JAMES HALSTEAD plc

Report & Accounts 2005

Chairman's statement

The results for the year show a profit before taxation of £13.8 million, compared with £13.7 million in 2004, (excluding the exceptional gains of £10.4 million) – another record result. I would also point out that the comparative figure for last year included £0.9 million of royalty income which ceased on the disposal of Belstaff International. Therefore, like for like, profit before tax is £13.8 million against £12.8 million for 2004.

Sales activities of the Group also achieved record levels at £112.4 million (2004: £104.7 million).

Given the climate of substantial increases in raw material prices and energy costs I, and the Board, feel this is a creditable performance.

Dividend

The Board proposes a final dividend of 12.75p per ordinary share, making the total dividend for the year 19.75p, an increase of 11.3%. In addition, the return of capital announced last year of 60 pence per share was approved at the extraordinary general meeting in December 2004 and took place in January 2005.

I think it worthy of note that this current year marks the 30th year of improved dividend.

Shares sub-division

Having regard to the increase in the share price over the last few years and with regard to the marketability of those shares the Board will propose, at the forthcoming annual general meeting, a sub-division of our 10p ordinary shares to 5p ordinary shares. This means ordinary shareholders would own two ordinary shares for each one ordinary share currently held.

Acknowledgements

The whole global workforce has helped achieve this year's result and, on behalf of the Board, I extend our thanks to them. I would also like to extend our gratitude to Michael Vale, our International Director at Polyflor who retired after 36 years with the Group.

Outlook

We have continued to expand our flooring operations, following the basic principles of sound quality and superior service and support. These, allied with a firm control of costs and working capital, are the bedrock on which we can continue to build. Today we not only have significant presence in the UK, Australia, New Zealand, Germany and Scandinavia but our products are sold in Angola, Brazil, India, Peru and over 100 other countries.

All this gives me confidence that we will continue to deliver progress in the current year.

Geoffrey Halstead
Chairman

Turnover increased 7% to £112.4 million (2004: £104.7 million) and profit before tax, was £13.8 million (2004: £13.7 million, excluding exceptional gains).

Interest receivable increased to £1.24 million (2004: £0.55 million). Though operating profit shows a decline to £12.6 million (2004: £13.15 million) it must be noted that 2004 included £0.9 million of royalties on the Belstaff operations. Consequently a like-for-like comparison is 2005: £12.6 million (2004: £12.25 million).

The flooring companies have progressed 10% in terms of turnover but overall the combined effects of raw material prices and energy costs have held back the full benefit that such growth would normally have on profit.

Against the economic climate I feel this must be judged as a good result. Managing the basics was a key challenge and, as a result, stocks are 9% lower than last year and trade debtors just 2% higher on a year of sales growth. Net cash inflow from operations was £19.9 million (2004: £17.4 million) and we closed the year with cash at bank or on short term deposit of £31.7 million. I would like to add my thanks to those of the Chairman for the contributions of Michael Vale, International Director at Polyflor and note that when he commenced work with our Group international sales were negligible but this year we have achieved £61 million.

Polyflor (the manufacturing and UK division)

Despite the background of the troubled UK carpet manufacturers, Polyflor's sales, both in the UK and export markets, showed healthy growth over last year.

Disappointingly, the effect of increased raw material, energy costs and labour costs led to profits being below expectations. As a UK manufacturer we felt that we had no choice but to forego a price increase in our home market. Our UK sales team made progress (turnover was up 13%) and was instrumental in securing extra business and cementing the relationships with the UK distribution trade. Derby Hospital is just one of the significant projects during the year that typifies our business in healthcare.

Export sales also showed healthy growth in most markets and, overall, our turnover progressed by 8%.

The effects of cost increases meant profits were below last year but sales across all the product ranges, particularly our market leading safety floors, were encouraging. We will continue to invest in key areas to consolidate our presence, especially with our patented anti-soil surface coatings and in extensions to warehouse facilities. The latter is very important to maintain the high level of service to our customer base in a market where lead times are short and stock availability and delivery are paramount.

Central Europe (Objectflor Art & Design GmbH / Karndean International GmbH)

This large market, dominated by Germany, has continued to have the economic problems widely reported in the press but I am pleased to report that our turnover increased 14% which was, I believe, a creditable achievement.

The company increased volume of homogenous vinyl (manufactured by Polyflor in Manchester) and sales were 18% ahead of last year in this sector, which was a welcome result.

During the year, significant investment was made in a new Central European warehouse in Cologne, which was completed on time and on budget and this will enable service levels to be maintained as turnover grows. This represents a significant part of the Group capital expenditure in the year which is self financing when compared to the alternative of a medium term lease.

Halstead Flooring (Australia)

A more modest year of growth in turnover of some 5% (against 12% last year) but this was a record result both in terms of turnover and profit for this subsidiary.

In a market that has very active representation from all our global competitors the sales levels, whilst below target, did represent significant progress and we have consolidated our market position.

During the year we were successful in our flooring being specified on the New South Wales Government contracts for education and healthcare facilities and we anticipate growth in this key state.

Halstead Flooring Concepts (New Zealand)

It was a year of consolidation in New Zealand. After a difficult year in 2004 and a complete structural review of costs, profits this year are significantly better, albeit on reduced turnover. The profit improvement was as a result of cost control and focus on more profitable product lines.

During the year there was a degree of uncertainty over one of the company's largest suppliers which faced a takeover and this undoubtedly affected sales for a period of some months. This problem is now resolved as the future of this supplier has been clarified.

Working capital and overhead control have been a major focus in the year and as we look forward to the next year, sales initiatives are the focus of our budget.

