James Halstead

JAMES HALSTEAD plc

Report and Accounts 2008

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Chairman's Statement

It gives me pleasure to report improved results with revenue of £158.7 million (2007: £137.3 million) an increase of 15.7% and profit before taxation increased to £29.9 million (2007: £23.5 million) which is 27% above last year. These are once again a record set of results and in challenging market conditions are commendable.

Our companies have faced significant raw material and energy cost increases. However, with added sales volume, a mix towards our higher value products and a net benefit from the weakness of sterling we have more than met these challenges.

As is customary, I would draw reference to some of the many notable installations we have been associated with such as the new Istanbul Airport in Turkey, the Puma stores chain in Chile and Bank Byr Sparisjodur, on Hafnarfirdi Island, Iceland.

Our UK market set new records for sales and our achievements overseas were also creditable with the majority of territories recording record levels of revenues from Germany to Mexico and Finland to Trinidad.

Dividend

The board proposes to increase the final dividend to 14.50p (2007: 11.25p) an increase of 28.9%.

Acknowledgements

I extend to our customers, employees and management the congratulations of the Board for their contribution to these results.

Additionally I would like, specifically, to acknowledge the significant contribution to the business of Mr Mike Trelease who has retired as the Sales Director of Polyflor after over 25 years' service with the company, and our Company Secretary Mr Jack Whittaker who also retires after a decade with the Group.

Outlook

Our group manufactures, sources and distributes a broad range of commercial resilient floor-coverings to the worldwide market with a significant bias to refurbishment. We are well placed for continued expansion into the future.

We are alert to the current economic conditions but the group has a solid asset base, significant cash generation and reserves, a determination to succeed and a proven track record of delivering sustained dividend growth.

Trading in the first three months of the current financial year is in line with our expectations and at levels ahead of last year and I look forward to reporting further progress at the interim stage.

Geoffrey Halstead
Chairman

Chief Executive's Report

Repeating the Chairman's comments these are record results. The year to 30 June 2008 was our most active and successful year since our flotation 60 years ago. The revenue growth to £158.7 million (2007: £137.3 million) was spread across the globe with the majority of territories (and all major markets) delivering record sales performances.

The UK market recorded turnover of £67.4 million (2007: £59 million) – up 14.3%; the European/Scandinavian markets were £57.3 million (2007: £48.8 million) – up 17.4%; Australasia £24.5 million (2007: £22 million) – up 11.2%; and the rest of the world £9.6 million (2007: £7.4 million) up 28.6%.

In looking at the UK in general, which is our main market (although at 42.5% of total sales it is not the majority), it is clear that economic conditions have been gloomy for a good proportion of the year. Having said this we have seen, to date, little evidence of a slowdown in our businesses for which we identify several factors. These follow in no particular order. Firstly, we have no UK based manufacturing competitors of substance and increased transport costs and falling sterling have given us a degree of competitive advantage. In previous recessionary periods we have noted a "trade down" from more expensive commercial flooring (e.g. carpets) and can surmise this may be a factor in the prevailing conditions in the latter part of last year (and into the current year). Additionally, we are of the belief that refurbishment demand is unaffected by the widely reported slowdown in the commercial sector in the UK. Finally, though market information in our sector is scarce and unreliable we have no doubt that volume in the resilient sheet flooring sector has grown and that we have taken market share.

In May 2008 the Palmer Market Research company published its report on the commercial flooring sector and noted that "Polyflor" was the most recognised flooring brand in 2007, recognised by 93% of specifiers, 90% of architects and was the most preferred brand with contractors. The reasons for this were analysed in the report and Polyflor is rated highly for product appearance, product range, sales representation, delivery frequency and competitive pricing. It is no coincidence that these factors have each been a key focus of our business over the years and in these challenging times will become more so.

We are increasingly conscious of specifiers and users looking for environmentally sound floorcoverings and more than 90% of our homogenous sheet vinyl ranges are, independently certified (by the British Research Establishment) in respect of their environmental profiles. In the UK, in areas where the "pseudo-science" of the so called "natural" alternative linoleum has in recent years made some impact on specifiers, it is interesting to note that independent research shows linoleum sales continue to decline with sales being at their lowest since 1995. As ever, solid market presence and consistently honest representation is crucial to our long term success and will continue to help our products to sell and the group to grow.

Projects like the installation of Polyflor Static Dissipative in Algeria's mobile phone relay stations and the Merchant Bank of Ghana, in Accra are important but our core markets are healthcare (public and private), education and major institutions with ongoing refurbishment contracts and day-to-day contractor loyalty.

Reviewing our worldwide operations –

Polyflor, the UK based Operation

Polyflor achieved a 14.4% increase in turnover and increased its profitability. The company continues to diversify its product offering and the launch of Polysafe Wood FX and Polysafe Mosaic were important with successful launches in the latter part of the financial year. Sales in the UK were at record levels – up 15.1%, in addition sales to Polyflor`s sister companies in the Group were at record levels – up 12% and direct export sales were increased by 15.3%. With some benefit from a weaker sterling in the latter part of the year these sales growth levels were largely related to volume growth. A good, all-round, sales performance.

