21,580
Property	8.0%	8.0%	8.0%	1,267	1,193	1,166
Fixed interest	5.0%	4.5%	5.0%	2,442	3,905	4,180
Cash	3.0%	2.5%	2.6%	2,451	1,188	1,996
				31,785	27,708	28,922

The valuation of the scheme's liabilities for the purpose of these disclosures has been based on the most recent actuarial valuation at 5 April 2002, updated to take account of the requirements of FRS 17.

The major assumptions used were:

	30 June 2004	30 June 2003	30 June 2002
Rate of increase in salaries	3.0%	2.5%	3.1%
Rate of increase in pensions in payment	3.0%	2.5%	2.6%
Discount rate	5.8%	5.3%	5.8%
Inflation assumption	3.0%	2.5%	2.6%

The following amounts would have been recognised in the performance statements in the year under the requirements of FRS 17:

	2004 £'000	2003 £'000
(i) Operating profit:		
Current service cost	(751)	(920)
Past service cost	–	–
Total operating charge	(751)	(920)
(ii) Other finance income		
Expected return on pension scheme assets	2,021	2,105
Interest on pension scheme liabilities	(2,215)	(2,328)
Net return	(194)	(223)
(iii) Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	1,888	(3,496)
Experience gains and losses arising on the scheme liabilities	–	2,557
Changes in assumptions underlying the present value of the scheme liabilities	16	(2,020)
Actuarial gain/(loss) recognised in STRGL	1,904	(2,959)

21. Pension arrangements (continued)

(iv) Movement in deficit during the year

	2004 £'000	2003 £'000
Deficit in scheme at beginning of the year	(14,084)	(10,948)
Movement in year:		
Current service cost	(751)	(920)
Contributions	930	966
Past service costs	–	–
Other finance income	(194)	(223)
Actuarial gain/(loss)	1,904	(2,959)
Deficit in scheme at end of the year	(12,195)	(14,084)

Details of experience gains and losses for the year

	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£'000)	1,888	(3,496)	(5,463)
Percentage of scheme assets	5.9%	12.6%	18.9%
Experience gains and losses on scheme liabilities:			
Amount (£'000)	–	2,557	738
Percentage of the present value of the scheme liabilities	–	6.1%	1.9%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£'000)	1,904	(2,959)	(6,380)
Percentage of the present value of the scheme liabilities	4.3%	7.1%	16.0%

The defined benefit scheme is now closed to new joiners. As such, the current service cost under the projected unit method, as a percentage of pensionable salaries, can be expected to rise in future as the average age of the scheme membership increases.

Following the last full actuarial valuation, employer contributions have been agreed at an average rate of 11.6% of pensionable pay. Active members pay employee contributions at an average rate of 6.7% of pensionable pay.

There is an unfunded pension arrangement in Germany. The present value of the liability of £193,000 (2003: £183,000) is included in the balance sheet at 30 June 2004. The major assumptions used are as above. Otherwise the pension scheme arrangements of the overseas subsidiaries are not of the defined benefit type and do not require disclosure under FRS 17.

22. Notes to the cash flow statement

(i) Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	13,150	11,792
Depreciation and amortisation charges	3,497	3,569
(Profit)/loss on sale of tangible fixed assets	(10)	9
Increase in stocks	(1,101)	(266)
(Increase)/decrease in debtors	(858)	699
Increase in creditors	2,705	1,458
Net cash inflow from operating activities	17,383	17,261

(ii) Analysis of cash flows for headings netted in the cash flow statement

	2004 £'000	2003 £'000
Returns on investments and servicing of finance		
Interest received	789	624
Interest paid	(162)	(216)
Preference dividend paid	(11)	(11)
	616	397
Capital expenditure		
Purchase of tangible fixed assets	(1,424)	(1,778)
Sale of tangible fixed assets	78	152
	(1,346)	(1,626)
Acquisitions and disposals		
Sale of subsidiary, trademarks and brands	11,096	–
Deferred consideration on previous acquisition of business	(268)	–
	10,828	–