Polyflor Nordic

The Scandinavian region comprises Polyflor Norway and Falck Design. Our Swedish brands have been merged with the operations of Falck Design, which was acquired in October 2004. The first year of Falck has been very positive and turnover in the region has progressed 21%. Like-for-like growth is more modest, but nevertheless positive.

The Megastrong collection has been updated and early comments are positive. In Norway market share was maintained and major projects included the Raaholt Ungdomsskole in Akershus, a major project in the education sector.

Polyflor Hong Kong (Asia markets)

In 2004 there were a number of large commercial projects and, as anticipated, turnover in this area in 2005 was lower overall, though mainly as a result of reduced sales in Malaysia. Since the projects in 2004 saw us undertake both the Sungei Buloh and Petani hospitals, we did not expect to match this result. Hong Kong, China and South Korea all continued to expand with Japan, Singapore and Taiwan broadly comparable to last year.

Phoenix Distribution (motorcycle accessories)

Phoenix had a mixed year with good cash generation but significant reduction in both turnover and profit. This was anticipated and budgeted for following the sale of Belstaff at the end of last year. With low cost of entry to the clothing sector of the market and consequent low margins for importer distributors we decided not to continue with clothing. As a result existing clothing ranges were run down. In addition, Phoenix decided to cease distribution of the Shark helmet brand, which was sold in the mid to low end range of the market.

Unfortunately this required some redundancies as the company overhead base was realigned to the decreased turnover.

We are already seeing the benefits of a closer focus on the more important brands that are based on race/ performance, in particular Arai. The cash generated approached £1.9 million and, I believe, the company has consolidated its position and restructured well to the market conditions.

We remain cautious in this marketplace but there are promising, early, discussions on augmentation of the Phoenix portfolio of brands in certain areas.

Outlook

Our operations are in a healthy state and there are several opportunities for augmentation of our product portfolios. Customer service is an area on which we will focus as we are looking to extend our UK warehousing and distribution facilities. All in all, I feel that we are going into the new year very positively and will continue the successful formula which concentrates on sustainable, mainly organic, growth augmented by digestible acquisitions that offer synergy.

Mark Halstead
Chief Executive

Accounting policies

As usual I preface my report by noting that these 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, are the basis for their policies.

Results for the year

Profit before tax at £13.8 million (2004: £13.7 million excluding the exceptional gain from the sale of Belstaff) shows a modest increase. However, it must be noted that 2004 included £0.9 million from royalties, an income stream which ceased on the sale of the brand. Like-for-like profit before tax is therefore 7.8% ahead. Against a climate of raw material rises that were absorbed, this was a creditable performance. In addition close attention was paid to controlling working capital. Some of the key statistics are:

- Group turnover at £112.4 million (2004: £104.7 million) up 7.4%
- Underlying earnings per share at 38.5p (2004: 34.9p) up 10.3%
- Dividends at 19.75p (2004: 17.75p) up 11.3%
- Stock at £20.0 million (2004: £21.9 million) down 8.7%
- Trade debtors at £17.1 million (2004: £16.7 million) up 2.4%
- Net cash at £31.7 million (2004: £37 million), despite spending almost £12 million on the return of capital

Return of Capital

During the year we returned capital of £15.2 million, as outlined in last year's report. Of this some £3.3 million was deferred as C shares redeemable in the future. The scheme seems to have been well received by shareholders and the costs of the scheme, relative to a special dividend, were only modestly higher.

FRS 17 – Retirement benefits

I would draw shareholders' attention to the pensions disclosures in note 21 on pages 31 to 33.

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

I make no apology for repeating my views on this subject.

We question the cost/benefit of these vast standards for a relatively small group such as James Halstead, listed on AIM. AIM companies have been given an extension to the timetable for IFRS applied to companies on the official list. This extension is welcome, not for the extra time to cope with compliance but for the larger listed companies to pave the way with interpretation and explanation. The financial press in recent months has been more cautious of the implications of IFRS now that the 'honeymoon period' is over and perhaps we are not considered Luddites to express concern.

As a company we continue to inform ourselves of the detail of changes so that we are fully able to not only comply with the new standards, but more importantly present financial statements in the clearest form, whilst not losing sight of the basic principles. In general it would seem the move to IAS will not be smooth.

Employee profit share

Note 2 on page 20 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 £19.9 million (2004: £17.4 million). The overall decrease in cash of £5.5 million is after net capital expenditure of £5.8 million, payment of taxation and dividends less interest of £9.4 million, the acquisition of Falck Design for £1.4 million and the return of capital of £11.8 million. £2.6 million was received by way of a bank loan, and £0.4 million from share issues. The net funds (cash net of loans) at £29.05 million (2004: £37.05 million) show a healthy ungeared position.

Net assets

The overall decrease in net assets is £6.3 million with the increase from profits after tax and ordinary dividends of £4.5 million and exchange movements and share issues of £1 million being offset by the effects of the return of capital of £11.8 million. Net assets per ordinary share decreased to 212.5p (2004: 253.4p). However to give a fair comparison, the 2004 figure should be adjusted to 193.4p to reflect the 60p per share returned to shareholders.

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 2005 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 35 and 36.

Gordon Oliver

Finance Director

Directors and Advisers

Directors

G Halstead
M Halstead
G R Oliver ACA MCT
J A Wild FCA

Secretary

W J Whittaker FCMA

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Auditors

PKF (UK) LLP
Sovereign House
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Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2005.

The audited financial statements are set out on pages 14 to 37.