The increase in basic costs was a challenge for Polyflor but with in-house recycling initiatives accelerated we now achieve on average 25% recycled content in our UK manufactured flooring and with more initiatives to use post consumer waste, this trend is set to continue. In addition, the energy used per metre of flooring produced has dropped again for the eighth successive year; in total there has been a 25% drop from the levels of 2000. Recycling of water (96% of water used on site is recycled), wood, cardboard, paper and plastic all reduce costs not only in terms of land-fill but also in terms of net purchase of virgin material.

There were very significant raw material and energy cost increases during the year that the Manchester factory could not fully offset with efficiency and volume gains and the gross margin fell 2.3% points but this was offset by largely holding fixed costs at prior year levels which gave a benefit equivalent to 1.8% of margin so that the margin erosion as a percentage was a manageable 0.5% of sales.

Large projects continue to be secured across the globe such as the American School in Doha, Qatar, and the Kingston School in Mumbai, India but also much closer to home such as Bolton Children's Hospital and Bury Town Market.

Self manufactured product sales grew by 12.5% in the year but the third party sourced product grew by 22.5% which gave additional operational efficiencies to the scale of our UK operations and we expect this trend to continue.

Objectflor Art & Design and Karndean International our German based businesses

The European businesses recorded another fine year with Objectflor 14.6% ahead of last year and Karndean 34% ahead in terms of sales. The general economic climate in the core German market was more positive though the companies faced increasing competitive pressure. In the area of luxury vinyl tile the number of competitors has increased to over 20 where once there were only a handful. The solid foundations and strong portfolio were more than able to withstand this pressure.

A concentrated marketing approach to safety flooring was made, and continues, and Objectflor's newly presented "Sekura" range has been well received.

As a result of the Managing Director, Mr Eberhard Lotz', move to the main board the management of the German operations has been restructured. Two new directors join the local board and the sales force has been augmented with key account managers in the field for each major region of Germany.

During the year work commenced on a 30,000 square foot extension to the warehouse facility in Cologne which, when opened in late 2008, will be one of the largest facilities of its type in Europe. This facility will increase service levels and support increased levels of turnover. In addition, the facility will house a dedicated and fully staffed training centre for the promotion of our products and their methods of installation as well as general business development training for our business partners.

Objectflor continues to act as our centre for European exports which increased 17%.

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

The Asian and Far East markets continue to be managed from our Hong Kong office. It is a feature of these markets that specifications, although often significant in volume terms, are the subject of immense competition against both locally manufactured product and our competitors in Europe.

Many of the sales are denominated in US dollars which continued to be weak in the financial year and this made selling in these territories more difficult.

In spite of the above factors, we have seen significant growth in this region with turnover increasing by some 34%. This growth arises from a greater number of contracts being specified in our products, a greater contribution from our satellite sales offices within China itself and the benefits of having greater levels of stock on the ground in China allowing us to take advantage of day to day business.

We have seen some significant growth in the transport sector with, in particular, growing sales into the shipbuilding sector in Korea and also the transport sector in China reflecting our ability to offer a suite of products that carry the appropriate regulatory approvals for maritime use.

We have supplied a vast variety of users across Asia, including this year: the Singapore National Environmental Authority; the Canadian International School in Hong Kong; many hospitals; and the Hong Kong Bowling City.

We continue to work on selling our higher specification products as the market becomes more sophisticated and, as noted above, have had success in achieving this. However, these markets continue to be dominated in volume terms by the commodity homogenous products and accordingly we have geared our approach to the markets to take advantage of this with greater depth of local stock.

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

Following the growth reported in recent years, the year to June 2008 has been one of consolidation in the Scandinavian region.

Polyflor Norway has steadily grown in the Norwegian market over the last decade. The current year has consolidated the growth experienced in the previous years with the branch's strong market position maintained. Sales were on a par with last year in contrast to the growth seen in most other markets. This was almost wholly the result of increased competition in the luxury vinyl tile market where volume and margins were eroded. The underlying day-to-day sales were good but there were noticeably fewer specifications for projects. Nevertheless, there were significant contracts in the year such as the Ä Hus hospital in Oslo which is the largest on shore project ever in Norway, and Oslo central station. The launch of the new Kudos range late in the financial year and the new Expona range in the new year are expected to refresh our presence.

James Halstead

Chief Executive's Report
continued

Profitability has also been reduced as a result of the mix of sales eroding margin and by investing in the sales force which, it is anticipated, will result in greater sales in the future.

Falck Design in Sweden has continued to achieve greater representation of the group's products in a market in which they have, historically, been under-represented. This has involved holding greater amounts of stock available to the market for immediate delivery and further recruitment to the sales force and logistics support to ensure that the market is appropriately serviced. This investment supports our strategy of achieving greater market penetration in Sweden. We have won business with a number of headline private sector investments including the Arena Sør football stadium and the Lekland amusement park. A recent installation was the use of Polysafe floor coverings in theatres in Stockholm and Gothenburg for the productions of "Singing in the Rain".

In addition to expanding the sales force, we have appointed a new manager of the Swedish business from within the local flooring industry with the intention of increasing the company's market share.

