JAMES HALSTEAD plc

THE QUEEN'S AWARDS
FOR ENTERPRISE
2006 2007

Report & Accounts 2007

Contents

Chairman's Statement

The results for the year to 30 June 2007 show the highest sales and profit ever reported by the group, with sales levels achieved being £142.9 million (2006: £126.0 million), an increase of 13.4%. Profit before taxation is £23.3 million (2006: £17.5 million) which is 33% above last year. I believe that these results are commendable and reflect our simple approach of sourcing and producing the right products, effectively servicing our customers' needs, defending our market position and maintaining our reputation and credibility for the future. Our technical knowledge and worldwide industry recognised expertise continue to keep our products on the short list of choice for commercial flooring installations in a vast array of projects around the world.

As usual our year featured many interesting flooring projects that are keenly contested and attract attention. This year we have supplied product to the Grand Egyptian Museum in Giza, dubbed the "fourth pyramid".

Our Chinese sales office also secured the largest single hospital building project of 2007, the Chongqing South West Hospital.

In addition, closer to home our computerised design service, using water jet cutting, is producing flooring inserts to highlight Manchester Hope Hospital's initiative to combat MRSA in an innovative use of our in-house facilities.

Dividend

The board proposes to increase the final dividend to 11.25p (2006: 8p) an increase of 40.6%.

Acknowledgements

All of our companies succeeded in meeting the challenges of very diverse market conditions across the globe to make progress and on behalf of the Board I commend their achievements and extend our thanks to all involved.

In April 2007 the group gained recognition by receiving the Queen's Award for Enterprise in the category of innovation and continuous development. This was in respect of our market leading Polysafe range of slip resistant flooring and followed the Queen's Award in 2006 for international trade. I believe these awards recognise years of effort and hard work by our workforce.

I would like, specifically, to acknowledge the significant contribution to the business of Mr John Kay who has retired as the Technical Director of Polyflor Ltd after over 35 years' service with the company. His expertise will not be lost as he will continue to act as a consultant on special projects.

Outlook

The drive onward has not become easier, but in taking stock of the group at the present point in time we are in good standing. Compared to our competitors our turnover is relatively modest, and on the global scale of flooring there is market share to be gained.

There are initiatives in place to move us forward and whilst there are, as ever, challenges in the marketplace and strong competition, we look forward, with every confidence, to building upon this year's growth.

Geoffrey Halstead
Chairman

Chief Executive's Report

In the past year sales growth of 13.4% resulted in record turnover of £142.9 million (2006: £126.0 million). This growth in turnover was the key driver in increasing profit before tax to £23.3 million (2006: £17.5 million), up by over 33% on the previous year.

Turnover was ahead in all geographic areas. UK turnover increased by 10.5%, European turnover by 13.8%, Australasian turnover by 17.3% and the other overseas markets (including North America) progressed by 27%. Our international sales overall achieved £80.8 million (2006: £69.7 million), an increase of just under 16%.

Whilst there were some markets reporting less than double digit growth, it is encouraging that our product offering and our strategy were effective from Norway to Australia and from Canada to China.

The increasing levels of product sourced from third party/joint venture operations have, this year, as in recent years, offset some of the increased cost of UK manufacturing. They form a significant proportion of sales in many of our principal markets. It is important to note that, in the main, these are not proprietary factored products, but are designed, tested and trialled by James Halstead. Our technical and support expertise was historically dedicated to our Manchester manufacturing operation, but has been and will be additionally focused on James Halstead branded, out-sourced products, since we demand that these must meet the high standards established over many years in the UK. Patenting, branding and ownership of intellectual rights plus fifty years of expertise underpin the confidence of our customers in "James Halstead" flooring products, which, like our company logo, bear our founder's signature.

There were significant currency movements during the year and whilst diligent hedging of transactions was, as usual, in place, market movements inevitably affected results. The weak US dollar affected sales margins, not only in the USA, but in many of the Far Eastern markets whose currencies tend to mirror its movements. Benefits gained from purchases made in US dollars and favourable movements on exports in other currencies to a large degree mitigated these effects.

Reviewing our worldwide operations

Polyflor, the UK based operation

Our active sales representatives support local distributors throughout the UK and globally, working on specifications and projects from inception to installation in a very wide range of applications. The variety of installations was perhaps best illustrated when recently our Voyager Marine product was used on the "50 Let Pobedy", a 25,000 tonne nuclear powered Russian ice breaker able to break ice up to 2.8 metres thick.

Turnover in the year increased in the UK, to overseas subsidiaries and most particularly in third party export markets. Almost all direct export markets showed good growth, and all significant markets were well ahead of last year. North America has historically presented a challenge for Polyflor, but the current year has shown very good results. In the USA sales are 60% ahead of last year with Polyflor homogeneous flooring supplied to a number of important hospitals. In addition, Polyflor supplied luxury vinyl tiles for installation in some of North America's largest retail chain stores including "Rite-Aid" and "Bed, Bath and Beyond".

Sales to the Mediterranean region are also worthy of mention with the countries surrounding the Mediterranean having become some of our largest third party export markets. Particularly pleasing were the results of a change in distribution in Turkey, where our new representative has really shown what can be achieved in this market within a very short time frame.

Sales growth in the UK has been solid, and some 10% ahead of last year. The mix of product was favourable, with good growth in the higher added value products such as luxury vinyl tile, heterogeneous product and safety flooring. Polyflor are now the only UK manufacturer of homogenous vinyl flooring and though this gives the logistical advantage of being local it does mean that the factory must continue to improve productivity as competitors move to lower labour cost countries. It is true to say that a significant part of the growth in sales emanating from Polyflor has come from Halstead branded products and this is a trend that seems set to continue.

Manchester manufactured volumes increased by over 6%, which is encouraging, and this increase in output helped to offset margin erosion resulting from our inability to raise selling prices whilst facing increased costs. During the year there was no respite from high raw material prices and little relief from increased energy costs, but increased sales volumes, the benefit of product mix and the increased level of James Halstead branded products avoided margin erosion. The increased sales volume has meant that the logistics and distribution functions of the company have also been developed to handle the greater volumes. We continue to work with our local authority on site developments for the future.

During the last twelve months there have been several product launches, for example Bevel Line Wood, a luxury vinyl tile, Gallery FX Acoustic and Forest FX Acoustic flooring, which are particularly suitable for affordable and social housing, "Sport 67" and "Sport 80" flooring, aimed at the UK secondary school rebuild programme, together with Polysafe Strata and new colours for Polyflor 2000 PUR. Each of these is targeted at our core markets in the UK where our market share continues to be supported with strong initiatives and a portfolio of products focused on end user requirements.