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 £13,814,000. The profit for the financial year after taxation was £9,525,000 and the directors propose that this be dealt with as follows:

		£'000
Preference dividend	– paid	11
Ordinary dividends	– interim paid	1,792
	– final proposed	3,227
B share dividend	– paid	9,626
Retained loss, transferred from reserves		5,131

The directors are recommending a final dividend of 12.75p per share on the ordinary share capital for payment on 5 December 2005 to those shareholders whose names appear on the register at 4 November 2005. This final dividend together with the interim dividend paid on 26 May 2005 makes a total of 19.75p per share (2004: 17.75p).

Directors

Mr G Halstead, 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 2005		30 June 2004	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	1,019,645	105,650	1,018,989	105,650
G R Oliver	15,752	–	15,252	–
M Halstead	1,690,185	1,398,240	1,689,685	1,398,240
J A Wild	17,927	1,602,386	17,927	1,602,386
Preference shares				
G Halstead	86,405	–	83,405	–
J A Wild	–	8,750	–	8,750
'C' shares				
G Halstead	466,025	–	–	–
G R Oliver	5,120	–	–	–
M Halstead	746,801	636,670	–	–
J A Wild	–	761,571	–	–

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 30 September 2005.

Substantial interests

As at 30 September 2005 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	3.87
J Halstead and Ms G Halstead	4,544,515	17.95
J Halstead and A Halstead	1,319,150	5.21
Vidacos Nominees Limited	978,174	3.86

Share capital

On 26 October 2004, 175,820 shares; on 9 November 2004, 20,000 shares, and on 27 May 2005, 5,000 new ordinary shares were issued and allocated as fully paid to enable share options to be exercised.

At the extraordinary general meeting held on 6 December 2004, shareholders approved a return of capital, by way of either a B share dividend or C share redemption. The rights attaching to these shares were fully described in the circular to shareholders dated 1 November 2004.

B shares

A total of 16,042,530 B shares with a nominal value of 1 pence were issued in January 2005.

C shares

A total of 9,265,580 C shares with a nominal value of 60 pence were issued in January 2005. 3,703,938 C shares were redeemed immediately to shareholders choosing this option, leaving 5,561,642 in issue.

Sub-division of ordinary shares

At the annual general meeting on 2 December 2005 the board will propose a sub-division of the ordinary share capital, currently consisting of 10p ordinary shares, into ordinary shares of 5p each on the basis that each ordinary shareholder on the record date will receive two ordinary shares of 5p each for every 10p ordinary share held.

Share buy back

At the annual general meeting held on 6 December 2004, 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. The company has made no purchases in the financial year ended 30 June 2005. However, 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 2005.

Special business at the annual general meeting

Resolution 6 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 2006.

Resolution 7 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 2005.

Resolution 8 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 9 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).

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 2005 there were 31 (2004: 41) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £4,001 (2004: £4,143) 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 may undertake non-audit related work. This work would be 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 21.

Auditors

On 8 June 2005 PricewaterhouseCoopers LLP resigned as auditors to the group. PKF (UK) LLP were appointed by the directors to fill the vacancy and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

As at 4 October 2005, so far as each director is concerned there is no relevant audit information of which the auditors are unaware. Each director has taken all the steps expected of him as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Approved by the board of directors and signed on behalf of the board.

W J Whittaker
Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester. M26 1JN
4 October 2005

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 21 and an analysis of directors' share options is given in note 20 on page 29.

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 205,000 shares were granted in the financial year ended 30 June 2005, and options over 200,820 shares were exercised during this period.

Pensions

The company operates Inland Revenue Approved defined benefit and defined contribution pension schemes. All the executive directors in the group are members of the defined benefit 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 (six 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

We have audited the financial statements of James Halstead plc for the year ended 30 June 2005 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 and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the documents listed in the contents section of the annual report with the exception of the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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's and group's affairs as at 30 June 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF (UK) LLP
Registered Auditors

Sovereign House,
Queen Street,
Manchester. M2 5HR

4 October 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Turnover	1	112,353	104,703
Operating profit	3	12,573	13,150
Exceptional item	4	–	10,396
Net interest receivable	5	1,241	549
Profit on ordinary activities before taxation	6	13,814	24,095
Taxation on ordinary activities	9	(4,289)	(5,938)
Profit on ordinary activities after taxation		9,525	18,157
Dividends (including non-equity)	10	(14,656)	(4,487)
Retained profit for the year	20	(5,131)	13,670
(Loss)/earnings per ordinary share	11		
– basic		(0.4)p	72.2p
– underlying		38.5p	34.9p
– diluted		(0.4)p	71.7p

All the above results derive from continuing operations, apart from the exceptional item in the year to 30 June 2004.

The notes on pages 20 to 37 form part of these accounts.

Balance Sheets

as at 30 June 2005

	Note	Group 2005 £'000	Group 2004 £'000	Parent company 2005 £'000	Parent company 2004 £'000
Fixed assets					
Intangible assets	12	3,460	2,564	–	–
Tangible assets	13	20,741	18,308	647	436
Investments	14	–	–	21,066	30,466
		24,201	20,872	21,713	30,902
Current assets					
Stocks	15	20,029	21,930	–	–
Debtors	16	18,887	18,533	22,113	9,892
Cash at bank, in hand and on short-term deposit		31,675	37,045	23,392	30,330
		70,591	77,508	45,505	40,222
Creditors - amounts falling due within one year	17	(34,367)	(33,302)	(17,584)	(15,348)
Net current assets		36,224	44,206	27,921	24,874
Total assets less current liabilities		60,425	65,078	49,634	55,776
Creditors - amounts falling due after more than one year	18	(2,597)	(213)	–	–
Provisions for liabilities and charges	19	(353)	(1,040)	–	–
		57,475	63,825	49,634	55,776
Capital and reserves	20				
Equity share capital		2,531	2,511	2,531	2,511
Non-equity share capital		3,697	200	3,697	200
Called up share capital		6,228	2,711	6,228	2,711
Share premium account		48	5,221	48	5,221
Revaluation reserve		3,544	3,544	–	–
Capital reserve		2,942	720	2,942	720
Profit and loss account		44,713	51,629	40,416	47,124
Total shareholders' funds		57,475	63,825	49,634	55,776

These financial statements were approved by the board on 4 October 2005 and are signed on behalf of the board of directors.

