James Halstead

JAMES HALSTEAD plc

THE QUEEN'S AWARDS
FOR ENTERPRISE
2006

Report & Accounts 2006

Contents

Chairman's Statement

In recent weeks we have committed funds for further expansion

I am very pleased to report, once again, a record set of results. Our profit before taxation is £17.5 million which is some 27% ahead of the £13.8 million of last year. The driving factor behind this result is increased turnover and the Group reports sales of £126 million (2005 : £112.4 million) which is an increase of 12%. The year has seen the group face significant raw material and energy cost increases. However this excellent set of results, I feel, vindicates the confidence I expressed last year.

Dividend

The Board proposes to increase the final dividend to 8p (2005 : 6.375p), an increase of 25.5%. The total dividend for the year will therefore be 12.25p (2005 : 9.875p) an increase of 24%.

Acknowledgements

Once again our team succeeded in facing the challenge of tough markets to expand our operations and on behalf of the Board I extend our thanks for their efforts.

In April 2006 the Group gained recognition by receiving the Queen's Award for Enterprise in the category of International Trade. Any successful exporter relies on a sound base in their home market and this award is the result of solid focus by our sales teams in both the UK and overseas.

Outlook

In recent weeks we have committed funds for further expansion of both our distribution facilities and our manufacturing capacity and given a continuation of current demand, notwithstanding continued upward pressure on raw material costs, I look forward to the next year with continued confidence for another year of progress.

Geoffrey Halstead
Chairman

Chief Executive's Report

This year was the most successful in our history

The year was not easy. There was a very challenging environment with adverse raw material prices and energy costs. However, a very strong sales performance and increased productivity mitigated these cost increases. With turnover increasing to £126 million (an uplift of 12%) the additional volume offset significant increases in electricity costs and in polymer prices. Gross margins slightly improved.

Profit before tax of £17.5 million (2005 : £13.8 million) was 27% ahead of last year.

Once again our subsidiaries effectively managed working capital, particularly stock. Consequently, net cash inflow from operations was 26% ahead of last year and the year-end net funds are £25.6 million (2005 : £25.5 million). Given the special dividend of £12.7 million paid in the year this was a satisfying achievement.

During the year the Group was presented with the Queen's Award for Enterprise. This was welcome recognition of our efforts in overseas markets and it is pleasing to report further growth in this area. Our international turnover has reached £69.7 million, some 14% ahead of the corresponding £61.2 million for 2005.

The projects undertaken are numerous but include Cross River State Hospital in Calabar, Nigeria; Costa Coffee shops in India; the Siemens Arena in Vilnius, Lithuania and Bagram Airbase Hospital in Afghanistan. Our product is actively and regularly sold in over 60 countries.

Even though the sales activity has been very good in the year, export markets have further potential and we continue to invest in our distribution chain overseas.

The UK market has also been strong. Total UK sales growth of 10% (2006 : £56.3 million; 2005 : £51.1 million) does not fully reflect our growth in flooring as turnover at Phoenix (which has now fully exited motorcycle clothing and the low end of the crash helmet market) fell. Focusing solely on flooring, the UK improvement is 16%. Given the inability to increase prices in this market, due to competitive conditions, this is a laudable achievement.

The sales growth in volume terms was not linked to any one product range: across our main product ranges, marbleised, non-directional, safety and luxury vinyl tile we achieved an average 15% growth in volume.

Our flooring product has been installed in Arsenal's new Emirates Stadium, in the redeveloped Ascot racecourse and in the new Derby Hospital.

Looking at our subsidiaries:

Polyflor (our UK manufacturing base and a major exporter), had a good year of growth despite the previously mentioned cost increases. Turnover was 16% ahead of last year with strong sales both in the UK and overseas and the company was focused on maximising previous capital investments thus creating improvements in output and productivity. The UK market has undoubtedly grown but indications suggest Polyflor also increased its market share in resilient floor coverings.

Objectflor (based in Cologne, Germany). This company acts not just as our stocking point but as our European face. The company markets its flooring ranges (supplied in part by Polyflor) and offers technical back-up, local marketing and sales support through its sales force and its sub-distributors across Western Europe. Turnover increased 20% and projects completed in the year included Ikea's head office in Wallau, Germany and all the restaurants on the Velaro high speed trains in Spain.

Karndean International GmbH (based in Germany). The company specialises in luxury vinyl tiles and traded very well with turnover 27% ahead of last year.

Polyflor Australia. With warehousing facilities across the country this company is a significant player in the Australian commercial flooring market. The company supports day to day flooring sales from its premises in each state and a dedicated contract sales force is aimed at winning contracts in projects nationwide. During the year our central warehouse, based in Melbourne, was relocated to much larger premises. Turnover increased by 12%.

During the year the company supplied flooring to the Melbourne Cricket Ground, one of the most prestigious contracts available this year.

Halstead Flooring Concepts (based in New Zealand), operates from three locations. This long established distributor continues to be a solid part of the international team. The company, like others, faced competition in its carpet ranges and was not alone in facing difficult trading in that sector. Contract vinyl collections performed more robustly.

Polyflor Nordic. Incorporating Polyflor Norway and Falck Design (Sweden), this division continues to perform well. Turnover growth in this division has been 19% in the year. The luxury vinyl tile range, Megastrong, has been fully re-vamped and whilst this happened towards the end of the year, sales indications are good.

Phoenix Distribution (based in Stoke-on-Trent), is a distributor of motorcycle related accessories. The company is much reduced in size following prior year decisions to focus on the premium brand Arai. Last year, our motorcycle clothing sales (Belstaff) ceased and this year saw the final exit from the secondary brand of 'low end' crash helmets. Reduced turnover was inevitable and planned as the brand portfolio shrank, but gross margin and underlying profit (before exceptionals) were improved. Core Arai sales were improved by 4%. The market place remains fragile but Phoenix is firmly focused on one of the few true performance brands and we look forward to building on this base.