The strong focus in the UK on initiatives to combat the recent rise in infections such as MRSA and E-Coli emphasises the extremely powerful case for the use of homogenous sheet vinyl, providing no sanctuary for dirt and bacteria, in healthcare establishments. For example Polyflor's Mystique PUR is installed in the wards and corridors of Reading's Royal Berkshire Hospital and our products are in use throughout Alder Hey Hospital in Liverpool. For many years the ease of maintenance and cleanability of our ranges have made them the best flooring solution for almost every conceivable area within a hospital. Our research and development ensures that our products continue to maintain their superiority over the alternatives.

The Polyflor campaign, "4 steps to safety", is the largest communication campaign we have ever undertaken with UK architects. It seeks to be balanced and educational about slip management and, we feel, underlines our position as the clear market leading brand, emphasising and reinforcing the Polysafe reputation for credibility and trust. A new initiative to raise the profile of slip resistant flooring in Germany has commenced with the German trade press visiting the UK to learn more about the UK market, which leads the world in sustainable slip resistant flooring.

It has been especially pleasing that the upgrades to the Polysafe line, installed to deliver greater capacity and, potentially, new products, was commissioned without any disruption to our day to day safety flooring business. In April 2007 the Polysafe range was awarded the Queen's Award for innovation and continuous product development.

Our training facility in Manchester, noted last year, has been opened and will not only showcase our work but be a working facility to train new floor layers, hopefully combating skills shortages in our industry. I see this as an important initiative for our industry and have confidence that its cost will be justified.

New product development is a key priority to enable us to maintain growth, enter new market sectors and maximise plant utilisation in all areas of our manufacturing units. Furthermore, we will need to continue to ensure that our service levels match the requirements of a growing business, and our customers, who have delivered this growth, continue to be provided with an excellent product backed up with outstanding service levels.

Objectflor Art & Design, and Karndean International GmbH, our German based operations

The year to June 2007 was Objectflor's most successful to date. Turnover increased by nearly 16%. As the year progressed, it was clear that a more confident economic environment increased business despite intense competitive pressure which was a feature of the whole year. The German business is solid in terms of turnover and profitability and is a significant player in the world's foremost vinyl flooring market.

The initiative noted earlier to raise the profile of safety flooring is being well reported and received in Germany and Central Europe. It is clear that lobbying and presenting to decision makers professionally and in detail is enhancing trading opportunities in the long term.

Two new updated collections were also launched during this business year. Performa, our homogeneous range, was received throughout the market with great interest, and the new collection, launched in January of this year, has raised the profile of our homogeneous business. In addition, the Expona Domestic Collection was revitalised and consolidated this brand's status as one of the most successful luxury vinyl tile ranges in the German market. We believe that both businesses increased their market share in Germany and in the neighbouring countries.

In addition to servicing day to day demand this level of growth was achieved by the sales force securing important projects against our competition – such as Mechelen Hospital and IKEA, Dusseldorf.

Some of the reasons for the successful result of our German based operations in the past financial year are: improved stock levels in the market place, a stable, experienced and motivated staff combined with outstanding training schools for customers, providing not only installation training but in addition, training in sales techniques. Underlying these factors we have very clear sales concepts and consistent implementation in each of the Central European markets that the companies service.

It is clear that the strong sales growth in Germany and the surrounding markets will require additional warehousing and plans for further expansion are at an advanced stage.

The German market is one of the most developed markets for vinyl flooring in the world and our success in this market continues with attention to product range and design that will be crucial to further expansion. Both businesses are well placed and well structured for continued progress.

James Halstead

Chief Executive's Report

Polyflor Nordic, comprising Polyflor Norway, based in Oslo and Falck Design based in Gothenburg

2006/07 has been a year of significant growth for the Scandinavian region.

Falck Design, our business in Sweden, acquired three years ago, has grown strongly with turnover very significantly ahead of the previous year. The newly designed Megastrong range of luxury vinyl tiles was re-launched during the year and the product offering has been augmented by adding the Polyflor range into markets where our products were previously under-represented. During the year Falck confirmed distributor arrangements with local parties to ensure that products were more readily available ex-stock. This process is on-going and the prospect for increasing market share in Sweden is particularly good.

In the Norwegian market, where we have been longer established, this was another year of growth which saw our strong position in this market place maintained and expanded. Overall our ranges saw significant growth and the company made gains in market share with sales of rubber floor coverings being particularly encouraging.

Polyflor Pacific, encompassing our businesses in Australia and New Zealand

The year saw the reorganisation of the Pacific Region bringing Australia, New Zealand and peripheral markets under a single management structure. This provides synergy between the Australian and New Zealand businesses, with the benefits having an encouraging impact over the course of the year.

The Australian business reported a 16% increase in turnover over the previous year with growth in all States and as a consequence profit moved strongly ahead.

During the year there was significant focus on logistics and on delivering added value following recent investment in operating systems. An Operations business team was established with resultant improvements in stock holding and stock turn which improved cash flow and customer service.

The sales growth not only came from recent product launches, most significantly luxury vinyl tile, but also the sales in Polyflor sheet vinyl which showed double digit volume growth on the previous year.

As well as ensuring product availability and maintaining customer service the company continued with successful marketing initiatives such as the prestigious Polyflor Highflyers awards.

The Melbourne Cup is a high profile sporting event in Australia and our company has supplied flooring to the "Bird Cage Restaurant" overlooking the famous Flemington Racecourse at this legendary venue. Whilst our day to day business is more mundane these prestigious installations enhance the profile of the product offering.

The year also saw the introduction by the Australian business of the Kiesel range of cementitious screeds and adhesives which have been sold in Europe for many years but were sourced for the first time by the Australian business, and have taken significant market share in their first year in the market. This not only increases sales but, just as importantly, means that the company can offer a total flooring package to its customers.

The New Zealand business recovered after a slow start to record improved turnover, up 4% on the previous year. The centralisation of some administration functions and an improved sales mix contributed to a healthier net profit than the prior year. Major changes were also made to improve focus on customer service. Whilst maintaining a full sales presence in the area, our Wellington warehouse was closed and we plan to expand the Christchurch and Auckland warehouse operations. At the same time there was a radical consolidation of the carpet portfolio to a smaller, more focused range of products. This enables the business to present a more balanced branded flooring products range and to give focus to the core ranges of James Halstead and, most particularly, Forbo branded products.

From the 1 August 2007 the New Zealand company changed its name to James Halstead Flooring New Zealand to emphasise its affiliation to the parent and its multi-brand credentials, as a major distributor of flooring products.