Both Polyflor Norway and Falck Design have introduced new products into their markets, both from within the group's existing suite of products and from outside which will enhance the opportunities available to these businesses. Amongst our other third party products we now represent the Artigo rubber ranges. This has contributed to sales and profit in the year and is anticipated to bring further growth in the coming year.

Polyflor Pacific, encompassing our businesses in Australia and New Zealand

The general economic background in the two main territories of Australia and New Zealand were quite different, with the Australian market continuing to be buoyant but New Zealand showing signs of a "credit-crunch" general slowdown. Having said this, the reorganisation of the Australian and New Zealand businesses has continued and this is the first full year the territories have been managed together. There has been a focus in the current year on ensuring processes in both markets are as common as possible, while supporting the different needs of each business given the different product offering.

Looking at Australia first, the business recorded a 9% increase in turnover over the previous year with growth in all states. This, coupled with improved margins and tight cost controls ensured that profits were well ahead of the corresponding period.

The company's profile has been significantly raised by some strategic marketing initiatives and positive editorial comment in a number of well-respected architectural magazines linked with pictorial advertising showing commercial installations. The company's newly designed stand for commercial exhibitions was well received by end users.

There has also been a concerted campaign to raise the issue of slip resistance standards and many presentations have been made to architects and specifiers highlighting this issue and appropriate solutions. As a leader in slip resistant innovation this has re-enforced our reputation as a market leader.

The introduction of the Kiesel range of screeds and adhesives reported last year has been further enhanced this year with the appointment of a Product Manager-Screeds and Adhesives. This segment of our business is now in excess of 5% of turnover.

Increasingly architects and specifiers for commercial projects are focusing on sustainable products environmentally. The business will advance the environmental credentials of its product offering, utilising positive life cycle ratings the products have received and, as in Europe, we expect these credentials to stand up very well to scrutiny.

Specifically, this year, our products have been used for the rollout of 150 Specsavers stores and can be found in retail outlets in the Telstra stadium in Melbourne and the recent installation at Munchkinland, Highpoint Shopping Centre in Victoria which features some very vivid designs.

The New Zealand business continued to rationalise its product range and to focus on its core product lines. In particular, the decision to withdraw from the commercial carpet sector has led to a fall in turnover but allows greater sales focus on the core Forbo and Polyflor ranges. The result of this was an overall reduction in turnover of 14% compared to last year, but with the introduction of new, more profitable products and ranges going forward it is expected that this will be reversed in the current financial year.

We have invested in the future of this business. The Christchurch warehouse operation was relocated to new larger premises and a new warehouse facility is currently being constructed in Auckland which is scheduled to be ready in October 2008. Both these changes will give us larger premises that are more appropriate to our business needs in the next few years.

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

This was another highly successful year for Phoenix with sales ahead in what was expected to be a difficult retail market with all brands performing well. Overall sales growth at 4.5% was more modest than in the flooring operations but margins were improved.

Aspirational brands Arai, Abus, Yoshimura and Kappa (made by Givi) form the foundation of the Phoenix collection with complementary ancillary brands Fog City, Pinlock, and Shift It. Phoenix's latest acquisition, VentureShield is an almost invisible protective film that prevents stone chips and other road debris from damaging a helmet. This product is proving highly popular and is now expanding into Europe and the USA.

Arai has performed strongly in the year with its race led pedigree and a celebrity client base ranging from Brad Pitt and Orlando Bloom through to Simon King and Dave Myers (the two "hairy bikers"). Phoenix now sells more Arai helmets in the UK than are sold in any other country in the world; including the USA and the brand's domestic market, Japan. Car helmet sales for Arai continue to make good progress.

The bottom line performance in terms of profit was very healthily improved.

Sponsorship continues to be a central focus of ensuring brand awareness in a knowledgeable customer base. This year there is extended activity supporting the Ron Haslam Race School, based at Donington, the British Superbike series Audi pace car drivers, Buell pace riders, the BSB taxi bikes and the Government backed Think campaign, along with our 30 plus racers in the British Superbike series, TT, Northwest and various car drivers including British Touring car stars, Mat Jackson, Tom Onslow-Cole and Gordon Shedden.

The Arai 5 star dealer network continues to be the backbone of distribution to the UK marketplace all offering a premier service with at least one fully trained Arai technician in each shop. Phoenix's great reputation within the industry, and one they are very proud of, is for customer service. During the year, Phoenix won the J D Power survey, with Arai, for the 10th year in succession, a remarkable achievement. The J D Power study examines 11 key areas of owner satisfaction.

Looking Forward

Looking ahead to the next year, I can only be confident that further progress will be made.

Mark Halstead
Chief Executive

Financial Director's Report

The group has adopted International Financial Reporting Standards ("IFRS") for the first time for this year, ended 30 June 2008. The notes to the accounts detail the adjustments made in converting from UK GAAP. In summary these are:

- intangible assets where goodwill is no longer amortised over its useful life;
- hedge accounting where derivative financial instruments are recorded at fair value in the balance sheet with the restatement of certain assets and liabilities previously recorded at the hedged rate;
- exchange translation differences are now recorded in a separate reserve;
- revenue is altered slightly as settlement discounts and rebates are netted from revenue where previously included in selling and distribution costs.