M Halstead
Director

G R Oliver
Director

The notes on pages 20 to 37 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	22(i)	19,866	17,383
Returns on investments and servicing of finance	22(ii)	1,274	616
Return of capital – B share dividend		(9,626)	–
Taxation paid		(5,860)	(4,262)
Capital expenditure	22(ii)	(5,827)	(1,346)
Acquisitions and disposals	22(ii)	(1,390)	10,828
Equity dividends paid		(4,743)	(4,014)
Cash (outflow)/inflow before financing		(6,306)	19,205
Financing:			
Redemption of C shares		(2,222)	–
Purchase of own shares		–	(1,883)
Shares issued		406	811
Increase in debt		2,623	–
(Decrease)/increase in cash		(5,499)	18,133
Reconciliation of net cash flow to movement in net funds	22(iii)		
(Decrease)/increase in cash		(5,499)	18,133
Increase in debt		(2,623)	–
Change in net funds resulting from cash flows		(8,122)	18,133
Effect of exchange differences		129	(44)
Movement in net funds for the period		(7,993)	18,089
Net funds as at 1 July		37,045	18,956
Net funds as at 30 June		29,052	37,045

Statement of Group Total Recognised Gains and Losses

for the year ended 30 June 2005

	2005 £'000	2004 £'000
Profit for the financial year	9,525	18,157
Currency translation differences on foreign currency net investments	597	(224)
Total recognised gains relating to the year	10,122	17,933

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Profit for the financial year		9,525	18,157
Dividends (including non-equity)	10	(14,656)	(4,487)
		(5,131)	13,670
Other recognised gains and losses relating to the year		597	(224)
Redemption of C shares		(2,222)	–
Purchase of own shares		–	(1,883)
New share capital subscribed		406	811
Net (decrease)/increase in shareholders' funds for the year		(6,350)	12,374
Opening shareholders' funds		63,825	51,451
Closing shareholders' funds		57,475	63,825
Equity shareholders' funds		53,778	63,625
Non-equity shareholders' funds		3,697	200
		57,475	63,825

Statement of Accounting Policies

The group accounts consolidate the accounts of the holding company and its subsidiaries made up to 30 June 2005 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 benefit 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

	2005	2004
	£'000	£'000
Geographical markets supplied		
United Kingdom	51,132	49,280
Europe	36,365	30,882
Australasia and Asia	19,910	19,797
Others	4,946	4,744
	112,353	104,703

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 schemes 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.

	2005	2004
Shares held by the trustees as at 30 June on behalf of the employees	338,668	470,174
As a percentage of shares in issue	1.34%	1.87%

3. Operating profit

	2005	2004
	£'000	£'000
Turnover	112,353	104,703
Cost of sales	(62,629)	(57,744)
Gross profit	49,724	46,959
Selling and distribution costs	(26,010)	(24,174)
Administrative expenses	(11,141)	(9,635)
Operating profit	12,573	13,150

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 in the year to 30 June 2004, related 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.

4. Exceptional item (continued)

The royalty received in the year to 30 June 2004 amounted to £900,279. This royalty ceased on the disposal.

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

5. Interest

	2005 £'000	2004 £'000
Interest receivable		
On bank deposits	1,496	807
Other	9	1
	1,505	808
Interest payable		
On bank loans and overdrafts repayable		
within 5 years	(176)	(151)
within 5 - 10 years	(35)	–
Other	(53)	(108)
	(264)	(259)
Net interest receivable	1,241	549

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

	2005 £'000	2004 £'000
Depreciation of tangible fixed assets	3,507	3,324
Amortisation of goodwill	213	173
Hire of plant and machinery	55	41
Leasing charges – land and buildings	1,016	823
– other	710	739
Auditors' remuneration – audit fees	52	88
Auditors' remuneration – non-audit related fees	–	53
Research and development	1,618	1,571
Profit on sale of fixed assets	(11)	(10)

Audit fees for the parent company were £18,000 (2004: £25,000).

7. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £588,239 (2004: £935,490) of which £172,236 (2004: £494,772) relates to performance. Pension contributions amounted to £38,144 (2004: £36,265). The emoluments of the highest paid director, excluding pension contributions were £195,895 (2004: £316,687). The performance related element of directors' remuneration has been a significant 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 2 directors (2004: 2) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £272,605 (2004: £61,650); of these £141,141 (2004: £Nil) related to the highest paid director.

8. Staff numbers and costs, excluding group directors

Employee costs	2005 £'000	2004 £'000
Wages and salaries	17,909	17,287
Social security costs	1,805	1,739
Other pension costs	1,053	1,076
	20,767	20,102

Employee numbers	2005 Number	2004 Number
The average monthly number of persons employed by the group during the year by activity was:		
Manufacturing, selling and distribution	591	580
Administration	108	102
	699	682