The Sky Tower in Auckland looms over the city and again is fitted with products supplied by ourselves.

Polyflor Hong Kong, sales office for Asian and Far East Markets

We have a significant presence in Asia and during the year there was modest sales growth in the region reflecting the effect of a very weak US Dollar, this being the currency of trade in most Asian markets. Polyflor continued to be short listed and to be specified in diverse government and private building projects across China, in the face of very strong competition. The diversity is illustrated by the examples of the Beijing Rolex Customer Service Centre, which will repair, locally, luxury watches, and the Chinese People's Liberation Army Shenyang Military Area Command Headquarters.

During the year we have built up local stock holding on mainland China to service and support a wider distribution base which has increased local day-to-day business. In addition, one of the major European manufacturers has opened a manufacturing facility in China but we continue to be competitive with our UK manufacturing capabilities in which we have invested heavily over the years.

With lower price point products it seems clear that basic homogenous vinyl is becoming a commodity product but increasingly we look to specify and supply higher value products, such as the Polysafe range, which offers added benefits and more unique selling features to a marketplace that is ever more sophisticated.

Phoenix Distribution, based in Stoke-on-Trent, distributor of motorcycle accessories

The strategy of focusing on the core Arai business, commenced eighteen months ago, has been successful. New motorcycle sales, as evidenced by registration statistics, have been static and despite the sluggishness in the accessories market Phoenix has performed exceptionally well. Arai motorcycle helmet sales have increased by 14% year on year, Abus motorcycle locks, introduced in 2006, showed continued growth and other brands (Yoshimura, Kappa, Fog City, Pinlock and Shift It) have all performed steadily in a depressed market.

Phoenix was appointed the UK Arai car helmet distributor in January 2007. This specialised market, although smaller than the motorcycle market, opens up many new exciting sales opportunities and ties in nicely with their public relations and promotional activities with high profile racing drivers such as Lewis Hamilton, Fernando Alonso, Jenson Button and David Coulthard, all using the Arai product.

Sales activities are focused through the Arai "Five Star" retailer concept which has proved its value, and a strong network of premier dealers add strength and depth to the brand; each of these dealers has staff fully trained by Phoenix and have detailed technical knowledge to underline the difference between cheaper brands that use marketing to create an image of race performance and Arai which is a race led brand.

Given the market conditions and the very wet summer, tight control of working capital has been a key task but there has also been a very significant improvement in bottom line performance. In 2008 we look forward to additional helmet standards coming into force which will affect the UK helmet market and, hopefully, make it clearer to the customer how important it is to invest in a high quality product, such as Arai, that far exceeds the basic European Standard for motorcycle helmets. The input of ideas and cross fertilisation of concepts with our much larger flooring operations are, over time, beneficial.

Environment

In the UK, as a manufacturer and supplier, we continue to issue a regular environmental report. We continue to see this as one of the criteria a responsible manufacturer should meet. We continue to support our EN 14001 accreditation and some of the key achievements are: ongoing reduction in energy usage (down 20% over the last five years), reduction in wet and dry waste (down over 23% in the last year) and ongoing initiatives to increase the use of post-consumer waste and recycled content.

Looking Forward

This year was the most successful in our Group's history. New production equipment was installed to upgrade our facilities in Manchester, and new distribution facilities were added in key areas. The volume of product manufactured in Manchester has risen but price pressure is constant. There is no doubt that out-sourcing additional James Halstead branded product is a major part of our activities and will continue.

In recent years sales price increases have been, in many markets, precluded by volume-driven competitors offering ever more price incentives. The year ahead shows signs of inflationary pressures and in certain areas selling prices will need to reflect these pressures.

Some initiatives envisaged may detract from short term profit opportunities but as the Group approaches its centenary we must look to the future.

Overall, having regard to the operations we have around the globe I am confident that this excellent year can be consolidated in the next year and look forward to further progress. I and the Board have a proud regard for our long history of dividend growth and see this as the bulwark of a strategy of delivering shareholder value.

Mark Halstead
Chief Executive

Financial Director's Report

Accounting policies

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 presenting 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 £23.3 million (2006: £17.5 million) shows an increase of 33% despite high raw material and energy costs. Some of the key statistics are:

- Group turnover at £142.9 million (2006: £126 million) up 13%
- Underlying earnings per share at 31.2p (2006: 23.8p) up 31%
- Dividends at 16.50p (2006: 12.25p) up 34.7%, being interim paid May 2007 and final proposed December 2007
- Trade debtors at £18.8 million (2006: £18.4 million) up 2%
- Net cash at £22.8 million (2006: £30 million), despite spending £15.3 million on the special dividend

Special dividend

During the year we returned cash of £15.3 million to shareholders by way of a special dividend of 30p per ordinary share. The final proposed dividend represents the 31st year of dividend increases.

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.

I noted last year that several changes were made to the final salary scheme, effectively reducing future benefit accrual for individual members (with reduced contributions from the employee but not the employer). To date these changes have mitigated the increased cost of the scheme to the group. Individual employees can choose to augment their future benefits by way of personal contributions to the group's defined contribution scheme.

Note 19 on page 31 details 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 many of the factors that dictate this figure are outside the group's control the issue remains under close scrutiny.

International accounting standards

The group will adopt International Financial Reporting Standards ("IFRS") for the first time in its annual report for the year ending 30 June 2008. Consequently the group's interim results for the six months to 31 December 2007 will be presented under IFRS.

Employee profit share

Note 2 on page 23 shows the number of shares held, on behalf of employees, by the trustees of the employee profit sharing scheme. This reflects the longer-term objective of rewarding employees for the success of the group. Rewarding employees by way of shares has extended the shareholder base and a significant number of employees retain shares. Allocation is on various criteria but heavily biased to length of service

Cash flow

Cash inflow from operating activities remained strong at £26.3 million (2006: £25.1 million).The overall decrease in cash of £7.3 million is after net capital expenditure of £3.3 million, payment of taxation and dividends (including the special dividend) less interest of £29.3 million and the repayment of borrowings of £1.5 million. £0.5 million was received from share issues. The net funds (cash net of loans and preference shares classed as borrowings under FRS 25) at £19.9 million (2006: £25.6 million) show a healthy ungeared position.

Net assets

The overall decrease in net assets is £1.4 million with the increase from profits after tax and ordinary dividends of £8.9 million and exchange movements, actuarial gains (net of deferred tax) and share issues of £5.0 million being offset by the effects of the special dividend of £15.3 million. Net assets per ordinary share decreased to 79.5p (2006: 82.6p). However, to give a fair comparison, the 2006 figure should be adjusted to 52.6p to reflect the 30p per share special dividend.