In summary the effects are not material when compared to UK GAAP.

These accounts have been prepared, as usual, in accordance with the fundamental principles of going concern, matching of costs and revenues, consistency and prudence, as the basis for our accounting policies.

Profit before tax at £29.9 million (2007: £23.5 million) shows an increase of 27% despite high raw material and energy costs. The gross margin was reduced overall by 1%, but would have increased but for hedging of export cash flows delaying the benefit from the fall in sterling. Some of the key statistics are:

- group turnover at £158.7 million (2007: £137.3 million) – up 15.7% of which around 2.7% is the effect of foreign exchange translation changes;
- underlying earnings per share at 39.7p (2007: 31.1p) – up 27.7%;
- dividends at 20.75p (2007: 16.5p) - up 25.8%, being interim paid May 2008 and final proposed December 2008;
- trade debtors at £21 million (2007: £18.7 million) - up 12.8%;
- cash (net of borrowings) at £29.3 million (2007: £19.9 million) - up 47.2%.

Defined Benefit Pension Scheme

The full accounts will detail the IAS 19 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. In summary, the deficit net of deferred taxation has risen to £9 million (2007: £4.5million). This deficit is of course variable according to market experience on the assets, actuarial changes to assumed lives and the discount rate. In the latter case just 0.1% variation in the discount rate has a £1 million effect on the liabilities and in these times of an inverse yield curve (where long term rates are below short term) this can have a significant effect.

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. Consequently, the defined benefit scheme remains an area of risk and uncertainty for the group.

Cash Inflow

Cash inflow from operating activities remained strong at £27.3 million (2007: £26.3 million). The overall increase in cash of £6.3 million is after net capital expenditure of £3.2 million and payment of taxation and dividends of £17 million. The net funds at £29.3 million (2007: £19.9 million) show a healthy un-geared position.

The overall increase in net assets is £9.6 million and net assets per ordinary share have increased to 95.8p (2007: 77.6p).

Treasury

The group operates internationally and is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than sterling. There are a range of currencies giving rise to this risk but most significant are the US Dollar, the Euro and the Australian Dollar. To mitigate risks associated with future exchange rate fluctuations the group's policy is to use forward exchange contracts to hedge its known and certain forecast transaction exposures based principally on historical experience and projections. The group hedges at least 25% and on occasion more than 100% of the next 12 months anticipated exposure.

The group's UK cash and bank balances are managed centrally at the group's head office.

Where appropriate overseas subsidiaries have local borrowing facilities. At 30 June 2008 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.

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. However, since dividend payments require sales to be translated into cash, control of working capital is closely monitored.

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.

Principal Business Risks and Uncertainties

The board constantly assesses risks. To the extent risk is insurable the board is risk averse and is widely insured. 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.

The risks identified, beyond insured events include –

Foreign exchange risk, credit risk, liquidity risk and key management. There are, additionally, key customers and key suppliers which create dependencies. Sales and purchasing policies are under regular review to assess these dependencies. In the main risk and control are measured and assessed from a financial prospective, but this is not to the exclusion of non-financial risks and uncertainties and 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.

In Conclusion

With the adoption of IFRS there has been an significant 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 results for the year are very good by any standard and the balance sheet is in a strong position to cope with the current effects of the "credit crunch".

Gordon Oliver
Finance Director

Directors and Advisers

Directors
G Halstead
M Halstead
G R Oliver ACA MCT
J A Wild FCA
E K Lotz (appointed 24 September 2008)

Secretary
W J Whittaker FCMA

Registered office
Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Company registration No.
140269

Website
www.jameshalstead.com

Bankers
The Royal Bank of Scotland plc
6th Floor
1 Spinningfields Square
Manchester
M3 3AP

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Nominated adviser
Altium Capital Limited
30 St James's Square
London
SW1Y 4AL

Stockbrokers
Altium Capital Limited
30 St James's Square
London
SW1Y 4AL

Auditors
PKF (UK) LLP
Sovereign House
Queen Street
Manchester
M2 5HR

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2008.

The audited financial statements of the group are set out on pages 16 to 51 and the audited financial statements of the company are set out on pages 53 to 63.

Principal activities and review of the business

The principal activities and a review of the business and outlook of the group are described in the chairman's statement, 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 2008 are shown in the consolidated income statement on page 16 and the consolidated balance sheet on page 18.

The directors are recommending a final dividend of 14.5p per share on the ordinary share capital for payment on 12 December 2008 to those shareholders whose names appear on the register at 7 November 2008. This final dividend together with the interim dividend paid on 23 May 2008 makes a total of 20.75p per share (2007: 16.5p).

Directors

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

	30 June 2008		30 June 2007	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	2,078,015	211,300	2,077,447	211,300
G R Oliver	51,241	–	49,746	–
M Halstead	3,382,236	2,797,272	3,381,741	2,797,272
J A Wild	47,000	3,204,772	45,854	3,204,772
Preference shares				
G Halstead	86,405	–	86,405	–
J A Wild	–	8,750	–	8,750
'C' shares				
G Halstead	–	–	443,544	–
M Halstead	–	–	624,271	620,548
J A Wild	–	–	–	686.645

Details of the directors' options under the terms of the executive share option scheme are set out in note 25.