9. Taxation

	2005 Total £'000	2004 Non-exceptional £'000	2004 Exceptional £'000	2004 Total £'000
a) Current taxation				
UK Corporation tax at standard rate 30% (2004: 30%)	4,120	4,723	1,759	6,482
Double taxation relief	–	(4)	–	(4)
Overseas tax	1,155	672	–	672
Adjustment in respect of prior years	(245)	107	–	107
	5,030	5,498	1,759	7,257
Deferred taxation (Note 19)	(741)	(1,319)	–	(1,319)
	4,289	4,179	1,759	5,938
b) Factors affecting the tax charge for the period				
Profit on ordinary activities before taxation	13,814	13,699	10,396	24,095
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	4,144	4,110	3,119	7,229
Effects of:				
Expenses not deductible for tax purposes	302	278	–	278
Accelerated capital allowances and other timing differences	715	1,006	–	1,006
Differences in overseas tax rates	114	(3)	–	(3)
Adjustments to tax in respect of prior periods	(245)	107	–	107
Income not chargeable to corporation tax	–	–	(3,329)	(3,329)
Adjustments in respect of capital items		–	1,969	1,969
Current tax charge for the period	5,030	5,498	1,759	7,257

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

	2005 £'000	2004 £'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% (2004: 5.5%).		
On 16,042,530 B shares - at 60p per share	9,626	–
This was a single dividend payment, following which all B shares were converted into deferred shares with no further dividend rights		
Equity dividends		
Interim dividend of 7.0p (2004: 6.0p)	1,792	1,525
Final proposed dividend of 12.75p (2004: 11.75p)	3,227	2,951
	14,656	4,487

The first dividend payable on the C shares, as described in note 20 will not be paid until 14 January 2006.

11. Calculation of earnings per ordinary share

	2005 £'000	2004 £'000
Profit on ordinary activities after taxation	9,525	18,157
Preference dividend	(11)	(11)
B share dividend	(9,626)	–
Basic earnings	(112)	18,146
Add back B share dividend	9,626	–
Goodwill amortisation charge	213	173
Exceptional item	–	(8,637)
Deduct royalty income	–	(900)
Underlying earnings	9,727	8,782
Weighted average number of ordinary shares in issue	25,243,966	25,137,174
Weighted average number of ordinary shares in issue (diluted for the effect of outstanding share options)	25,366,107	25,293,497
Basic (loss)/earnings per ordinary share	(0.4)p	72.2p
Underlying earnings per ordinary share	38.5p	34.9p
Diluted (loss)/earnings per ordinary share	(0.4)p	71.7p

12. Intangible fixed assets – goodwill

	£'000
Cost	
At 30 June 2004	3,442
Addition	1,109
At 30 June 2005	4,551
Amortisation	
At 30 June 2004	878
Charge for the year	213
At 30 June 2005	1,091
Net book value at 30 June 2005	3,460
Net book value at 30 June 2004	2,564

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 2004	7,241	42,032	49,273	367	315	682
Additions	4,395	1,575	5,970	200	152	352
Disposals	(38)	(1,012)	(1,050)	–	(77)	(77)
Exchange rate adjustments	62	114	176	–	–	–
	11,660	42,709	54,369	567	390	957
Accumulated depreciation						
At 30 June 2004	2,107	28,858	30,965	39	207	246
Charge to profit and loss account	321	3,186	3,507	6	112	118
Disposals	(36)	(884)	(920)	–	(54)	(54)
Exchange rate adjustments	14	62	76	–	–	–
	2,406	31,222	33,628	45	265	310
Net book values at 30 June 2005	9,254	11,487	20,741	522	125	647
Net book values at 30 June 2004	5,134	13,174	18,308	328	108	436

The amounts at 30 June 2005 for freehold land and buildings include valuations as of the dates noted (of which £711,471 relates to land which is not depreciated)

	£
30 June 1993	4,350,000
30 June 1999	637,891

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	2005 £'000	2004 £'000
Contracted but not provided for	96	345

Commitments under operating leases for the year to 30 June 2006	Land and buildings 2005 £'000	Land and buildings 2004 £'000	Other 2005 £'000	Other 2004 £'000
analysed as to leases which expire:				
within the next 12 months	11	128	74	168
between 2 and 5 years	467	493	494	243
after 5 years	118	117	–	–

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
Halstead Flooring International Limited (formerly 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	–	–
*Falck Design AB	Sweden	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	29,152	1,314	30,466
Provision charged in the year	(9,400)	–	(9,400)
At 30 June 2005	19,752	1,314	21,066

15. Stocks

	Group 2005 £'000	Group 2004 £'000
Raw materials	780	901
Consumable stores	409	400
Work in progress	470	592
Finished goods	18,370	20,037
	20,029	21,930

16. Debtors

	Group 2005 £'000	Group 2004 £'000	Parent company 2005 £'000	Parent company 2004 £'000
Amounts falling due within one year				
Trade debtors	17,098	16,720	8	–
Current accounts with subsidiary undertakings	–	–	21,545	9,456
Other debtors	833	1,093	475	353
Prepayments and accrued income	956	720	85	83
	18,887	18,533	22,113	9,892

17. Creditors – amounts falling due within one year

	Group 2005 £'000	Group 2004 £'000	Parent company 2005 £'000	Parent company 2004 £'000
Trade creditors	14,811	15,099	49	167
Bank loan	271	–	–	–
Current accounts with subsidiary undertakings	–	–	10,737	7,594
Corporation tax payable	5,384	6,240	649	1,922
Other taxation and social security	1,098	822	52	48
Other creditors	1,687	1,470	1,106	496
Accruals and deferred income	7,889	6,720	1,764	2,170
Proposed final dividend	3,227	2,951	3,227	2,951
	34,367	33,302	17,584	15,348

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 2005 £'000	Group 2004 £'000
Bank loan – due after one, within two years	271	–
– due after two, within five years	814	–
– due after five years	1,267	–
Overseas pension liability and other creditors	245	213
	2,597	213