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 2007 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.

Key performance indicators

The group's subsidiaries are measured against detailed budgets and prior year comparatives. Monthly reports to the group executive directors and senior management are required from their function directors.

In terms of key performance indicators for the group as a whole the board considers growth in profit before tax and growth in dividend levels to be of most importance. Since increase in the former is heavily linked to growth in turnover, close attention at main board level is given to sales strategies, product mix and gross margin.

Dividend payments require sales to be translated into cash, and control of working capital is closely monitored. Levels of stock, debtors and creditors are collated and reported to the board on a monthly basis. Our focus is on stock availability, stock turn and appropriate credit being given to and received from our customers and suppliers respectively, rather than performance indicators associated with cash flow directly.

No individual key performance indicator is regarded so highly that it can replace the informed background knowledge, at board level, of our individual businesses, which underpins the way our group is managed.

The board seeks to give an informative business review, but remains conscious that the group's competitors do not offer significant disclosure of their individual key performance indicators. The board remains reluctant to publish key statistics which may lead to loss of competitive advantage.

The nature of key performance indicators is information and given the complexity of large scale manufacture many indicators are non-ratio or statistically based and are assessed on absolute monetary cost to the group. Cost of 'sick pay' in manufacturing can and does attract more attention than product margin in many cases, as indeed can corporate entertaining, customer complaints, employee liability claims and consultancy fees.

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. 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.

Financial Director's Report

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.

Conclusion

The nature of our annual report is to give information and demonstrate accountability to our owners. The board's role is also to fulfil the obligations of stewardship and to maintain and defend shareholder value. There is a vast increase in prescribed disclosure and a lengthening of the annual report which has the potential to detract from the core objectives, profit, dividend and growth. The board welcomes shareholder views on this matter

Gordon Oliver
Finance Director

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M Halstead
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J A Wild FCA

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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 2007.

The audited financial statements are set out on pages 17 to 40.

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 director's report. Also contained in the financial director's 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 2007 are shown in the consolidated profit and loss account on page 17 and the consolidated balance sheet on page 18.

The directors are recommending a final dividend of 11.25p per share on the ordinary share capital for payment on 7 December 2007 to those shareholders whose names appear on the register at 9 November 2007. This final dividend together with the interim dividend paid on 23 May 2007 makes a total of 16.5p per share (2006: 12.25p).

In addition a special dividend of 30p per 5p share was paid on 2 February 2007.

Directors

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

	30 June 2007		30 June 2006	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	2,077,447	211,300	2,081,224	211,300
G R Oliver	49,746	–	38,338	–
M Halstead	3,381,741	2,797,272	3,382,120	2,796,480
J A Wild	45,854	3,204,772	40,854	3,204,772
Preference shares				
G Halstead	86,405	–	85,905	–
J A Wild	–	8,750	–	8,750
'C' shares				
G Halstead	443,544	–	443,544	–
M Halstead	624,271	620,548	661,734	627,573
J A Wild	–	686.645	–	761,571

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

On 4 July 2007, Mr G Halstead, Mr M Halstead and Mr G R Oliver were granted options of 40,000 shares each at an exercise price of 578.85p per 5p ordinary share. Otherwise there have been no changes in the directors' interests between the year-end and 28 September 2007.

Substantial interests

As at 28 September 2007 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	17.78
J Halstead and A Halstead	2,598,300	5.08
Rulegate Nominees Limited	2,522,384	4.93
Vidacos Nominees Limited	2,002,727	3.92

Share capital

Ordinary shares

On 16 October 2006, 1,438; on 17 October 2006, 33,100; on 20 April 2007, 10,000; and on 12 June 2007, 199,926 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

C shares

294,295 C shares were redeemed on 17 January 2007, leaving 4,422,024 in issue.

Share buy back

At the annual general meeting held on 1 December 2006, 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 2007. However, the directors believe that it is in the best interests of the company for the authority to be renewed at a similar level at the forthcoming annual general meeting for a period of twelve months to expire at the next annual general meeting. Accordingly, it is intended to propose as special business, at the forthcoming annual general meeting, a special resolution to renew the directors' existing authority to purchase shares in the company which shall be limited to 15% of the ordinary share capital of the company at 30 June 2007.

Report of the Directors
Continued

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 2008.

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 2007.

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 continue to be matters 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 2007 there were 55 (2006: 30) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £4,453 (2006: £7,964) for charitable purposes. There were no political contributions.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these 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, subject to any material departures disclosed and explained in the financial statements;
- prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

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.

Auditors

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

As at 28 September 2007, 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
28 September 2007

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 24 and an analysis of directors' share options is given in note 20 on page 36.

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 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 10,000 shares were granted in the financial year ended 30 June 2007, and options over 244,464 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 (five 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.

Attendance at the five board meetings was as follows:

	Possible	Actual
G Halstead	5	5
M Halstead	5	5
G R Oliver	5	5
J A Wild	5	5

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.

James Halstead

Statement of Corporate Governance
Continued

- 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 2007 which comprise the consolidated profit and loss account, the consolidated and company 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 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 director's report that is cross referenced from the principal activities and business review section of the directors' report.

In addition we 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.

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 2007 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
28 September 2007

James Halstead

Consolidated Profit and Loss Account

for the year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Turnover	1	142,948	126,024
Operating profit	3	22,452	16,567
Interest and other finance costs	4	856	914
Profit on ordinary activities before taxation	5	23,308	17,481
Taxation on ordinary activities	8	(7,657)	(5,647)
Profit on ordinary activities after taxation		15,651	11,834
Earnings per ordinary share of 5p	10		
– basic		30.7p	23.3p
– diluted		30.5p	23.2p

All the above results derive from continuing operations.

The notes on pages 23 to 40 form part of these accounts.