Mr E K Lotz, having been appointed a director on 24 September 2008, offers himself for re-election at the annual general meeting.

Substantial interests

As at 23 September 2008 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	17.65
Rulegale Nominees	2,639,081	5.13
J Halstead and A Halstead	2,598,300	5.05
Vidacos Nominees	1,920,201	3.73

Share capital

Ordinary shares

On 22 August 2007, 10,000; on 30 January 2008, 10,000 and on 12 May 2008, 345,412 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

C shares

On 14 January 2008 4,422,024 C shares, being the total number outstanding were redeemed.

Share buy back

At the annual general meeting held on 7 December 2007, 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 2008. 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 2008.

Report of the Directors
continued

Special business at the annual general meeting

Resolution 6 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2009.

Resolution 7 authorises the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 for a further period of twelve months from the date of the annual general meeting in 2008.

Resolution 8 invites shareholders to renew for a further period of five years the board's authority to issue shares for cash to other than existing shareholders.

Resolution 9 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 15% of the issued capital at prices not exceeding 5% of the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Employment policies and involvement

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

Environmental policy

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

Health and safety

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities 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 2008 there were 44 (2007: 55) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £12,735 (2007: £4,453) 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, as required by the AIM Rules of the London Stock Exchange, prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the company 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 are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements of the group comply with IFRS and with regard to the company's financial statements, that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 29 September 2008, 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
29 September 2008

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 are given in note 9 on page 30 and an analysis of directors' share options is given in note 25 on page 41.

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 389,500 shares were granted in the financial year ended 30 June 2008, and options over 365,412 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 (seven times during the last financial year including the annual general meeting) determines the policies and objectives of the group and provides overall strategic direction to ensure that the policies and objectives are carried out. There is a list of matters which are specifically the responsibility of the board to resolve. Monthly management accounts are circulated to the directors. An agenda of matters to be discussed, including latest group management accounts, is circulated to board members in advance of each main board meeting and discussions and decisions taken at those meetings are minuted in full.

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

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

Attendance at the seven board meetings was as follows:

	Possible	Actual
G Halstead	7	7
M Halstead	7	7
G R Oliver	7	7
J A Wild	7	7

Board committees

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

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

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

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

Internal control

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

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

- the group directors are responsible for establishing, maintaining and reviewing the group's system of internal control and meet regularly to consider group financial performance, business development and management issues, and to review these against predetermined objectives;
- the group board establishes corporate strategy and business objectives. Management of subsidiary companies integrate these objectives into their business strategies for presentation to the group board with supporting financial objectives;
- subsidiary company budgets, containing financial and operating targets, capital expenditure proposals and performance/profitability indicators, are presented to and reviewed by the group executive directors. The consolidated group budget is approved by the group board;
- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. These risks are appraised and evaluated by responsible executives and endorsed by subsidiary and group management. This process has been in place throughout the year and up to the date of approval of the annual accounts;
- as part of the regular monitoring and review, the group executive directors hold regular meetings with the management of the subsidiary companies at which reports covering such areas as forecasts, business development, strategic planning, risk exposure and performance against budget, are presented and discussed. These are then reported to the group board, on a quarterly basis;

Statement of Corporate Governance
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 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, the company balance sheet 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 for preparing the group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the parent company financial statements in accordance with 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 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 only that information listed on the contents page with the exception of the audited financial statements listed above. 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 judgements 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2008;
- 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
29 September 2008

Consolidated Income Statement

for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Revenue	5	158,740	137,252
Cost of sales		(90,110)	(76,557)
Gross profit		68,630	60,695
Selling and distribution costs		(29,798)	(26,257)
Administration expenses		(9,744)	(11,795)
Operating profit	5	29,088	22,643
Finance income	10	769	856
Profit before income tax	7	29,857	23,499
Income tax expense	11	(9,502)	(7,657)
Profit for the year attributable to equity shareholders	27	20,355	15,842
Earnings per ordinary share of 5p			
– basic	13	39.7p	31.1p
– diluted		39.5p	30.9p

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in note 12.

Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Net of tax			
Foreign currency translation differences	28	2,053	284
Actuarial (loss)/gain on the pension scheme	24	(4,683)	4,160
Fair value movements on hedged items	28	(169)	(37)
Net (expense)/income recognised directly in equity		(2,799)	4,407
Profit for the year		20,355	15,842
Total recognised income for the period		17,556	20,249
Attributable to:			
Equity holders of the company		17,556	20,249

Consolidated Balance Sheet

as at 30 June 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Property, plant and equipment	15	19,671	18,334
Intangible assets	16	3,232	3,232
Deferred tax assets	17	5,737	3,497
		28,640	25,063
Current assets			
Inventories	18	30,641	23,899
Trade and other receivables	19	23,034	20,839
Derivative financial instruments	20	149	54
Cash and cash equivalents	21	29,521	22,756
		83,345	67,548
Current liabilities			
Trade and other payables	22	40,064	36,672
Derivative financial instruments	20	1,153	582
Current income tax liabilities		7,414	5,024
Borrowings	23	–	2,653
		48,631	44,931
Net current assets		34,714	22,617
Non-current liabilities			
Retirement benefit obligations	24	12,505	6,431
Deferred tax liabilities	17	992	1,063
Borrowings	23	200	200
Other payables	22	350	306
		14,047	8,000
Net Assets		49,307	39,680
Equity			
Equity share capital	25	2,574	2,555
Equity share capital (B shares)	25	160	160
		2,734	2,715
Share premium account	26	1,708	803
Retained earnings	27	36,455	32,289
Other reserves	28	8,410	3,873
Total equity attributable to shareholders of the parent		49,307	39,680

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2008.