Outlook

This year was the most successful in our history and our subsidiaries and trading partners are well placed to continue this success. There are areas where improved performance can be expected and whilst next year will see investment in new production facilities the benefits accruing will be late in the year and more likely in 2007/08. Overall the new financial year should see a continuation of growth in turnover and profitability and I expect continued progress.

Mark Halstead
Chief Executive

Financial Report

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 £17.5 million (2005: £13.8 million) shows an increase of 27%. Against a climate of raw material price rises that were again absorbed, this was a very creditable performance.

In addition close attention was paid to controlling working capital. Some of the key statistics are:

- Group turnover at £126 million (2005: £112.4 million) up 12%
- Underlying earnings per share at 23.8p (2005: 19.2p) up 24%
- Dividends at 12.25p (2005: 9.875p) up 24%
- Stock at £19.8 million (2005: £20.0 million) down 1.3%
- Trade debtors at £18.4 million (2005: £17.1 million) up 7.3%
- Net cash at £30 million (2005: £31.7 million), despite spending £12.7 million on the special dividend

Special dividend

During the year we returned cash of £12.7 million to shareholders by way of a special dividend of 25p per ordinary share. This follows a return of capital in 2005 of £15.2 million. The final proposed dividend represents the 30th year of dividend increases.

Sub-division of ordinary shares

The Board, having regard for the increase in the share price in recent years, decided to undertake a sub-division of shares. Consequently, on 27 February 2006, each 10p ordinary share was sub-divided into two new ordinary shares of 5p each.

Defined benefit pension scheme

In recent years the final salary scheme has become an area of increasing work, partly the result of the growing cost of the provision of this type of pension and partly the increasing legislative environment.

The final salary scheme was closed to new members some years ago and a new defined contribution scheme introduced. This has not meant that the issues associated with the original scheme have lessened, merely that they are not compounded.

During the year the Board has worked closely with the Trustees and has instigated several changes, which have altered the future benefits accrual for the final salary scheme. The Board had taken the view that rather than an escalating cost for members and for the Group due to extended lives the future benefits should be reviewed. This has the effect of offsetting increases and leaving the employee with the choice of reduced future accrual of benefit or augmentation by way of additional personal contributions.

FRS 17

The notes on pages 28 to 30 detail the FRS 17 analysis of the scheme and whilst this seems to be the main focus of attention for analysts and shareholders, it gives only a snapshot of the scheme and the creditor in the balance sheet is very fluid. It is sensitive to gilt yields and other assumptions and is at best a rough guide to the ongoing liability. Certainly it falls well short of a 'buy-out' figure.

It is important to appreciate that whilst the scheme is closed to new members and future accrual rates for benefits have been reduced, the liabilities of the scheme are not capped but will continue to be determined not just by investment returns but also by longevity of pensioners. It is worth noting the decline in the FRS 17 deficit despite all this, but as the factors that dictate this figure are all outside the group's control the issue remains under close scrutiny.

International accounting standards

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.

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 £25.1 million (2005: £19.9 million).The overall decrease in cash of £1.5 million is after net capital expenditure of £1.0 million, payment of taxation and dividends (including the special dividend) less interest of £24.1 million and the repayment of borrowings of £1.8 million. £0.3 million was received from share issues. The net funds (cash net of loans and preference shares classed as borrowings under FRS 25) at £25.6 million (2005: £25.5 million) show a healthy ungeared position.

Net assets

The overall decrease in net assets is £5.4 million with the increase from profits after tax and ordinary dividends of £6.4 million and exchange movements, actuarial gains (net of deferred tax) and share issues of £0.9 million being offset by the effects of the special dividend of £12.7 million.

Net assets per ordinary share decreased to 82.6p (2005: 93.6p). However to give a fair comparison, the 2005 figure should be adjusted to 68.6p to reflect the 25p 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 2006 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 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 22 on pages 36 and 37.

Principal business risks and uncertainties

The ongoing nature of a business such as ours dictates that the Board both understands the nature of the business and its direction. The Statement of Corporate Governance notes the objectives and mechanisms of internal control and I would like to underline the importance of detailed strategic board meetings held regularly at Group and subsidiary level. The Board constantly assesses risks. To the extent risk is insurable the Board is risk averse and is widely insured.

The Board is of the belief that internal control, risk management and stewardship are linked and inseparable. Whilst principally risk and control are measured and assessed from a financial prospective, this is not to the exclusion of non-financial risks and uncertainties.

A comprehensive insurance appraisal takes place annually to mitigate risk exposures to business interruption, fire, etc. but obviously key risks such as escalating raw material prices and energy costs fall outside any insurable event. There are key customers and key suppliers which create dependencies. Sales and purchasing policies are under regular review to assess these dependencies.

It is clear that scenarios can be envisaged where the group's activities may be disrupted and little could be done to mitigate the negative effects.

Gordon Oliver
Finance Director

Directors and Advisers

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

Secretary
W J Whittaker FCMA

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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 2006.

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

Principal activities and review of the business

The principal activities and a review of the business of the group are described in the chief executive's report and the financial report. Also contained in the financial report is a summary of the principal business risks and uncertainties and the group's use of financial instruments.

Results and dividends

The group results for the year and the financial position at 30 June 2006 are shown in the consolidated profit and loss account on page 14 and the consolidated balance sheet on page 15.

The directors are recommending a final dividend of 8p per share on the ordinary share capital for payment on 1 December 2006 to those shareholders whose names appear on the register at 3 November 2006. This final dividend together with the interim dividend paid on 26 May 2006 makes a total of 12.25p per share (2005: 9.875p).

In addition a special dividend of 25p per 5p share was paid on 17 February 2006.