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

Balance Sheets
as at 30 June 2007

	Note	Group 2007 £'000	Group 2006 £'000	Parent company 2007 £'000	Parent company 2006 £'000
Fixed assets					
Intangible assets	11	3,004	3,232	–	–
Tangible assets	12	18,334	18,687	4,602	4,752
Investments	13	–	–	20,093	20,391
		21,338	21,919	24,695	25,143
Current assets					
Stocks	14	23,899	19,770	–	–
Debtors	15	22,511	21,093	23,697	16,106
Cash at bank, in hand and on short-term deposit		22,756	30,050	10,086	20,343
		69,166	70,913	33,783	36,449
Creditors – amounts falling due within one year	16	(44,880)	(37,685)	(22,311)	(15,424)
Net current assets		24,286	33,228	11,472	21,025
Total assets less current liabilities		45,624	55,147	36,167	46,168
Creditors – amounts falling due after more than one year	17	(506)	(4,441)	(200)	(3,030)
Provision for liabilities	18	–	–	–	(44)
Net assets excluding pension scheme deficit		45,118	50,706	35,967	43,094
Pension scheme deficit	19	(4,502)	(8,681)	–	–
		40,616	42,025	35,967	43,094
Capital and reserves	20				
Equity share capital		2,555	2,543	2,555	2,543
Equity share capital (B shares)		160	160	160	160
Called up share capital		2,715	2,703	2,715	2,703
Share premium account		803	321	803	321
Revaluation reserve		3,544	3,544	–	–
Capital redemption reserve		3,626	3,449	3,626	3,449
Profit and loss account		29,928	32,008	28,823	36,621
Total shareholders' funds		40,616	42,025	35,967	43,094

These financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2007.

M Halstead
Director

G R Oliver
Director

The notes on pages 23 to 40 form part of these accounts.

Consolidated Cash Flow Statement
for the year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Net cash inflow from operating activities	21(i)	26,309	25,130
Returns on investments and servicing of finance	21(ii)	945	856
Taxation paid		(8,182)	(6,866)
Capital expenditure	21(ii)	(3,289)	(1,035)
Equity dividends paid		(22,013)	(18,113)
Cash outflow before financing		(6,230)	(28)
Financing:			
Shares issued		494	285
Decrease in debt		(1,539)	(1,794)
Decrease in cash		(7,275)	(1,537)
Reconciliation of net cash flow to movement in net funds	21(iii)		
Decrease in cash		(7,275)	(1,537)
Movement in debt		1,539	1,794
Change in net funds resulting from cash flows		(5,736)	257
Effect of exchange differences		18	(151)
Movement in net funds for the period		(5,718)	106
Net funds as at 1 July		25,621	25,515
Net funds as at 30 June		19,903	25,621

The accounting standard FRS 25 – Financial Instruments: Disclosure and Presentation classes our preference shares as debt. For clarification, as shown in note 21(iii), cash in hand and at bank at 30 June 2007 is £22,756,000 (2006: £30,050,000).

Statement of Group Total Recognised Gains and Losses
for the year ended 30 June 2007

	2007 £'000	2006 £'000
Profit for the financial year	15,651	11,834
Currency translation differences on foreign currency net investments	284	(438)
Actuarial gain on the pension scheme	5,943	1,546
Movement on deferred tax asset relating to the pension scheme	(1,783)	(464)
Total recognised gains relating to the financial year	20,095	12,478
Prior year adjustment (implementation of FRS 17)	–	(9,790)
Total recognised gains since the last report	20,095	2,688

Reconciliation of Movements in Group Shareholders' Funds
for the year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Profit for the financial year		15,651	11,834
Equity dividends paid	9	(22,013)	(18,113)
		(6,362)	(6,279)
Other recognised gains and losses relating to the financial year		4,444	644
FRS 20 share option charge		15	–
New share capital subscribed		494	285
Net decrease in shareholders' funds for the financial year		(1,409)	(5,350)
Opening equity shareholders' funds (at 1 July 2005 originally £57,475,000 before prior year adjustments of £10,100,000)		42,025	47,375
Closing equity shareholders' funds		40,616	42,025

James Halstead

Statement of Accounting Policies

The group accounts consolidate the accounts of the holding company and its subsidiaries made up to 30 June 2007 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 20 – Share Based Payment in these accounts. The comparative figures for the year ended 30 June 2006 have not been restated to reflect the adoption of this standard, as the effects are not material.

The effect of the change in policy on the results for the year to 30 June 2007 is a decrease in profit on ordinary activities after taxation of £15,000.

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

Statement of Accounting Policies
Continued

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.

Employee share options

The group grants share options to certain of its employees. In accordance with FRS 20 – Share Based Payment, an expense in relation to such options, based on their fair value at the date of grant, is recognised over the vesting period. The group uses the Black Scholes model for the purpose of computing fair value.

Notes to the Accounts

1. Turnover

	2007 £'000	2006 £'000
Geographical markets supplied		
United Kingdom	62,158	56,292
Europe	50,925	44,732
Australasia and Asia	22,406	19,094
Others	7,459	5,906
	142,948	126,024

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.

	2007	2006
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	499,013	465,408
As a percentage of shares in issue	0.98%	0.92%

3. Operating profit

	2007 £'000	2006 £'000
Turnover	142,948	126,024
Cost of sales	(76,557)	(68,566)
Gross profit	66,391	57,458
Selling and distribution costs	(31,953)	(28,982)
Administrative expenses	(11,986)	(11,909)
Operating profit	22,452	16,567

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.

Notes to the Accounts
continued

4. Interest and other finance costs

	2007 £'000	2006 £'000
Interest receivable		
On bank deposits	1,274	1,416
Other	14	2
Expected return on pension scheme assets	2,947	2,523
	4,235	3,941
Interest payable		
Preference share dividend	(11)	(11)
C share dividend	(113)	(133)
On bank loans and overdrafts repayable		
within 5 years	(228)	(208)
within 5-10 years	–	(75)
Interest on pension scheme liabilities	(2,955)	(2,504)
Other	(72)	(96)
	(3,379)	(3,027)
Net interest receivable	856	914

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

	2007 £'000	2006 £'000
Depreciation of tangible fixed assets	3,595	3,157
Amortisation of goodwill	228	228
Hire of plant and machinery	47	28
Leasing charges – land and buildings	1,149	808
– other	631	679
Fees payable to the company's auditors for the audit of the company's accounts	23	20
Fees payable to the company's auditors and their associates in respect of:		
– the audit of the company's subsidiaries pursuant to legislation	97	91
– taxation services	59	58
– other services	13	16
Research and development	1,683	1,593
Profit on sale of fixed assets	(25)	(28)

6. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £827,814 (2006: £650,455) of which £280,585 (2006: £194,050) relates to performance. Pension contributions amounted to £41,908 (2006: £42,994). The emoluments of the highest paid director, excluding pension contributions were £273,434 (2006: £212,552). 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 (2006: 2) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £81,744 (2006: £294,326); of these £11,724 (2006: £215,545) related to the highest paid director.