M Halstead
Director

G R Oliver
Director

Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
Cash inflow from operations	29	27,298	26,309
Interest received		1,261	1,303
Interest paid		(243)	(215)
Taxation paid		(8,081)	(8,182)
Cash inflow from operating activities		20,235	19,215
Purchase of property, plant and equipment		(3,370)	(3,489)
Proceeds from disposal of property, plant and equipment		205	200
Cash outflow from investing activities		(3,165)	(3,289)
Equity dividends paid		(8,946)	(22,013)
Shares issued		924	494
Interest paid		(117)	(143)
Repayment of debt		(2,653)	(1,539)
Cash outflow from financing activities		(10,792)	(23,201)
Net increase/(decrease) in cash and cash equivalents		6,278	(7,275)
Effect of exchange differences		487	(19)
Cash and cash equivalents at start of year		22,756	30,050
Cash and cash equivalents at end of year	21	29,521	22,756

Notes to the Group Accounts

1. General information

James Halstead plc ("the company" or "the parent company") is a limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is Beechfield, Hollinhurst Road, Radcliffe, Manchester M26 1JN. The accounts of the company are presented on pages 53 to 63.

The group financial statements presented by the company on pages 16 to 51 consolidate the accounts of the company and its subsidiaries (together referred to as "the group"). The group financial statements are presented in pounds sterling.

2. Accounting policies

Basis of preparation

The group financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards ("IFRS") as adopted by the European Union and the applicable provisions of the Companies Act 1985.

Basis of consolidation

The group financial statements consolidate the accounts of the parent company and all its subsidiaries, drawn up to 30 June each year. Subsidiaries are entities controlled by the group. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. This is normally achieved by a majority shareholding. At 30 June 2008, the company, directly or through an intermediate subsidiary owned 100% of the share capital of all of its subsidiaries. The results of subsidiaries acquired are consolidated from the date on which control passes to the group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the group.

All intra-group transactions and balances and any unrealised profit arising therefrom are eliminated on consolidation.

Changes in accounting policy

The group's date of transition to accounting under IFRS is 1 July 2006 and its date of adoption of IFRS is 1 July 2007. The group's first IFRS reporting date is 30 June 2008 and hence the group's financial statements for the year ended 30 June 2008 are prepared in accordance with IFRS for the first time.

An explanation of the effect of the changes in accounting policy arising from the adoption of IFRS on the group balance sheet at both 1 July 2006 and 30 June 2007 is given in note 35 on page 46.

Full retrospective application of IFRS is required except that certain optional exemptions from the requirements of other international standards are permitted by IFRS 1 – First-time adoption of International Financial Reporting Standards. The group has elected to take advantage of the following such reliefs:

- IFRS 3 – Business Combinations will be applied prospectively from the date of transition and hence previous business combinations have not been restated;
- the recognition and measurement principles in IFRS 2 – Share-Based Payment have not been applied to share options granted before 7 November 2002;
- the cumulative translation differences for all foreign operations have been deemed zero at the date of transition;
- previous revaluations of property made under UK GAAP have been used as deemed cost at the date of transition.

2. Accounting policies (continued)

Recent accounting developments

The following IFRS, IFRIC interpretations and amendments have been issued by the International Accounting Standards Board during the year but are not yet effective and have not been early adopted by the group:

IFRIC 14 "IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction'. The group will apply IFRIC 14 from 1 July 2008 which may reduce or increase the deficit in the defined benefit scheme depending on the prevailing conditions at the time of the valuation.

IAS 1 (Revised) – 'Presentation of Financial Statements' was issued in January 2008. It affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. It is required to be implemented by the group from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

Amendment to IAS 27 (Revised) – 'Consolidated and Separate Financial Statements' was issued in January 2008. The amendments relate primarily to accounting for non-controlling interests and the loss of control of a subsidiary. It is required to be implemented by the group from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

Amendment to IFRS 2 'Share-based payment ; Vesting conditions and cancellations'. The group will apply the amendment to IFRS 2 from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRS 3 (Revised) – 'Business Combinations' was issued in January 2008. It addresses the guidance for applying the acquisition method of accounting. It is required to be implemented prospectively by the group from 1 July 2009. This would be expected to impact the accounting for any future acquisitions of the group.

IFRS 8 – 'Operating segments' may require changes in the way the group discloses information about its operating segments. The group will apply IFRS 8 from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

Other IFRS amendments and IFRIC interpretations which have been issued by the International Accounting Standards Board are not considered relevant to the group's financial statements.

Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. Based on the risks and rewards of the group's products and services, the directors consider that the primary reporting format is by business segment and the secondary reporting format is geographical.