(iii) Analysis of net funds

	At 30 June 2003 £'000	Net funds movement £'000	Exchange movement £'000	At 30 June 2004 £'000
Cash in hand and at bank (includes overnight deposits).	18,956	18,133	(44)	37,045

23. Financial instruments

A full description of the group's treasury policy is contained in the financial review. FRS 13 "Derivatives and Other Financial Instruments: disclosures" also requires further disclosures in respect of financial assets and liabilities and these are set out below. The group has taken advantage of the exemption available under FRS 13 and accordingly details in respect of short-term debtors and creditors are excluded from all the following disclosures, other than the currency risk disclosures.

(i) Preference shares

The preference shares in issue are fully described in note 20 on page 43. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2004 was £200,000 (2003: £200,000). Based on the most recent mid-market price, the fair value of the preference shares at 30 June 2004 was £156,000 (2003: £136,000).

(ii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits balances and cash in hand	
	2004 £'000	2003 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	35,554	17,890
Australian Dollars	277	396
New Zealand Dollars	305	257
Euro	909	413
	37,045	18,956

All balances are current accounts or overnight deposits and in all cases interest rates are floating and are based on relevant national bank base and deposit rates.

For the purposes of managing its currency exposures, the group operates bank accounts in certain foreign currencies with its UK clearing banks. These are included in the currency risk disclosures below.

In the group balance sheet, cash at bank and in hand is shown net of UK overdrafts in line with the group's arrangements with its bankers. Foreign currency denominated balances at 30 June 2004 with UK banks were, in US Dollars £895,000 overdrawn (2003: £233,000 in hand), in Euro £1,502,000 overdrawn (2003: £1,076,000 overdrawn) and in other currencies £1,799,000 overdrawn and £147,000 in hand (2003: £1,500,000 overdrawn).

(iii) The group's objective in managing currency exposures which may give rise to a profit or loss which would be recorded in the profit and loss account is to hedge relevant transactions by using a combination of foreign currency overdrafts, forward contracts and other instruments.

23. Financial instruments (continued)

The following table shows the group's currency exposures at the end of the year:

Net foreign currency monetary assets/(liabilities)

	Euro 2004 £'000	US Dollars 2004 £'000	Australian Dollars 2004 £'000	Japanese Yen 2004 £'000	New Zealand Dollars 2004 £'000	Hong Kong Dollars 2004 £'000	Other 2004 £'000
Functional currency of group operation							
Sterling	(4,062)	1,810	(1,165)	387	(622)	(484)	(1,136)
New Zealand Dollars	–	4	5	–	–	–	–
Total	(4,062)	1,814	(1,160)	387	(622)	(484)	(1,136)
	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000
Functional currency of group operation							
Sterling	(6,620)	2,671	(1,082)	878	(420)	(277)	(598)
New Zealand Dollars	–	(52)	123	–	–	–	–
Total	(6,620)	2,619	(959)	878	(420)	(277)	(598)

There are no material amounts requiring disclosure in respect of group operations whose functional currency is other than Sterling or New Zealand Dollars.

The above table does not include future transactions which have been hedged by forward contracts and foreign currency borrowings, but does take into account those borrowings and commitments.

(iv) Forward foreign exchange contracts

The gross value of contracts outstanding at 30 June 2004, based on the contracted forward rate was £14,868,041 (2003: £17,528,890). The fair value of these contracts, based on the estimated close out rate at 30 June 2004 is not materially different.

24 Return of capital

The group will be circulating a proposal to return capital of around £15 million, equivalent to 60p per ordinary share, which will be subject to EGM approval. As a result no liability has been recognised in the current year accounts.