7. Staff numbers and costs, excluding group directors

	Group		Parent company	
	2007	2006	2007	2006
Employee costs	£'000	£'000	£'000	£'000
Wages and salaries	21,340	19,578	501	404
Social security costs	2,231	2,094	51	55
Other pension costs	1,068	1,223	42	37
	24,639	22,895	594	496

	Group		Parent company	
Employee numbers	2007	2006	2007	2006
	Number	Number	Number	Number
The average monthly number of persons employed by the group during the year by activity was:				
Manufacturing, selling and distribution	662	628	–	–
Administration	113	105	14	12
	775	733	14	12

8. Taxation

	2007	2006
	£'000	£'000
a) Current taxation		
UK Corporation tax at standard rate 30% (2006: 30%)	6,221	5,835
Double taxation relief	(505)	(437)
Overseas tax	2,503	1,688
Adjustment in respect of prior years	(141)	(456)
	8,078	6,630
Deferred taxation (Note 18)	(421)	(983)
	7,657	5,647
b) Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	23,308	17,481
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	6,992	5,244
Effects of:		
Expenses not deductible for tax purposes	687	846
Accelerated capital allowances and other timing differences	302	858
Differences in overseas tax rates	238	138
Adjustments to tax in respect of prior periods	(141)	(456)
Current tax charge for the period	8,078	6,630

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%.

Notes to the Accounts
continued

9. Dividends

	2007 £'000	2006 £'000
Equity dividends		
Interim dividend for current year of 5.25p (2006: 4.25p)	2,672	2,162
Special dividend paid of 30p (2006: 25p)	15,269	12,715
Final dividend for previous year of 8p (2006: 6.375p)	4,072	3,236
Amounts recognised as distributions to equity holders in the year	22,013	18,113

A final dividend of 11.25p for the year ended 30 June 2007 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

	2007 £'000	2006 £'000
Basic earnings	15,651	11,834
Goodwill amortisation charge	228	228
Underlying earnings	15,879	12,062
Weighted average number of 5p ordinary shares in issue	50,897,640	50,764,031
Weighted average number of 5p ordinary shares in issue (diluted for the effect of outstanding share options)	51,273,344	51,008,831
Basic earnings per 5p ordinary share	30.7p	23.3p
Underlying earnings per 5p ordinary share	31.2p	23.8p
Diluted earnings per 5p ordinary share	30.5p	23.2p

11. Intangible fixed assets – goodwill

	£'000
Cost	
At 30 June 2006 and 30 June 2007	4,551
Amortisation	
At 30 June 2006	1,319
Charge for the year	228
At 30 June 2007	1,547
Net book value at 30 June 2007	3,004
Net book value at 30 June 2006	3,232

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 2006	11,514	43,250	54,764	6,798	354	7,152
Additions	–	3,489	3,489	–	138	138
Disposals	–	(613)	(613)	–	(84)	(84)
Exchange rate adjustments	(77)	51	(26)	–	–	–
At 30 June 2007	11,437	46,177	57,614	6,798	408	7,206
Accumulated depreciation						
At 30 June 2006	2,805	33,272	36,077	2,138	262	2,400
Charge to profit and loss account	457	3,138	3,595	191	76	267
Disposals	–	(438)	(438)	–	(63)	(63)
Exchange rate adjustments	5	41	46	–	–	–
At 30 June 2007	3,267	36,013	39,280	2,329	275	2,604
Net book values at 30 June 2007	8,170	10,164	18,334	4,469	133	4,602
Net book values at 30 June 2006	8,709	9,978	18,687	4,660	92	4,752

The amounts at 30 June 2007 for freehold land and buildings include valuations as of the dates noted (of which £709,423 relates to land which is not depreciated)

	£
30 June 1993	4,350,000
30 June 1999	634,276

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.

Notes to the Accounts
continued

12. Tangible fixed assets (continued)

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

Capital commitments	2007 £'000	2006 £'000
Contracted but not provided for	185	45

Commitments under operating leases for the year to 30 June 2007

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
analysed as to leases which expire:				
within the next 12 months	359	42	23	70
between 2 and 5 years	728	306	604	610
after 5 years	90	203	15	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	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 (James Halstead Flooring New Zealand Limited from 1 August 2007)	New Zealand	100	–	–
*Objectflor Art und Design Belags GmbH	Germany	100	100	3,857
*Karndean International GmbH	Germany	100	–	–
*Falck Design AB	Sweden	100	–	–
				28,233

* 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.

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 2006	28,477	1,314	29,791
Capital repayment	(244)	(54)	(298)
Cost at 30 June 2007	28,233	1,260	29,493
Provision at 30 June 2007 and 30 June 2006	9,400	–	9,400
Net book value at 30 June 2007	18,833	1,260	20,093
Net book value at 30 June 2006	19,077	1,314	20,391

14. Stocks

	Group 2007 £'000	Group 2006 £'000
Raw materials	807	888
Consumable stores	224	399
Work in progress	686	522
Finished goods	22,182	17,961
	23,899	19,770

15. Debtors

	Group		Parent company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts falling due within one year				
Trade debtors	18,768	18,352	1	7
Current accounts with subsidiary undertakings	–	–	22,115	15,580
Other debtors	3,089	2,008	1,517	446
Prepayments and accrued income	654	733	64	73
	22,511	21,093	23,697	16,106

Notes to the Accounts
continued

16. Creditors – amounts falling due within one year

	Group		Parent company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade creditors	19,681	17,800	806	140
Bank loan	–	274	–	–
Current accounts with subsidiary undertakings	–	–	12,113	10,596
Corporation tax payable	5,024	5,173	363	517
Other taxation and social security	1,215	1,054	141	54
C preference shares	2,653	–	2,653	–
Other creditors	4,246	2,095	3,652	1,490
Accruals and deferred income	12,061	11,289	2,583	2,627
	44,880	37,685	22,311	15,424

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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Bank loan – due after one, within two years	–	285	–	–
– due after two, within five years	–	840	–	–
Overseas pension liability and other creditors	306	286	–	–
C preference shares	–	2,830	–	2,830
Preference shares	200	200	200	200
	506	4,441	200	3,030

18. Provision for liabilities

	Group		Parent company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Accelerated capital allowances	1,368	1,610	751	797
Short-term timing differences	(2,936)	(2,712)	(991)	(753)
	(1,568)	(1,102)	(240)	44
Opening balance	(1,102)	(143)	44	(427)
Exchange rate adjustment	(37)	36	–	–
(Credit)/charge to profit and loss account	(421)	(983)	(284)	471
FRS 17 movement	(8)	(12)	–	–
Balance at 30 June	(1,568)	(1,102)	(240)	44
Transfer to other debtors	1,568	1,102	240	–
	–	–	–	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.