Foreign currencies

Functional and presentation currency – the group's consolidated financial statements are presented in pounds sterling, the functional currency of the group, being the currency of the primary economic environment in which the group operates.

Transactions and balances – transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement except where they relate to qualifying cash flow hedges, in which case the exchange differences are deferred in equity.

Foreign subsidiaries – the results of foreign subsidiaries (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the group's presentation currency, are translated at the average rates of exchange for the year.

Assets and liabilities of foreign subsidiaries, that have a functional currency different from the group's presentation currency, are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation of the results of foreign subsidiaries and their opening net assets are recognised as a separate component of equity.

When a foreign subsidiary is sold the cumulative exchange differences relating to the retranslation of the net investment in that foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recorded in equity after 1 July 2006. Exchange differences arising prior to 1 July 2006 remain in equity on disposal as permitted by IFRS 1.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

Intangible assets

Goodwill – goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired, and is recognised as an asset and reviewed for impairment at least annually. For the purpose of impairment review, goodwill is allocated to the relevant cash generating unit (CGU) within the group. An impairment loss is recognised if the carrying value of the goodwill or its CGU exceeds its recoverable amount. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the calculation of the profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the UK GAAP value as at that date having been reviewed for impairment at that date and subsequently at least annually.

Other intangible assets – other intangible assets that are acquired by the group are stated at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight line basis in order to allocate the cost over the estimated useful life. The residual values and useful lives of the assets are reviewed at each group balance sheet date for continued appropriateness and impairment and adjusted if necessary.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities based on tax rates and laws that are enacted at the balance sheet date. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their corresponding book values as recorded in the group's financial statements with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised;
- deferred income tax is not provided on unremitted earnings of foreign subsidiaries where there is no commitment to remit the earnings.

Deferred income tax assets and liabilities are not discounted and are based on tax rates and laws that are enacted at the balance sheet date.

Share-based payments

The group grants share options to certain of its employees. Excepting those granted prior to 7 November 2002, 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.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished and partly finished goods, cost represents the cost of raw materials, direct labour, other direct costs and related production overheads on bases consistently applied from year to year. In all cases provision is made for obsolete, slow-moving or defective items where appropriate and for unrealised profits.

Trade and other receivables

Trade and other receivables are non-interest bearing and are stated at their nominal amount less provisions made for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience together with specific amounts that are not expected to be collectible. Individual amounts are written off when management deems them not to be collectible.

2. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are disclosed as current liabilities except where the group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Pension scheme arrangements

The group operates several defined contribution pension schemes and a defined benefit pension scheme for certain of its United Kingdom domiciled employees.

A defined contribution scheme is a scheme in which the group pays contributions into publicly or privately administered schemes on a voluntary, statutory or contractual basis. The group has no further payment obligations once the contributions have been made. The amount charged to the income statement is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as receivables or payables in the balance sheet.

A defined benefit scheme is a scheme in which the amount of pension benefit that an employee will receive on retirement is defined. For the defined benefit scheme, pension costs and the costs of providing other post retirement benefits are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement unless the changes are dependent on the employees remaining in service for a particular period in which case the costs are recognised on a straight line basis over that period. The retirement benefit obligations recognised on the balance sheet represent the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

Ongoing actuarial gains and losses are recognised in the period in which they arise in the statement of recognised income and expense.

Property, plant and equipment

Property, plant and equipment is recorded at cost less subsequent depreciation and impairment except for land which is shown at cost less any impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. The group has taken advantage of the exemption under IFRS 1 not to restate property previously revalued under UK GAAP and to treat these earlier revaluations as deemed cost. Depreciation is calculated on the depreciable amount (being cost less the estimated residual value) on a straight line basis over the estimated useful lives of the assets as follows:

Freehold buildings 40 to 50 years
Long and short leasehold property over period of lease
Plant and machinery 2 to 20 years
Fixtures and fittings 3 to 10 years
Motor vehicles 2 to 5 years

Residual values and useful lives are reviewed at each group balance sheet date for continued appropriateness and indications of impairment and adjusted if appropriate.

Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value.

Revenue recognition

Revenue comprises the amounts received or receivable in respect of the sale of goods and services provided in the normal course of business, net of trade discounts, rebates, VAT and other sales related taxes.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Development expenditure not meeting all the criteria for capitalisation contained in IAS 38 – Intangible Assets, is recognised in the income statement as an expense as incurred.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the shareholders.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under such leases are charged to the income statement on a straight line basis over the period of the lease.

Derivative financial instruments and hedging

The group uses derivative financial instruments to hedge its exposure to foreign currency transactional risk. In accordance with its treasury policy the group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recorded at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each group balance sheet date.

The method by which any gain or loss arising from remeasurement is recognised depends on whether the instrument is designated as a hedging instrument and if so the nature of the item being hedged. The group recognises an instrument as a hedging instrument by documenting at the inception of the transaction the relationship between the instrument and the hedged items and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in cash flows of hedged items.