Directors

Mr G R Oliver, 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 2006		30 June 2005*	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	2,081,224	211,300	2,039,290	211,300
G R Oliver	38,338	–	31,504	–
M Halstead	3,382,120	2,796,480	3,380,370	2,796,480
J A Wild	40,854	3,204,772	35,854	3,204,772
Preference shares				
G Halstead	85,905	–	86,405	–
J A Wild	–	8,750	–	8,750
'C' shares				
G Halstead	433,544	–	466,025	–
M Halstead	661,734	627,573	746,801	636,670
J A Wild	–	761,571	–	761,571

*Previously ordinary shares of 10p each.

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 22 September 2006.

Substantial interests

As at 22 September 2006 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
J Halstead and Ms G Halstead	9,089,030	17.87
J Halstead and A Halstead	2,638,300	5.19
Rulegate Nominees Limited	2,006,725	3.95
Vidacos Nominees Limited	1,563,405	3.07

Sub-division of ordinary shares

At the annual general meeting on 2 December 2005 a resolution was passed for a sub-division of the ordinary share capital, then consisting of 10p ordinary shares, into ordinary shares of 5p each on the basis that each ordinary shareholder on the record date would receive two ordinary shares of 5p each for every 10p ordinary share held. This sub-division was effected on 27 February 2006.

Share capital

Ordinary shares

On 1 November 2005, 140,616 shares; on 6 January 2006, 88,000 shares; on 9 January 2006, 5,334 shares; and on 25 April 2006, 1,438 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

C shares

845,323 C shares were redeemed on 14 January 2006, leaving 4,716,319 in issue.

Share buy back

At the annual general meeting held on 2 December 2005, 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 2006. However, the directors believe that it is in the best interests of the company for the authority to be renewed at a similar

Report of the Directors
Continued

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 2006.

Special business at the annual general meeting

Resolution 5 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2007.

Resolution 6 authorises the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 for a further period of twelve months from the date of the annual general meeting in 2006.

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

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

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 2006 there were 30 (2005: 31) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £7,964 (2005: £4,001) 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 5 on page 21.

Auditors

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

As at 22 September 2006, 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
22 September 2006

Board Report on Remuneration

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 6 on page 21 and an analysis of directors' share options is given in note 20 on page 33.

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 464,388 shares were granted in the financial year ended 30 June 2006, and options over 235,388 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

Statement of Corporate Governance

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.

Statement of Corporate Governance
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- 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 of James Halstead plc

We have audited the group and parent company financial statements ('the financial statements') of James Halstead plc for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses, the reconciliation of movements in group shareholders' funds, the statement of accounting policies and the related notes. The 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 ('United Kingdom Generally Accepted Accounting Practice') 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The 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.

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the chief executive's report and the financial report that is cross referenced from the principal activities and business review section of the directors' report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors

Manchester. UK
22 September 2006

Consolidated Profit and Loss Account

for the year ended 30 June 2006

	Note	2006 £'000	2005 as restated £'000
Turnover	1	126,024	112,353
Operating profit	3	16,567	12,733
Interest and other finance costs	4	914	1,027
Profit on ordinary activities before taxation	5	17,481	13,760
Taxation on ordinary activities	8	(5,647)	(4,276)
Profit on ordinary activities after taxation		11,834	9,484
Earnings/(loss) per ordinary share of 5p	10		
– basic		23.3p	(0.3)p
– diluted		23.2p	(0.3)p

All the above results derive from continuing operations.

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

Details of dividends paid and proposed are given in note 9.

Balance Sheets
as at 30 June 2006

	Note	Group 2006 £'000	Group 2005 as restated £'000	Parent company 2006 £'000	Parent company 2005 as restated £'000
Fixed assets					
Intangible assets	11	3,232	3,460	–	–
Tangible assets	12	18,687	20,741	4,752	647
Investments	13	–	–	20,391	21,066
		21,919	24,201	25,143	21,713
Current assets					
Stocks	14	19,770	20,029	–	–
Debtors	15	21,093	18,887	16,106	22,113
Cash at bank, in hand and on short-term deposit		30,050	31,675	20,343	23,392
		70,913	70,591	36,449	45,505
Creditors – amounts falling due within one year	16	(37,685)	(31,140)	(15,424)	(14,357)
Net current assets		33,228	39,451	21,025	31,148
Total assets less current liabilities		55,147	63,652	46,168	52,861
Creditors – amounts falling due after more than one year	17	(4,441)	(6,134)	(3,030)	(3,537)
Provisions for liabilities and charges	18	–	(353)	(44)	–
Net assets excluding pension scheme deficit		50,706	57,165	43,094	49,324
Pension scheme deficit	19	(8,681)	(9,790)	–	–
		42,025	47,375	43,094	49,324
Capital and reserves	20				
Equity share capital		2,543	2,531	2,543	2,531
Equity share capital (B shares)		160	160	160	160
Called up share capital		2,703	2,691	2,703	2,691
Share premium account		321	48	321	48
Revaluation reserve		3,544	3,544	–	–
Capital redemption reserve		3,449	2,942	3,449	2,942
Profit and loss account		32,008	38,150	36,621	43,643
Total shareholders' funds		42,025	47,375	43,094	49,324

These financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 September 2006.

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 2006

	Note	2006	2005 as restated
		£'000	£'000
Net cash inflow from operating activities	21(i)	25,130	19,866
Returns on investments and servicing of finance	21(ii)	856	1,274
Return of capital – B share dividend		–	(9,626)
Taxation paid		(6,866)	(5,860)
Capital expenditure	21(ii)	(1,035)	(5,827)
Acquisitions and disposals	21(ii)	–	(1,390)
Equity dividends paid		(18,113)	(4,743)
Cash outflow before financing		(28)	(6,306)
Financing:			
Shares issued		285	406
(Decrease)/increase in debt		(1,794)	401
Decrease in cash		(1,537)	(5,499)
Reconciliation of net cash flow to movement in net funds	21(iii)		
Decrease in cash		(1,537)	(5,499)
Movement in debt		1,794	(401)
Change in net funds resulting from cash flows		257	(5,900)
Effect of exchange differences		(151)	129
Creation of C shares		–	(5,559)
Movement in net funds for the period		106	(11,330)
Net funds as at 1 July		25,515	36,845
Net funds as at 30 June		25,621	25,515

The accounting standard FRS 25 – Financial Instruments: Disclosure and Presentation classes our preference shares as debt, consequently net funds are restated. For clarification, as shown in note 21(iii), cash in hand and at bank at 30 June 2006 is £30,050,000 (2005: £31,675,000).