Ten Year Summary

	1995	1996	1997	1998	1999	2000 as restated	2001 as restated	2002	2003	2004
Sales	72,671	77,638	76,263	73,654	84,305	92,821	93,541	93,033	99,775	104,703
Profit (before exceptional items)	10,321	10,629	7,708	8,610	9,251	9,946	10,689	11,275	12,211	13,699
Exceptional items*	–	–	–	–	(3,363)	–	–	–	–	10,396
Profit before taxation	10,321	10,629	7,708	8,610	5,888	9,946	10,689	11,275	12,211	24,095
Taxation	(3,426)	(3,439)	(3,361)	(3,137)	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)
Profit after taxation	6,895	7,190	4,347	5,473	2,858	6,741	7,151	7,810	8,565	18,157
Preference dividends	8	8	8	8	9	11	11	11	11	11
Ordinary dividends	2,579	2,844	2,962	3,154	3,417	3,526	3,686	3,663	3,786	4,476
Retained in the business***	4,308	4,338	1,377	2,311	(568)	3,204	3,454	4,136	4,768	13,670
Capital employed	40,978	43,733	45,549	46,505	50,037	49,048	49,210	49,599	51,451	63,825

Unless otherwise stated all amounts are in £ thousands.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Headline earnings per share**	22.75p	23.51p	14.14p	17.80p	20.40p	22.20p	24.66p	28.84p	33.61p	38.51p
Net dividends per ordinary share	8.50p	9.25p	9.65p	10.25p	11.00p	11.75p	12.75p	13.75p	15.10p	17.75p
Dividend cover based on headline earnings per share	2.68	2.54	1.47	1.74	1.85	1.89	1.93	2.10	2.23	2.17

* Relates to the sale of Driza-Bone Pty Limited in the year ended 30 June 1999 and the sale of Belstaff International Limited plus a number of brands and trademarks in the year ended 30 June 2004.

** Headline earnings per share is defined in note 11 to the accounts.

*** The retained earnings in the year ended 30 June 1999 are reduced by the write back of goodwill on the sale of Driza-Bone Pty Limited. The amount of £3,063,297 was written back through reserves in the same year and consequently had no effect on the net assets of the group.

The figures for 2000 and 2001, but not for prior years, have been adjusted for FRS 19.

Shareholder Information

Financial calendar

Annual general meeting — 6 December 2004 (see notice of meeting on pages 54 to 55).

Announcement of results

For the half year — March

For the full year — October

Dividend payments

Ordinary shares – interim — June

– final — December

Preference shares — June and December

Share dealing information

The ordinary shares of the company are traded on the Alternative Investment Market of the London Stock Exchange.

Information concerning the day-to-day movement of the share price can be found in The Financial Times and The Daily Telegraph.

Shareholder analysis*

By size of holding	Number of holders	Number of shares
1-10,000	2,192	4,161,048
10,001-50,000	134	2,622,507
50,001-250,000	44	4,831,061
250,001 and over	17	13,497,674
	2,387	25,112,290

By category	Number of holders	Number of shares	%
Banks and nominee companies	318	6,075,614	24.19
Other limited companies/corporate bodies	38	218,951	0.87
Miscellaneous bodies/pension funds	8	25,838	0.10
Private individuals	2,019	18,762,390	74.72
Investment trusts and funds	4	29,497	0.12
	2,387	25,112,290	100.00

*as at 24 September 2004

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the EIGHTY-NINTH ANNUAL GENERAL MEETING of the company will be held at the Moat House Hotel, 1 Higher Bridge Street, Bolton, on 6 December 2004 at 12.00 for the following purposes:

Ordinary business

1 To receive and adopt the report of the directors and the statement of accounts for the year ended 30 June 2004 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

3 To re-elect Anthony Wild who is retiring by rotation under the articles of association, as a director.

4 To appoint PricewaterhouseCoopers LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 5 and 6 will be proposed as ordinary resolutions and resolutions 7 and 8 will be proposed as special resolutions:

5 That, subject to the passing of the ordinary and special resolutions respectively numbered 6 and 7 below, the directors be and they are hereby authorised, pursuant to article 131 of the company's articles of association:

(i) to exercise the power contained in article 131 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 10p each of the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and

(ii) to capitalise the appropriate nominal amount of new ordinary shares falling to be allotted pursuant to any elections made as aforesaid out of profits, or sums standing to the credit of any share premium account or capital reserves of the company, to apply such sums in paying up such new ordinary shares and to allot such new ordinary shares to the members of the company making such elections in accordance with their respective entitlements.