19. Provisions for liabilities and charges

Deferred tax	Group 2005 £'000	Group 2004 £'000
Accelerated capital allowances	1,823	2,195
Short-term timing differences	(1,470)	(1,155)
	353	1,040
Opening balance	641	1,960
Exchange rate adjustment	(43)	–
Credit to profit and loss account	(741)	(1,319)
Balance at 30 June	(143)	641
Transfer to debtors	496	399
	353	1,040

20. Capital and reserves

	Authorised 2005	Authorised 2004	Allotted, issued and fully paid 2005	Allotted, issued and fully paid 2004
(a) Called up share capital				
Authorised and issued share capital				
Number of shares (000's)				
Ordinary shares at 10p each	50,000	50,000	25,313	25,112
B ordinary deferred shares of 1p each	25,000	–	16,043	–
C preference shares of 60p each	9,266	–	5,562	–
5.5% (2004: 5.5%) preference shares of £1 each	200	200	200	200
Nominal value of shares				
Ordinary shares of 10p each	5,000	5,000	2,531	2,511
B ordinary deferred shares of 1p each	250	–	160	–
C preference shares of 60p each	5,559	–	3,337	–
5.5% (2004: 5.5%) preference shares of £1 each	200	200	200	200
	11,009	5,200	6,228	2,711

Shareholders approved a proposal for the return of capital ("return of capital") at an extraordinary general meeting on 6 December 2004. This resulted in the creation of the 1 pence B ordinary shares ("B shares") and the 60 pence C preference shares ("C shares") as described below.

The B shares were issued on 14 January 2005 on the basis of 1 B share for every ordinary share held on the record date by those shareholders who either a) elected to receive B shares or b) elected to receive C shares, but whose allocation was scaled back according to the restriction on the number of C shares available for issue as described below. Following the issue of the B shares, holders received a single dividend of 60p for every B share held, after which all B shares were automatically converted into deferred shares. These shares are not listed , have extremely limited rights and are of negligible value.

20. Capital and reserves (continued)

The C shares are redeemable non-cumulative preference shares. They were issued on 14 January 2005 on the basis of 1 C share for every ordinary share held on the record date, to those shareholders who elected to receive them under the return of capital, subject to a scaling back, since the maximum allowed total number of C shares was restricted to 9,265,580. Those shareholders who elected to receive C share were allocated the maximum number possible under the scaling back and then received the balance of their entitlement in B shares as described above.

Shareholders electing to receive C shares were able to elect for initial redemption. Those shareholders choosing this option received 60 pence per C share on the first redemption date of 14 January 2005. The number of C shares redeemed on this date was 3,703,938 with a value of £2,222,363. All C shares which are redeemed are cancelled and not re-issued.

Those shareholders choosing to retain their C shares are entitled to receive the C share continuing dividend of 4% per annum payable annually in arrears on the nominal value of 60 pence and have the right to redeem the C shares on 14 January each year until 14 January 2008. The first dividend is payable on and the first future redemption date is 14 January 2006. Unless redeemed earlier James Halstead plc will redeem the outstanding C shares on 14 January 2008. The C share continuing dividend will rank after the payment of the preference dividend on the £1 preference shares as described below, but in priority to the payment of dividend or other distribution to the holders of the ordinary shares.

The 5.5% (2004: 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% (2004: 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

(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.

20. Capital and reserves (continued)

Issue of shares

To enable share options to be exercised, the company issued 175,820 new ordinary shares on 26 October 2004, 20,000 new ordinary shares on 9 November 2004 and 5,000 new ordinary shares on 21 May 2005.

Under the terms of the executive share option schemes approved on 5 December 1986 and 3 December 1998 options were exercised on 200,820 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 30.06.04	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.05
G Halstead	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
	4 May 05	3 May 08	3 May 15	512.50	–	–	15,000	15,000
G R Oliver	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
	4 May 05	3 May 08	3 May 15	512.50	–	–	15,000	15,000
Mark Halstead	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
	4 May 05	3 May 08	3 May 15	512.50	–	–	15,000	15,000
Total - Directors					169,000	(80,000)	45,000	134,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.04	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.05
0 (2004: 1)	23 Apr 01	22 Apr 04	22 Apr 11	180.30	10,000	(10,000)	–	–
0 (2004:13)	8 Oct 01	7 Oct 04	7 Oct 11	203.66	121,820	(110,820)	(11,000)	–
17 (2004: 18)	25 Oct 02	24 Oct 05	24 Oct 12	259.33	101,413	–	(6,000)	95,413
18 (2004: 18)	24 May 04	23 May 07	23 May 14	442.00	103,000	–	–	103,000
2 (2004: Nil)	1 Sept 04	30 Aug 07	30 Aug 14	442.00	–	–	10,000	10,000
19 (2004: Nil)	4 May 05	3 May 08	3 May 15	512.50	–	–	150,000	150,000
Total - Others					336,233	(120,820)	143,000	358,413
Grand Total					505,233	(200,820)	188,000	492,413

The market price of the shares at 30 June 2005 was 572.5p (2004: 483.5p)

The share price during the year ranged from 479.0p to 625.0p

20. Capital and reserves (continued)

(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 2004	5,221	3,544	720	51,629
Currency translation differences on foreign currency net investments	–	–	–	597
Issue of B shares	–	–	–	(160)
Issue of C shares	(5,559)	–	–	–
Premium on share issues	386	–	–	–
Redemption of C shares	–	–	2,222	(2,222)
Retained loss for the year	–	–	–	(5,131)
Balance at 30 June 2005	48	3,544	2,942	44,713
Parent company				
Balance at 30 June 2004	5,221	–	720	47,124
Premium on share issues	386	–	–	
Issue of B shares	–	–	–	(160)
Issue of C shares	(5,559)	–	–	–
Redemption of C shares	–	–	2,222	(2,222)
Retained profit for the year	–	–	–	(4,326)
Balance at 30 June 2005	48	–	2,942	40,416

(c) Goodwill

The cumulative goodwill, resulting from acquisitions, written off on consolidation against reserves amounts to £2,963,091 (2004: £2,963,091).