Statement of Group Total Recognised Gains and Losses
for the year ended 30 June 2006

	2006	2005 as restated
	£'000	£'000
Profit for the financial year	11,834	9,484
Currency translation differences on foreign currency net investments	(438)	597
Actuarial gain/(loss) on the pension scheme	1,546	(1,748)
Movement on deferred tax asset relating to the pension scheme	(464)	524
Total recognised gains relating to the financial year	12,478	8,857
Prior year adjustment (implementation of FRS 17)	(9,790)	
Total recognised gains since the last report	2,688	

Reconciliation of Movements in Group Shareholders' Funds
for the year ended 30 June 2006

	Note	2006	2005 as restated
		£'000	£'000
Profit for the financial year		11,834	9,484
Equity dividends paid	9	(18,113)	(14,369)
		(6,279)	(4,885)
Other recognised gains and losses relating to the financial year		644	(627)
Creation of C shares		–	(5,559)
New share capital subscribed		285	406
Net decrease in shareholders' funds for the financial year		(5,350)	(10,665)
Opening equity shareholders' funds (originally £57,475,000 before prior year adjustments of £10,100,000)		47,375	58,040
Closing equity shareholders' funds		42,025	47,375

Statement of Accounting Policies

The group accounts consolidate the accounts of the holding company and its subsidiaries made up to 30 June 2006 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.

The group has adopted FRS 17 – Retirement Benefits, FRS 21 – Events After the Balance Sheet Date and the required elements of FRS 25 – Financial Instruments: Disclosure and Presentation in these accounts. The comparative figures for the year ended 30 June 2005 have been restated to reflect the adoption of these standards.

The effects of the adoption of these standards on the results for the year to 30 June 2005 are as follows:

	Restated £'000	As reported £'000	Reduction £'000
Profit on ordinary activities before taxation	13,760	13,814	54
Profit on ordinary activities after taxation	9,484	9,525	41
Basic loss per 5p ordinary share	(0.3)p	(0.2)p*	0.1p

* previously reported as (0.4)p per 10p ordinary share

The effect of the changes in policy on the results for the year to 30 June 2006 is a decrease in profit on ordinary activities after taxation of £117,000.

The group was also required to adopt FRS 22 – Earnings Per Share, which did not have a material impact.

A summary of the principal accounting policies adopted by the directors is set out below. Except as noted above 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. Pension costs for the defined benefit scheme are accounted for in accordance with FRS 17 – Retirement Benefits. Pension scheme assets are measured using fair values. Pension scheme liabilities are measured using a projected unit method and discounted at an appropriate rate.

The pension scheme liability is recognised in full net of deferred tax and presented on the face of the balance sheet. The full service cost of the pension scheme is charged to operating profit. The impact of the unwinding of the discount rate on scheme liabilities is reflected in interest costs and the expected return on the scheme assets is included in interest receivable. Any difference between the expected return on assets and that actually achieved is charged through the statement of total recognised gains and losses, as are any differences that arise from experience or assumption changes.

Pension costs for a number of employees both inside and outside the UK are also incurred under defined contribution schemes accounted for on a payments basis.

Certain of the company's employees participate in the group's defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme in accordance with the requirements of 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.

Notes to the Accounts

1. Turnover

	2006 £'000	2005 £'000
Geographical markets supplied		
United Kingdom	56,292	51,132
Europe	44,732	36,365
Australasia and Asia	19,094	19,910
Others	5,906	4,946
	126,024	112,353

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 share

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.

	2006	2005
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	465,408	677,336
As a percentage of shares in issue	0.92%	1.34%

3. Operating profit

	2006 £'000	2005 as restated £'000
Turnover	126,024	112,353
Cost of sales	(68,566)	(62,629)
Gross profit	57,458	49,724
Selling and distribution costs	(28,982)	(26,010)
Administrative expenses	(11,909)	(10,981)
Operating profit	16,567	12,733

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. Interest and other finance costs

	2006	2005
		as restated
	£'000	£'000
Interest receivable		
On bank deposits	1,416	1,496
Other	2	9
Expected return on pension scheme assets	2,523	2,328
	3,941	3,833
Interest payable		
Preference share dividend	(11)	(11)
C share dividend	(133)	–
On bank loans and overdrafts repayable		
within 5 years	(208)	(176)
within 5 - 10 years	(75)	(35)
Interest on pension scheme liabilities	(2,504)	(2,531)
Other	(96)	(53)
	(3,027)	(2,806)
Net interest receivable	914	1,027

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

	2006	2005
	£'000	£'000
Depreciation of tangible fixed assets	3,157	3,507
Amortisation of goodwill	228	213
Hire of plant and machinery	28	55
Leasing charges – land and buildings	808	1,016
– other	679	710
Auditors' remuneration – audit fees	52	52
Auditors' remuneration – non-audit related fees	–	–
Research and development	1,593	1,618
Profit on sale of fixed assets	(28)	(11)

Audit fees for the parent company were £18,000 (2005: £18,000).

6. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £650,455 (2005: £588,239) of which £194,050 (2005: £172,236) relates to performance. Pension contributions amounted to £42,994 (2005: £38,144). The emoluments of the highest paid director, excluding pension contributions were £212,552 (2005: £195,895). 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 (2005: 2) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £294,326 (2005: £272,605); of these £215,545 (2005: £141,141) related to the highest paid director.