The following amounts relating to the UK's defined benefit pension scheme are measured in accordance with FRS 17 at 30 June 2007:

	2007	2006	2005
	£'000	£'000	£'000
Total market value of assets	47,390	41,474	36,305
Present value of liabilities	(53,821)	(53,875)	(50,291)
Deficit in the scheme	(6,431)	(12,401)	(13,986)
Related deferred tax asset	1,929	3,720	4,196
Net pension liability	(4,502)	(8,681)	(9,790)

Notes to the Accounts
continued

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 2007	At 30 June 2006	At 30 June 2005	Value at 30 June 2007 £'000	Value at 30 June 2006 £'000	Value at 30 June 2005 £'000
Equities	8.3%	7.8%	7.5%	39,608	33,469	27,860
Property	8.3%	7.8%	7.5%	2,767	3,190	2,916
Fixed interest	5.8%	5.0%	4.7%	3,076	3,231	2,694
Cash	5.3%	4.5%	3.5%	1,939	1,584	2,835
				47,390	41,474	36,305

A full actuarial valuation was carried out as at 5 April 2005. The results of that valuation have been projected to 30 June 2007 and then recalculated based on the following assumptions:

	30 June 2007	30 June 2006	30 June 2005
Rate of increase in salaries*	2.8%	2.5%	2.7%
Rate of increase in pensions in payment	3.1%	2.8%	2.7%
Discount rate	5.8%	5.3%	5.0%
Inflation assumption	3.3%	3.0%	2.7%

*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:

	2007 £'000	2006 £'000
(i) Operating profit:		
Current service cost	(801)	(799)
Past service cost	–	–
Total operating charge	(801)	(799)
(ii) Other finance income		
Expected return on pension scheme assets	2,947	2,523
Interest on pension scheme liabilities	(2,955)	(2,504)
Net (charge)/return	(8)	19
(iii) Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	3,131	2,925
Experience gains and losses arising on the scheme liabilities	–	563
Changes in assumptions underlying the present value of the scheme liabilities	2,812	(1,942)
Actuarial gain recognised in STRGL	5,943	1,546

19. Pension arrangements (continued)

(iv) Movement in deficit during the year

	2007 £'000	2006 £'000
Deficit in scheme at beginning of the year	(12,401)	(13,986)
Movement in year:		
Current service cost	(801)	(799)
Contributions	836	819
Past service cost	–	–
Other finance (cost)/income	(8)	19
Actuarial gain	5,943	1,546
Deficit in scheme at end of the year	(6,431)	(12,401)

Details of experience gains and losses for the year

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	3,131	2,925	2,716	1,888	(3,496)
Percentage of scheme assets	6.6%	7.1%	7.5%	5.9%	12.6%
Experience gains and losses on scheme liabilities:					
Amount (£'000)	–	563	–	–	2,557
Percentage of the present value of the scheme liabilities	–	1.0%	–	–	6.1%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	5,943	1,546	(1,748)	1,904	(2,959)
Percentage of the present value of the scheme liabilities	11.0%	2.9%	3.5%	4.3%	7.1%

There is an unfunded pension arrangement in Germany. The present value of the liability of £252,000 (2006: £249,000) is included in the balance sheet at 30 June 2007. The major assumptions used are as above.

Notes to the Accounts
continued

20. Capital and reserves

	Authorised		Allotted, issued and fully paid	
	2007	2006	2007	2006
(a) Called up share capital				
Authorised and issued share capital				
Number of shares (000's)				
Ordinary shares at 5p each	100,000	100,000	51,106	50,862
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	4,422	4,716
5.5% (2006: 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	2,555	2,543
B ordinary deferred shares of 1p each	250	250	160	160
C preference shares of 60p each*	5,559	5,559	2,653	2,830
5.5% (2006: 5.5%) preference shares of £1 each*	200	200	200	200
	11,009	11,009	5,568	5,733
*Reclassified as debt under FRS 25			(2,853)	(3,030)
			2,715	2,703

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.

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.

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 and a further 294,295 were redeemed on 14 January 2007 with a market value of £176,577. 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% (2006: 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% (2006: 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.

Notes to the Accounts
continued

20. Capital and reserves (continued)

Issue of shares

Under the terms of the executive share option scheme approved on 3 December 1998 options were exercised on 244,464 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 30.06.06	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.07
G Halstead	24 May 04	24 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 Jan 06	8 Jan 09	8 Jan 16	354.250	20,000	–	–	20,000
G R Oliver	24 May 04	24 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 Jan 06	8 Jan 09	8 Jan 16	354.250	40,000	–	–	40,000
M Halstead	24 May 04	24 May 07	23 May 14	221.000	18,000	(3,014)	–	14,986
	4 May 05	3 May 08	3 May 15	256.250	30,000	–	–	30,000
	9 Jan 06	8 Jan 09	8 Jan 16	354.250	40,000	–	–	40,000
Total – Directors					244,000	(21,014)	–	222,986

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.06	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.07
	25 Oct 02	24 Oct 05	24 Oct 12	129.665	67,438	(50,826)	–	16,612
	24 May 04	23 May 07	23 May 14	221.000	206,000	(172,624)	(28,000)	5,376
	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	–	(20,000)	280,000
	17 July 05	16 July 08	16 July 15	289.000	10,388	–	–	10,388
	9 Jan 06	8 Jan 09	8 May 16	354.250	354,000	–	–	354,000
	24 Oct 06	23 Oct 09	23 Oct 16	354.250	–	–	10,000	10,000
Total – Others					957,826	(223,450)	(38,000)	696,376
Grand Total					1,201,826	(244,464)	(38,000)	919,362

The market price of the shares at 30 June 2007 was 577.50p (2006: 374.00p).

The share price during the year ranged from 369.00p to 638.00p.

20. Capital and reserves (continued)

(b) Share based payment

The group has adopted FRS 20 – Share Based Payment in the financial statements for the year ended 30 June 2007. This standard applies to awards granted after 7 November 2002. The adoption of the standard represents a change in accounting policy, however, the comparative figures have not been restated as the impact on them is not material. The adoption of FRS 20 has resulted in an increase in operating costs of £15,000 in the year ended 30 June 2007.

The group's equity settled share based payments comprise the grant of share options to certain employees under the group's executive share option scheme. Details of such options are given in note 20(a) above.

In accordance with FRS 20 the group has calculated the fair value of the options at the date of grant using the Black Scholes model. The following table lists the inputs into the model for the years ended 30 June 2007 and 30 June 2006:

Expected life of option	3 years
Expected share price volatility	12.0% - 21.8%
Expected dividend yield	5.3% - 8.6%
Risk free interest rate	3.8% - 4.7%
Exercise prices	221.00p - 354.25p

An expense based on the fair value calculated at the date of grant as detailed above is recognised in the profit and loss account over the vesting period of the options.