(d) The consolidated profit for the financial year includes a profit before dividends of £10,330,543 (2004: £26,874,116) 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 £887,000 (2004: £930,000).

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 2005:

	2005 £'000	2004 £'000	2003 £'000
Total market value of assets	36,305	31,785	27,708
Present value of liabilities	(50,291)	(43,980)	(41,792)
Deficit in the scheme	(13,986)	(12,195)	(14,084)
Related deferred tax asset	4,196	3,659	4,225
Net pension liability	(9,790)	(8,536)	(9,859)

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:

	2005 £'000	2004 £'000
Net assets excluding pension provision	57,475	63,825
Pension provision	(9,790)	(8,536)
Net assets including pension provision	47,685	55,289
Profit and loss reserve excluding pension provision	44,713	51,629
Pension provision	(9,790)	(8,536)
Profit and loss reserve including pension provision	34,923	43,093

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			Value at 30 June 2005	Value at 30 June 2004	Value at 30 June 2003
	At 30 June 2005	At 30 June 2004	At 30 June 2003	£'000	£'000	£'000
Equities	7.5%	8.0%	8.0%	27,860	25,625	21,422
Property	7.5%	8.0%	8.0%	2,916	1,267	1,193
Fixed interest	4.7%	5.0%	4.5%	2,694	2,442	3,905
Cash	3.5%	3.0%	2.5%	2,835	2,451	1,188
				36,305	31,785	27,708

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 2005	30 June 2004	30 June 2003
Rate of increase in salaries	2.7%	3.0%	2.5%
Rate of increase in pensions in payment	2.7%	3.0%	2.5%
Discount rate	5.0%	5.8%	5.3%
Inflation assumption	2.7%	3.0%	2.5%

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

	2005 £'000	2004 £'000
(i) Operating profit:		
Current service cost	(743)	(751)
Past service cost	–	–
Total operating charge	(743)	(751)
(ii) Other finance income		
Expected return on pension scheme assets	2,328	2,021
Interest on pension scheme liabilities	(2,531)	(2,215)
Net return	(203)	(194)
(iii) Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	2,716	1,888
Experience gains and losses arising on the scheme liabilities	–	–
Changes in assumptions underlying the present value of the scheme liabilities	(4,464)	16
Actuarial (loss)/gain recognised in STRGL	(1,748)	1,904

21. Pension arrangements (continued)

(iv) Movement in deficit during the year

	2005 £'000	2004 £'000
Deficit in scheme at beginning of the year	(12,195)	(14,084)
Movement in year:		
Current service cost	(743)	(751)
Contributions	903	930
Past service costs	–	–
Other finance income	(203)	(194)
Actuarial (loss)/gain	(1,748)	1,904
Deficit in scheme at end of the year	(13,986)	(12,195)

Details of experience gains and losses for the year

	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:				
Amount (£'000)	2,716	1,888	(3,496)	(5,463)
Percentage of scheme assets	7.5%	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)	(1,748)	1,904	(2,959)	(6,380)
Percentage of the present value of the scheme liabilities	3.5%	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 £213,000 (2004: £193,000) is included in the balance sheet at 30 June 2005. 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

	2005 £'000	2004 £'000
Operating profit	12,573	13,150
Depreciation and amortisation charges	3,720	3,497
Profit on sale of tangible fixed assets	(11)	(10)
Decrease/(increase) in stocks	2,609	(1,101)
Decrease/(increase) in debtors	87	(858)
Increase in creditors	888	2,705
Net cash inflow from operating activities	19,866	17,383

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

	2005 £'000	2004 £'000
Returns on investments and servicing of finance		
Interest received	1,504	789
Interest paid	(219)	(162)
Preference dividend paid	(11)	(11)
	1,274	616
Capital expenditure		
Purchase of tangible fixed assets	(5,968)	(1,424)
Sale of tangible fixed assets	141	78
	(5,827)	(1,346)
Acquisitions and disposals		
Sale of subsidiary, trademarks and brands	–	11,096
Purchase of business and assets	(1,390)	–
Deferred consideration on previous acquisition of business	–	(268)
	(1,390)	10,828

(iii) Analysis of changes in net funds

	At 30 June 2004 £'000	Net funds movement £'000	Exchange movement £'000	At 30 June 2005 £'000
Cash in hand and at bank (includes overnight deposits).	37,045	(5,499)	129	31,675
Borrowings due within one year	–	(271)	–	(271)
Borrowings due after more than one year	–	(2,352)	–	(2,352)
	37,045	(8,122)	129	29,052

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

a) The preference shares in issue are fully described in note 20 on page 28. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2005 was £200,000 (2004: £200,000). Based on the most recent mid-market price, the fair value of the preference shares at 30 June 2005 was £156,000 (2004: £156,000).

b) The C redeemable non-cumulative preference shares ("C shares") in issue are fully described in note 20 on page 28. The C shares are redeemable at the option of the holder on 14 January 2006, 2007 and 2008. Unless redeemed earlier all shares will be redeemed on 14 January 2008. The holders of the C shares are entitled to the C share continuing dividend of 4% per annum. The shares are not listed and therefore no market price is available. Based on current prevailing interest rates, the fair value of the C shares is not materially different to their book value.

(ii) Currency and interest rate profile of financial liabilities

The group has a loan, denominated in Euro, with a UK clearing bank. The loan was drawn down in February 2005, and is repayable in equal monthly instalments over ten years commencing in March 2005. The outstanding balance at 30 June 2005 equates to £2,600,000. The interest rate is floating, linked to the bank's Euro base rate. The fair value of the loan balance outstanding therefore equates to its book value.