Notes to the Accounts
continued

7. Staff numbers and costs, excluding group directors

Employee costs	2006 £'000	2005 £'000
Wages and salaries	19,578	17,909
Social security costs	2,094	1,805
Other pension costs	1,223	1,053
	22,895	20,767

Employee numbers	2006 Number	2005 Number
The average monthly number of persons employed by the group during the year by activity was:		
Manufacturing, selling and distribution	628	591
Administration	105	108
	733	699

8. Taxation

	2006 £'000	2005 as restated £'000
a) Current taxation		
UK Corporation tax at standard rate 30% (2005: 30%)	5,835	4,120
Double taxation relief	(437)	–
Overseas tax	1,688	1,155
Adjustment in respect of prior years	(456)	(245)
	6,630	5,030
Deferred taxation (Note 18)	(983)	(754)
	5,647	4,276
b) Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	17,481	13,760
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	5,244	4,128
Effects of:		
Expenses not deductible for tax purposes	846	318
Accelerated capital allowances and other timing differences	858	715
Differences in overseas tax rates	138	114
Adjustments to tax in respect of prior periods	(456)	(245)
Current tax charge for the period	6,630	5,030

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%.

9. Dividends

	2006 £'000	2005 as restated £'000
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 for current year of 4.25p (2005: 3.5p)	2,162	1,772
Special dividend paid of 25p	12,715	–
Final dividend for previous year of 6.375p (2005: 5.875p)	3,236	2,971
Amounts recognised as distributions to equity holders in the year	18,113	14,369

A final dividend of 8p for the year ended 30 June 2006 will be proposed at the Annual General Meeting. This is not included in the above figures in accordance with FRS 21.

10. Calculation of earnings per ordinary share

	2006 £'000	2005 as restated £'000
Profit on ordinary activities after taxation	11,834	9,484
B share dividend	–	(9,626)
Basic earnings	11,834	(142)
Add back B share dividend	–	9,626
Goodwill amortisation charge	228	213
Underlying earnings	12,062	9,697
Weighted average number of 5p ordinary shares in issue	50,764,031	50,487,932
Weighted average number of 5p ordinary shares in issue (diluted for the effect of outstanding share options)	51,008,831	50,732,214
Basic earnings/(loss) per 5p ordinary share	23.3p	(0.3)p
Underlying earnings per 5p ordinary share	23.8p	19.2 p
Diluted earnings/(loss) per 5p ordinary share	23.2p	(0.3)p

The company's 10p ordinary shares were sub-divided into two new ordinary shares of 5p each on 27 February 2006. The earnings per share calculations for the year to 30 June 2005 have been restated to reflect this.

Notes to the Accounts
continued

11. Intangible fixed assets – goodwill

	£'000
Cost	
At 30 June 2005 and 30 June 2006	4,551
Amortisation	
At 30 June 2005	1,091
Charge for the year	228
At 30 June 2006	1,319
Net book value at 30 June 2006	3,232
Net book value at 30 June 2005	3,460

12. 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 2005	11,660	42,709	54,369	567	390	957
Additions	165	1,066	1,231	6,231	78	6,309
Reclassification	(373)	373	–	–	–	–
Disposals	(2)	(819)	(821)	–	(114)	(114)
Exchange rate adjustments	64	(79)	(15)	–	–	–
At 30 June 2006	11,514	43,250	54,764	6,798	354	7,152
Accumulated depreciation						
At 30 June 2005	2,406	31,222	33,628	45	265	310
Charge to profit and loss account	408	2,749	3,157	112	73	185
Additions	–	–	–	1,981	12	1,993
Disposals	–	(653)	(653)	–	(88)	(88)
Exchange rate adjustments	(9)	(46)	(55)	–	–	–
At 30 June 2006	2,805	33,272	36,077	2,138	262	2,400
Net book values at 30 June 2006	8,709	9,978	18,687	4,660	92	4,752
Net book values at 30 June 2005	9,254	11,487	20,741	522	125	647

The amounts at 30 June 2006 for freehold land and buildings include valuations as of the dates noted (of which £691,434 relates to land which is not depreciated)

	£
30 June 1993	4,350,000
30 June 1999	602,531

12. Tangible fixed assets (continued)

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.

	2006	2005
Capital commitments	£'000	£'000
Contracted but not provided for	45	96

Commitments under operating leases for the year to 30 June 2006

	Land and buildings		Other	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
analysed as to leases which expire:				
within the next 12 months	42	11	70	74
between 2 and 5 years	306	467	610	494
after 5 years	203	118	10	–

13. 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	4,101
*Karndean International GmbH	Germany	100	–	–
*Falck Design AB	Sweden	100	–	–
				28,477

* 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 report.

Notes to the Accounts
continued

13. Investments – interests in subsidiary undertakings (continued)

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost at 30 June 2005	29,152	1,314	30,466
Capital repayment	(675)	–	(675)
Cost at 30 June 2006	28,477	1,314	29,791
Provision at 30 June 2006 and 30 June 2005	9,400	–	9,400
Net book value at 30 June 2006	19,077	1,314	20,391
Net book value at 30 June 2005	19,752	1,314	21,066

14. Stocks

	Group	
	2006 £'000	2005 £'000
Raw materials	888	780
Consumable stores	399	409
Work in progress	522	470
Finished goods	17,961	18,370
	19,770	20,029

15. Debtors

	Group		Parent company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts falling due within one year				
Trade debtors	18,352	17,098	7	8
Current accounts with subsidiary undertakings	–	–	15,580	21,545
Other debtors	2,008	833	446	475
Prepayments and accrued income	733	956	73	85
	21,093	18,887	16,106	22,113

16. Creditors – amounts falling due within one year

	Group		Parent company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
Trade creditors	17,800	14,811	140	49
Bank loan	274	271	–	–
Current accounts with subsidiary undertakings	–	–	10,596	10,737
Corporation tax payable	5,173	5,384	517	649
Other taxation and social security	1,054	1,098	54	52
Other creditors	2,095	1,687	1,490	1,106
Accruals and deferred income	11,289	7,889	2,627	1,764
	37,685	31,140	15,424	14,357

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.