(c) 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 2006	321	3,544	3,449	32,008
Currency translation differences on				
foreign currency net investments	–	–	–	284
Equity dividends paid	–	–	–	(22,013)
Actuarial gain	–	–	–	4,160
Share option charge	–	–	–	15
Premium on share issues	482	–	–	–
Redemption of C shares	–	–	177	(177)
Profit for the year	–	–	–	15,651
Balance at 30 June 2007	803	3,544	3,626	29,928
Parent company				
Balance at 30 June 2006	321	–	3,449	36,621
Equity dividends paid	–	–	–	(22,013)
Premium on share issues	482	–	–	–
Share option charge	–	–	–	15
Redemption of C shares	–	–	177	(177)
Profit for the year	–	–	–	14,377
Balance at 30 June 2007	803	–	3,626	28,823

(d) Goodwill

The cumulative goodwill, resulting from acquisitions, written off on consolidation against reserves amounts to £2,963,091 (2006: £2,963,091).

(e) The consolidated profit for the financial year includes a profit before dividends of £14,377,236 (2006: £11,598,494) which is dealt with in the accounts of the parent company.

James Halstead

Notes to the Accounts
continued

21. Notes to the cash flow statement

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

	2007 £'000	2006 £'000
Operating profit	22,452	16,567
Depreciation and amortisation charges	3,823	3,385
FRS 17 adjustment	(35)	(20)
FRS 20 adjustment	15	–
Profit on sale of tangible fixed assets	(25)	(28)
Increase in stocks	(3,807)	(30)
Increase in debtors	(940)	(1,758)
Increase in creditors	4,826	7,014
Net cash inflow from operating activities	26,309	25,130

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

	2007 £'000	2006 £'000
Returns on investments and servicing of finance		
Interest received	1,304	1,423
Interest paid	(235)	(423)
C share dividend paid	(113)	(133)
Preference dividend paid	(11)	(11)
	945	856
Capital expenditure		
Purchase of tangible fixed assets	(3,489)	(1,231)
Sale of tangible fixed assets	200	196
	(3,289)	(1,035)

(iii) Analysis of changes in net funds

	At 30 June 2006 £'000	Net funds movement £'000	Exchange movement £'000	At 30 June 2007 £'000
Cash in hand and at bank (includes overnight deposits).	30,050	(7,275)	(19)	22,756
Borrowings due within one year	(274)	267	7	–
Borrowings due after more than one year	(1,125)	1,095	30	–
C shares	(2,830)	177	–	(2,653)
Preference shares	(200)	–	–	(200)
	25,621	(5,736)	18	19,903

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 35. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2007 was £200,000 (2006: £200,000). Based on the most recent mid-market price, the fair value of the preference shares at 30 June 2007 was £156,000 (2006: £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 34. The C shares are redeemable 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

At 30 June 2006 the group had 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. However, in December 2006 the balance outstanding on the loan was repaid in full.

(iii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits, balances and cash in hand	
	2007	2006
	£'000	£'000
Sterling (including sterling equivalent of UK foreign currency balances)	18,821	26,845
Australian Dollars	1,293	687
New Zealand Dollars	397	421
Euro	2,160	1,951
Swedish Krona	85	146
	22,756	30,050

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.

Notes to the Accounts
continued

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 2007 with UK banks were, in US Dollars £540,000 overdrawn (2006: £644,000 overdrawn), in Euro £2,342,000 overdrawn (2006: £925,000 in hand) and in other currencies £1,347,000 overdrawn (2006: £2,053,000 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 2007 £'000	US Dollars 2007 £'000	Australian Dollars 2007 £'000	Japanese Yen 2007 £'000	New Zealand Dollars 2007 £'000	Hong Kong Dollars 2007 £'000	Other 2007 £'000
Functional currency of group operation							
Sterling	(7,105)	5,643	(1,849)	1,059	(600)	(270)	(2,279)
New Zealand Dollars	30	102	262	–	–	–	–
Total	(7,075)	5,745	(1,587)	1,059	(600)	(270)	(2,279)

	2006 £'000	2006 £'000	2006 £'000	2006 £'000	2006 £'000	2006 £'000	2006 £'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)

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 2007, based on the contracted forward rate was £21,878,510 (2006: £21,161,155). The fair value of these contracts, based on the estimated close out rate at 30 June 2007 is not material.

Ten Year Summary

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Sales	73,654	84,305	92,821	93,541	93,033	99,775	104,703	112,353	126,024	142,948
Profit (before exceptional items)	8,610	9,251	9,946	10,689	11,275	12,211	13,699	13,760	17,481	23,308
Exceptional items*	–	(3,363)	–	–	–	–	10,396	–	–	–
Profit before taxation	8,610	5,888	9,946	10,689	11,275	12,211	24,095	13,760	17,481	23,308
Taxation	(3,137)	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)
Profit after taxation	5,473	2,858	6,741	7,151	7,810	8,565	18,157	9,484	11,834	15,651

Unless otherwise stated all amounts are in £ thousands.

Underlying/headline earnings per 5p share**	8.9p	10.20p	11.1p	12.33p	14.42p	16.81p	17.47p	19.2p	23.8p	31.2p
Net dividends paid per ordinary share of 5p***	4.95p	5.19p	5.59p	6.05p	6.55p	7.05p	8.00p	9.38p	10.63p	13.25p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	1.80	1.97	1.99	2.04	2.20	2.38	2.18	2.05	2.24	2.35p

* 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	7 December 2007 (see notice of meeting on pages 43 to 44).

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	2,774	6,690,512
10,001-50,000	265	5,673,364
50,001-250,000	72	8,136,478
250,001 and over	28	30,615,718
	3,139	51,116,072

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	841	12,853,665	25.15
Other limited companies/corporate bodies	52	591,131	1.16
Miscellaneous bodies/pension funds	7	97,047	0.19
Private individuals	2,231	37,484,515	73.32
Investment trusts and funds	8	89,714	0.18
	3,139	51,116,072	100.00

*as at 28 September 2007

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY SECOND ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, on 7 December 2007 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 2007 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

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

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 £766,590 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.

Notice of Annual General Meeting
Continued

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 10% 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
29 October 2007

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 5 December 2007 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 5 December 2007.

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 7 December 2007 to shareholders on the register as at 9 November 2007.

JAMES HALSTEAD PLC

2006 2007

JAMES HALSTEAD plc

2006 2007

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