6 That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £753,368 provided that this authority shall expire on the date falling one year after the date of this resolution, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Notice of Annual General Meeting

Continued

7 That subject to the passing of the previous resolution the directors be and they are hereby empowered pursuant to 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 by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practical) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate amount of 5% of the ordinary shares in issue at the date of the passing of this resolution;

and shall expire on the date falling five years after the passing of this resolution save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

8 That the company is hereby generally and unconditionally authorised for the purposes 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 of fully paid ordinary shares of 10 pence each in the capital of the company ("ordinary shares") provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15% of the ordinary shares in issue at the date of passing of this resolution;

(ii) the maximum price (exclusive of any expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of The London Stock Exchange Limited for the 5 business days immediately preceding the day on which the ordinary share is purchased;

(iii) the minimum price which may be paid for each ordinary share is 10 pence (exclusive of any expenses);

(iv) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the company or twelve months from the date, if earlier, of passing this resolution; and

(v) the company may make a contract or contracts to purchase its 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 the company may make a purchase of its ordinary shares in pursuance of such contract as if the authority hereby conferred had not expired.

(vi) the directors may elect to hold shares purchased under this authority in the form of treasury shares (subject to a maximum of ten percent of the issued ordinary share capital of the company at any one time).

By order of the board
W J Whittaker

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester M26 1JN
25 October 2004

Notes

1 Preference shareholders are advised that they are not entitled to attend or vote at the annual general meeting.

2 A holder of ordinary shares is entitled to appoint a proxy to attend and, on a poll, vote instead of himself/herself. A proxy need not be a member of the company. To be effective the instrument appointing a proxy must reach the registrars office by noon on 3 December 2004 and the white form of proxy enclosed is for the use of ordinary shareholders. The appointment of a proxy need not preclude a member from attending and voting at the annual general meeting if he/she so desires. Persons holding ordinary shares under the employee share schemes should use the coloured forms of direction enclosed and these should be sent to the registrar's office so as to arrive by noon on 3 December 2004.

3 The following information which is available for inspection during normal business hours at the registered office of the company on any weekdays (Saturdays and public holidays excepted) from the date of this notice until the date of the annual general meeting will also be available for inspection at the place of the annual general meeting for a period of 15 minutes prior to the meeting and until the conclusion of the meeting:

(i) the register of interests of directors in the share capital of the company; and

(ii) a copy of Mr G R Oliver's service contract.

4 Warrants for the final dividend, if approved, will be posted after the annual general meeting on 6 December 2004 to shareholders on the register as at 5 November 2004.

Notes

CD Installation Instructions

CD contains PC screen saver and Annual Reports (in pdf format) for 2004, 2003 and 2002.

Installing the screen saver

After inserting the CD Rom into the CD Drive, an application will automatically load showing a menu screen, select from the menu and proceed.

To customise and preview the Halstead screen saver, right click on the desktop and choose properties from the sub menu, then select the screen saver option.

Reading the PDF files

If you already have a version of Adobe Acrobat Reader installed on your PC, you can simply double click on the PDF you wish to view.

If you do not own a version of Adobe Acrobat Reader, double click on the Adobe Acrobat Folder on the CD Rom, choose the desired language and follow the on screen instructions to install.

JAMES HALSTEAD plc

Beechfield
Hollinhurst Road
Radcliffe
Manchester M26 1JN
Tel: 0161 767 2500
Fax: 0161 766 7499