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

	Group		Parent company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
Bank loan – due after one, within two years	285	271	–	–
– due after two, within five years	840	814	–	–
– due after five years	–	1,267	–	–
Overseas pension liability and other creditors	286	245	–	–
C preference shares	2,830	3,337	2,830	3,337
Preference shares	200	200	200	200
	4,441	6,134	3,030	3,537

Notes to the Accounts
continued

18. Provisions for liabilities and charges

	Group		Parent company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
Accelerated capital allowances	1,610	1,823	797	(35)
Short-term timing differences	(2,712)	(1,966)	(753)	(392)
	(1,102)	(143)	44	(427)
Opening balance	(143)	641	(427)	(197)
Exchange rate adjustment	36	(43)	-	–
(Credit)/charge to profit and loss account	(983)	(754)	471	(230)
FRS 17 movement	(12)	13	–	–
Balance at 30 June	(1,102)	(143)	44	(427)
Transfer to other debtors	1,102	496	–	427
	–	353	44	–

19. 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.

FRS 17, "Retirement benefits" was issued in November 2000 to replace SSAP 24. Full adoption of the new accounting standard is now mandatory and the group has adopted the standard in these accounts.

The following amounts relating to the UK's defined benefit pension scheme are measured in accordance with FRS 17 at 30 June 2006:

	2006	2005	2004
	£'000	£'000	£'000
Total market value of assets	41,474	36,305	31,785
Present value of liabilities	(53,875)	(50,291)	(43,980)
Deficit in the scheme	(12,401)	(13,986)	(12,195)
Related deferred tax asset	3,720	4,196	3,659
Net pension liability	(8,681)	(9,790)	(8,536)

19. Pension arrangements (continued)

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

	Long-term rate of return expected At 30 June 2006	At 30 June 2005	At 30 June 2004	Value at 30 June 2006 £'000	Value at 30 June 2005 £'000	Value at 30 June 2004 £'000
Equities	7.8%	7.5%	8.0%	33,469	27,860	25,625
Property	7.8%	7.5%	8.0%	3,190	2,916	1,267
Fixed interest	5.0%	4.7%	5.0%	3,231	2,694	2,442
Cash	4.5%	3.5%	3.0%	1,584	2,835	2,451
				41,474	36,305	31,785

A full actuarial valuation was carried out as at 5 April 2005. The results of that valuation have been projected to 30 June 2006 and then recalculated based on the following assumptions:

	30 June 2006	30 June 2005	30 June 2004
Rate of increase in salaries*	2.5%	2.7%	3.0%
Rate of increase in pensions in payment	2.8%	2.7%	3.0%
Discount rate	5.3%	5.0%	5.8%
Inflation assumption	3.0%	2.7%	3.0%

*From 1 April 2006 future accrual of benefits is capped.

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

	2006 £'000	2005 £'000
(i) Operating profit:		
Current service cost	(799)	(743)
Past service cost	–	–
Total operating charge	(799)	(743)
(ii) Other finance income		
Expected return on pension scheme assets	2,523	2,328
Interest on pension scheme liabilities	(2,504)	(2,531)
Net return/(charge)	19	(203)
(iii) Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	2,925	2,716
Experience gains and losses arising on the scheme liabilities	563	–
Changes in assumptions underlying the present value of the scheme liabilities	(1,942)	(4,464)
Actuarial gain/(loss) recognised in STRGL	1,546	(1,748)

Notes to the Accounts
continued

19. Pension arrangements (continued)

(iv) Movement in deficit during the year

	2006 £'000	2005 £'000
Deficit in scheme at beginning of the year	(13,986)	(12,195)
Movement in year:		
Current service cost	(799)	(743)
Contributions	819	903
Past service costs	–	–
Other finance income/(cost)	19	(203)
Actuarial gain/(loss)	1,546	(1,748)
Deficit in scheme at end of the year	(12,401)	(13,986)

Details of experience gains and losses for the year

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	2,925	2,716	1,888	(3,496)	(5,463)
Percentage of scheme assets	7.1%	7.5%	5.9%	12.6%	18.9%
Experience gains and losses on scheme liabilities:					
Amount (£'000)	563	–	–	2,557	738
Percentage of the present value of the scheme liabilities	1.0%	–	–	6.1%	1.9%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	1,546	(1,748)	1,904	(2,959)	(6,380)
Percentage of the present value of the scheme liabilities	2.9%	3.5%	4.3%	7.1%	16.0%

There is an unfunded pension arrangement in Germany. The present value of the liability of £249,000 (2005: £213,000) is included in the balance sheet at 30 June 2006. The major assumptions used are as above.

20. Capital and reserves

	Authorised 2006	Authorised 2005	Allotted, issued and fully paid 2006	Allotted, issued and fully paid 2005
(a) Called up share capital				
Authorised and issued share capital				
Number of shares (000's)				
Ordinary shares at 5p each	100,000	100,000	50,862	50,626
B ordinary deferred shares of 1p each	25,000	25,000	16,043	16,043
C preference shares of 60p each	9,266	9,266	4,716	5,562
5.5% (2005: 5.5%) preference shares of £1 each	200	200	200	200
	£'000	£'000	£'000	£'000
Nominal value of shares				
Ordinary shares of 5p each	5,000	5,000	2,543	2,531
B ordinary deferred shares of 1p each	250	250	160	160
C preference shares of 60p each*	5,559	5,559	2,830	3,337
5.5% (2005: 5.5%) preference shares of £1 each*	200	200	200	200
	11,009	11,009	5,733	6,228
*Reclassified as debt under FRS 25			(3,030)	(3,537)
			2,703	2,691

At the annual general meeting on 2 December 2005 a resolution was passed for a subdivision of the ordinary share capital, then consisting of 10p ordinary shares, into ordinary shares of 5p each on the basis that each ordinary shareholder on the record date would receive two ordinary shares of 5p each for every 10p ordinary share held. This subdivision was effected on 27 February 2006. The comparative figures for the year ended 30 June 2005 for ordinary share capital have been restated to reflect the effects of this change.