(iii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits, balances and cash in hand	
	2005	2004
	£'000	£'000
Sterling (including sterling equivalent of UK foreign currency balances)	28,736	35,554
Australian Dollars	610	277
New Zealand Dollars	505	305
Euro	1,541	909
Swedish Krona	283	–
	31,675	37,045

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 2005 with UK banks were, in US Dollars £523,000 overdrawn (2004: £895,000 overdrawn), in Euro £535,000 overdrawn (2004: £1,502,000 overdrawn) and in other currencies £2,042,000 overdrawn (2004: £1,799,000 overdrawn and £147,000 in hand).

23. Financial instruments (continued)

(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.

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

Net foreign currency monetary assets/(liabilities)

	Euro 2005 £'000	US Dollars 2005 £'000	Australian Dollars 2005 £'000	Japanese Yen 2005 £'000	New Zealand Dollars 2005 £'000	Hong Kong Dollars 2005 £'000	Other 2005 £'000
Functional currency of group operation							
Sterling	(3,792)	556	(1,224)	346	(553)	(575)	(1,349)
New Zealand Dollars	–	(14)	155	–	–	–	–
Total	(3,792)	542	(1,069)	346	(553)	(575)	(1,349)

	2004 £'000	2004 £'000	2004 £'000	2004 £'000	2004 £'000	2004 £'000	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)

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 2005, based on the contracted forward rate was £16,412,435 (2004: £14,868,041). The fair value of these contracts, based on the estimated close out rate at 30 June 2005 is not materially different.

24 Acquisitions

On 12 October 2004 the group acquired the business and assets of Falck Design A.B., a distributor of flooring based in Sweden. This was accounted for using the acquisition method of accounting.

As detailed in the table below, the consideration in respect of this acquisition was £1,390,000 and total net assets acquired amounted to £281,000. The goodwill arising in respect of this acquisition was £1,109,000 (note 12).

	Book value and fair value to the group £'000
Stock	199
Debtors	82
	281
Goodwill	1,109
Consideration	1,390

No adjustments were considered necessary to the book value of the assets at acquisition, in order to arrive at their fair value to the group. Within the context of the group, the post acquisition results and cash flows of this business are not considered to be material and no separate disclosure has been provided in these financial statements.

	1996	1997	1998	1999	2000 as restated	2001 as restated	2002	2003	2004	2005
Sales	77,638	76,263	73,654	84,305	92,821	93,541	93,033	99,775	104,703	112,353
Profit (before exceptional items)	10,629	7,708	8,610	9,251	9,946	10,689	11,275	12,211	13,699	13,814
Exceptional items*	–	–	–	(3,363)	–	–	–	–	10,396	–
Profit before taxation	10,629	7,708	8,610	5,888	9,946	10,689	11,275	12,211	24,095	13,814
Taxation	(3,439)	(3,361)	(3,137)	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)	(4,289)
Profit after taxation	7,190	4,347	5,473	2,858	6,741	7,151	7,810	8,565	18,157	9,525
Non-equity dividends	8	8	8	9	11	11	11	11	11	9,637
Ordinary dividends	2,844	2,962	3,154	3,417	3,526	3,686	3,663	3,786	4,476	5,019
Retained in the business***	4,338	1,377	2,311	(568)	3,204	3,454	4,136	4,768	13,670	(5,131)
Capital employed	43,733	45,549	46,505	50,037	49,048	49,210	49,599	51,451	63,825	57,475

Unless otherwise stated all amounts are in £ thousands.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Underlying/headline earnings per share**	23.51p	14.14p	17.80p	20.40p	22.20p	24.66p	28.84p	33.61p	34.93p	38.53p
Net dividends per ordinary share	9.25p	9.65p	10.25p	11.00p	11.75p	12.75p	13.75p	15.10p	17.75p	19.95p
Dividend cover based on underlying/headline earnings per share	2.54	1.47	1.74	1.85	1.89	1.93	2.10	2.23	1.97	1.93

* 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.

** Underlying/headline earnings per share is defined in the notes to the accounts for the relevant year.

*** 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	2 December 2005 (see notice of meeting on pages 40 to 41).

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*

	Number of holders	Number of shares
By size of holding		
1-10,000	2,225	4,080,831
10,001-50,000	137	2,696,574
50,001-250,000	48	4,872,478
250,001 and over	18	13,663,227
	2,428	25,313,110

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	345	6,274,598	24.79
Other limited companies/corporate bodies	43	399,739	1.58
Miscellaneous bodies/pension funds	7	21,838	0.09
Private individuals	2,028	18,585,438	73.42
Investment trusts and funds	5	31,497	0.12
	2,428	25,313,110	100.00

*as at 30 September 2005

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETIETH ANNUAL GENERAL MEETING of the company will be held at the Moat House Hotel, 1 Higher Bridge Street, Bolton, on 2 December 2005 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 2005 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

4 To re-appoint PKF (UK) LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

5 To approve that, conditional upon and simultaneously with the admission to AIM, the market of that name owned and operated by the London Stock Exchange plc, each ordinary share of 10p each (issued and unissued) be subdivided into two ordinary shares of 5p each, such shares to have the same rights after subdivision as the ordinary shares of 10p each had previously.

Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 6 and 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

6 That, subject to the passing of the ordinary and special resolutions respectively numbered 7 and 8 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.

7 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 £759,393 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.

8 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.

9 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
1 November 2005

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 30 November 2005 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 30 November 2005.

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 on 5 December 2005 to shareholders on the register as at 4 November 2005.

Notes

JAMES HALSTEAD plc

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