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.

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.

Notes to the Accounts
continued

20. Capital and reserves (continued)

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. A further 845,323 C shares were redeemed on 14 January 2006, with a market value of £507,194. 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 dividend is payable on 14 January each year. 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% (2005: 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% (2005: 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.

Issue of shares

To enable share options to be exercised, the company issued 140,616 new ordinary shares on 1 November 2005, 88,000 new ordinary shares on 6 January 2006, 5,334 new ordinary shares on 9 January 2006, and 1,438 new ordinary shares on 25 April 2006.

20. Capital and reserves (continued)

Under the terms of the executive share option schemes approved on 5 December 1986 and 3 December 1998 options were exercised on 235,388 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 30.06.05	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.06
G Halstead	7 May 99	6 May 02	6 May 09	101.250	70,000	(70,000)	–	–
	25 Oct 02	24 Oct 05	24 Oct 12	129.665	18,000	(18,000)	–	–
	24 May 04	23 May 07	23 May 14	221.000	18,000	–	–	18,000
	4 May 05	3 May 08	3 May 15	256.250	30,000	–	–	30,000
	9 May 06	8 May 09	8 May 16	354.250	–	–	20,000	20,000
G R Oliver	25 Oct 02	24 Oct 05	24 Oct 12	129.665	18,000	(18,000)	–	–
	24 May 04	23 May 07	23 May 14	221.000	18,000	–	–	18,000
	4 May 05	3 May 08	3 May 15	256.250	30,000	–	–	30,000
	9 May 06	8 May 09	8 May 16	354.250	–	–	40,000	40,000
M Halstead	25 Oct 02	24 Oct 05	24 Oct 12	129.665	18,000	(18,000)	–	–
	24 May 04	23 May 07	23 May 14	221.000	18,000	–	–	18,000
	4 May 05	3 May 08	3 May 15	256.250	30,000	–	–	30,000
	9 May 06	8 May 09	8 May 16	354.250	–	–	40,000	40,000
Total – Directors					268,000	(124,000)	100,000	244,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.05	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.06
	25 Oct 02	24 Oct 05	24 Oct 12	129.665	190,826	(111,388)	(12,000)	67,438
	24 May 04	23 May 07	23 May 14	221.000	206,000	–	–	206,000
	1 Sept 04	30 Aug 07	30 Aug 14	221.000	20,000	–	–	20,000
	4 May 05	3 May 08	3 May 15	256.250	300,000	–	–	300,000
	17 July 05	16 July 08	16 July 15	289.000	–	–	10,388	10,388
	9 May 06	8 May 09	8 May 16	354.250	–	–	354,000	354,000
Total – Others					716,826	(111,388)	352,388	957,826
Grand Total					984,826	(235,388)	452,388	1,201,826

The market price of the shares at 30 June 2006 was 374.00p (2005: 286.25p).

The share price during the year ranged from 286.25p to 400.00p.

Notes to the Accounts
continued

20. Capital and reserves (continued)

(b) Reserves	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
Movements on reserves during the year were as follows:				
Group				
Balance at 30 June 2005 as previously reported	48	3,544	2,942	44,713
Prior year adjustment	–	–	–	(6,563)
Balance at 30 June 2005 as restated	48	3,544	2,942	38,150
Currency translation differences on foreign currency net investments	–	–	–	(438)
Equity dividends paid	–	–	–	(18,113)
Actuarial gain	–	–	–	1,082
Premium on share issues	273	–	–	–
Redemption of C shares	–	–	507	(507)
Profit for the year	–	–	–	11,834
Balance at 30 June 2006	321	3,544	3,449	32,008
Parent company				
Balance at 30 June 2005 as previously reported	48	–	2,942	40,416
Prior year adjustment	–	–	–	3,227
Balance at 30 June 2005 as restated	48	–	2,942	43,643
Equity dividends paid	–	–	–	(18,113)
Premium on share issues	273	–	–	–
Redemption of C shares	–	–	507	(507)
Profit for the year	–	–	–	11,598
Balance at 30 June 2006	321	–	3,449	36,621

(c) Goodwill

The cumulative goodwill, resulting from acquisitions, written off on consolidation against reserves amounts to £2,963,091 (2005: £2,963,091).

(d) The consolidated profit for the financial year includes a profit before dividends of £11,598,494 (2005: £10,330,543) which is dealt with in the accounts of the parent company.

21. Notes to the cash flow statement

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

	2006	2005 as restated
	£'000	£'000
Operating profit	16,567	12,733
Depreciation and amortisation charges	3,385	3,720
FRS 17 adjustment	(20)	(160)
Profit on sale of tangible fixed assets	(28)	(11)
(Increase)/decrease in stocks	(30)	2,609
(Increase)/decrease in debtors	(1,758)	87
Increase in creditors	7,014	888
Net cash inflow from operating activities	25,130	19,866

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

	2006	2005
	£'000	£'000
Returns on investments and servicing of finance		
Interest received	1,423	1,504
Interest paid	(423)	(219)
C share dividend paid	(133)	–
Preference dividend paid	(11)	(11)
	856	1,274
Capital expenditure		
Purchase of tangible fixed assets	(1,231)	(5,968)
Sale of tangible fixed assets	196	141
	(1,035)	(5,827)
Acquisitions and disposals		
Purchase of business and assets	–	(1,390)
	–	(1,390)

(iii) Analysis of changes in net funds

	At 30 June 2005 as restated	Net funds movement	Exchange movement	At 30 June 2006
	£'000	£'000	£'000	£'000
Cash in hand and at bank (includes overnight deposits).	31,675	(1,537)	(88)	30,050
Borrowings due within one year	(271)	–	(3)	(274)
Borrowings due after more than one year	(2,352)	1,287	(60)	(1,125)
C shares	(3,337)	507	–	(2,830)
Preference shares	(200)	–	–	(200)
	25,515	257	(151)	25,621

Notes to the Accounts
continued

22. Financial instruments

A full description of the group's treasury policy is contained in the financial report. 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 32. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2006 was £200,000 (2005: £200,000). Based on the most recent mid-market price, the fair value of the preference shares at 30 June 2006 was £156,000 (2005: £156,000). Under the requirements of FRS 25 the preference shares are included in creditors.

b) The C redeemable non-cumulative preference shares ("C shares") in issue are fully described in note 20 on page 31. The C shares are redeemable at the option of the holder on 14 January 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. Under the requirements of FRS 25 the C shares are included in creditors.

(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 was repayable in equal monthly instalments over ten years commencing in March 2005. In January 2006 the group made an additional repayment equivalent to £1,037,000. The outstanding balance at 30 June 2006 equates to £1,399,000. 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	
	2006	2005
	£'000	£'000
Sterling (including sterling equivalent of UK foreign currency balances)	26,845	28,736
Australian Dollars	687	610
New Zealand Dollars	421	505
Euro	1,951	1,541
Swedish Krona	146	283
	30,050	31,675

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.

22. Financial instruments (continued)

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 2006 with UK banks were, in US Dollars £644,000 overdrawn (2005: £523,000 overdrawn), in Euro £925,000 in hand (2005: £535,000 overdrawn) and in other currencies £2,053,000 overdrawn (2005: £2,042,000 overdrawn).

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

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

Net foreign currency monetary assets/(liabilities)

	Euro	US Dollars	Australian Dollars	Japanese Yen	New Zealand Dollars	Hong Kong Dollars	Other
	2006	2006	2006	2006	2006	2006	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Functional currency of group operation							
Sterling	(5,159)	2,941	(1,452)	748	(487)	(560)	(1,374)
New Zealand Dollars	–	(7)	235	–	–	–	–
Total	(5,159)	2,934	(1,217)	748	(487)	(560)	(1,374)
	2005	2005	2005	2005	2005	2005	2005
	£'000	£'000	£'000	£'000	£'000	£'000	£'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)

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 2006, based on the contracted forward rate was £21,161,155 (2005: £16,412,435). The fair value of these contracts, based on the estimated close out rate at 30 June 2006 is not materially different.

Ten Year Summary

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales	76,263	73,654	84,305	92,821	93,541	93,033	99,775	104,703	112,353	126,024
Profit (before exceptional items)	7,708	8,610	9,251	9,946	10,689	11,275	12,211	13,699	13,760	17,481
Exceptional items*	–	–	(3,363)	–	–	–	–	10,396	–	–
Profit before taxation	7,708	8,610	5,888	9,946	10,689	11,275	12,211	24,095	13,760	17,481
Taxation	(3,361)	(3,137)	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)
Profit after taxation	4,347	5,473	2,858	6,741	7,151	7,810	8,565	18,157	9,484	11,834

Unless otherwise stated all amounts are in £ thousands.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Underlying/headline earnings per 5p share**	7.07p	8.9p	10.20p	11.1p	12.33p	14.42p	16.81p	17.47p	19.2p	23.8p
Net dividends paid per ordinary share of 5p***	4.75p	4.95p	5.19p	5.59p	6.05p	6.55p	7.05p	8.00p	9.38p	10.63p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	1.49	1.80	1.97	1.99	2.04	2.20	2.38	2.18	2.05	2.24

* 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. Figures for previous years have been restated to take account of the two for one share issue in the year ended 30 June 2006.

*** Net dividends per ordinary share have been restated for previous years on a paid basis in accordance with FRS 21 and to take account of the two for one share issue in the year ended 30 June 2006.

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 prior to 2000, have not been adjusted for FRS 19.

The figures for 2005 and 2006, but not for prior years have been adjusted for the effects of FRS 17 and FRS 25.

Shareholder Information

Financial calendar

Annual general meeting	1 December 2006 (see notice of meeting on pages 40 to 42).

Announcement of results

For the half year	March
For the full year	September/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	2,473	6,544,168
10,001-50,000	272	5,644,768
50,001-250,000	72	8,365,532
250,001 and over	27	30,307,140
	2,844	50,861,608

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	569	12,354,260	24.29
Other limited companies/corporate bodies	43	538,629	1.06
Miscellaneous bodies/pension funds	7	11,154	0.02
Private individuals	2,217	37,856,521	74.43
Investment trusts and funds	8	101,044	0.20
	2,844	50,861,608	100.00

*as at 22 September 2006

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY FIRST ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, on 1 December 2006 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 2006 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

3 To re-elect Gordon Richard Oliver 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.

Special business

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

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

(i) to exercise the power contained in article 131 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 5p each of the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and

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

6 That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £762,924 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.

7 That subject to the passing of the previous resolution the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:

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

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

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

8 That the company is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) on the London Stock Exchange Limited of fully paid ordinary shares of 5 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 5 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;

(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; and

(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
20 October 2006

Notice of Annual General Meeting
Continued

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 registrar's office by noon on 29 November 2006 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 29 November 2006.

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 1 December 2006 to shareholders on the register as at 3 November 2006.

James Halstead

Notes

Notes

James Halstead

JAMES HALSTEAD PLC

2006

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