For derivatives not used in hedging transactions, the gain or loss on remeasurement of fair value is recognised immediately in the income statement.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecast future transaction, the gain or loss on remeasurement which relates to the portion of the hedge which is deemed effective is recognised directly in equity, with the balance of the gain or loss, relating to the ineffective portion, being recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

3. Financial risk management

Financial risk and treasury policies

The group's activities expose it to a number of financial risks as detailed below. These risks are managed, with the objective of limiting adverse effects, from the group's head office in accordance with policies determined by and decisions made by the group board.

There have been no changes in financial risks from the previous year.

3. Financial risk management (continued)

Market risks

Market risk is the risk that changes in market prices, such as currency exchange rates and interest rates will affect the group's results. The objective of market risk management is to control it within suitable parameters.

(a) Foreign exchange risk

The group operates internationally and is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. There are a range of currencies giving rise to this risk, but most significant are the US dollar and the Euro. To mitigate risks associated with future exchange rate fluctuations, the group's policy is to use forward exchange contracts to hedge its known and certain forecast transaction exposures based on historical experience and projections. The group hedges at least 25% but rarely more than 100% of the next twelve months' anticipated exposure.

(b) Interest rate risk

The group does not use derivative financial instruments to mitigate its exposure to interest rate risk. The main element of interest rate risk concerns sterling deposits which are made on floating market based rates and short-term overdrafts in foreign currencies which are also on floating rates.

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group's trade receivables from customers and monies on deposit with financial institutions.

With regard to trade receivables, the group is not subject to significant concentration of credit risk. Exposure is spread across a large number of companies and the underlying local economic and sovereign risks vary across the world. Trade receivable exposures are managed locally in the individual operating units where they arise and credit limits are set as deemed appropriate. Where practicable and deemed necessary the group endeavours to minimise credit risks by the use of trade finance instruments such as letters of credit and insurance.

The group controls credit risk in relation to counterparties to other financial instruments by dealing only with highly rated financial institutions.

The group's maximum credit exposure on financial assets is represented by their book value.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

With the exception of its issued preference shares the maturity of all of the group's financial liabilities is within one year of the balance sheet date.

Capital risk

The group's objectives in managing capital are to safeguard the ability of all entities within the group to continue as going concerns, whilst maximising the overall return to shareholders over time. The capital structure of the group consists of equity attributable to equity holders of the parent company less cash and cash equivalents.

The group will only take on borrowings where those borrowings would be financed by the cash expected to be generated by the related investment opportunity and where the borrowing would not significantly increase the group's exposure to risk.

Notes to the Group Accounts
continued

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates and associated assumptions that affect the application of policies, the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on a regular and ongoing basis.

The estimates and judgements that have had the most significant effect on the amounts included in these consolidated financial statements are as follows:

Allowance for doubtful debts

Provision is made against accounts that in the estimation of management may be impaired. Within each of the operating units, assessment is made locally of the recoverability of trade receivables based on a range of factors including the age of the receivable and the creditworthiness of the customer. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment. If the group is cautious as to the financial condition of the customer the group may provide for accounts that are subsequently recovered. Similarly, if the group is optimistic as to the financial condition of the customer, the group may not provide for an account that is subsequently determined to be irrecoverable. In recent years the group has not experienced significant variation in the amount charged to the income statement in respect of doubtful accounts, when compared to sales.

Inventories

For financial reporting purposes the group evaluates its inventory to ensure it is carried at the lower of cost or net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Provision for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales. Future sales are assessed based on historical experience, and adjusted where the market conditions are known to have changed. To the extent that future events impact the saleability of inventory these provisions could vary significantly. For example, changes in specifications or regulations may render inventory, previously considered to have a realisable value in excess of cost, obsolete and require such inventory to be fully written off.

Income taxes

In determining the group's provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases, and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligations recognised. Further details on these estimates are provided in note 24.

Goodwill

Each year the group carries out impairment tests of its goodwill balances. This requires estimates to be made of the value in use of the relevant cash generating units (CGU's). These value in use calculations are dependent on estimates of the future cash flows and long-term growth rates of the relevant CGU's.

4. Critical accounting estimates and judgements (continued)

Fair value of intangible assets acquired in a business combination

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised).

The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cash flows.

Share-based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the instruments on the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model and making assumptions regarding the inputs to it, including the expected life of the instrument, volatility and dividend yield.

5. Segmental information

The primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the group. Disclosures relating to business segments include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities exclude cash and cash equivalents, taxation, borrowings and retirement benefit obligations.

The group has one reportable business segment as defined by IAS 14, that being the manufacture and distribution of flooring products "Flooring". The disclosures under the category of "Other" within the analysis by business segment include amounts in relation to non-reportable business segments and other items which cannot reasonably be allocated between business segments.

The secondary format for segmental reporting is geographical.

(a) Primary reporting format – by business segment

	Flooring 2008 £'000	Other 2008 £'000	Total 2008 £'000
Revenue	151,038	7,702	158,740
Operating profit	28,234	854	29,088
Finance income			769
Income tax expense			(9,502)
Profit for the year			20,355
Segment assets	72,542	4,185	76,727
Segment liabilities	32,808	8,759	41,567
Depreciation	2,740	178	2,918
Purchase of property, plant and equipment	3,254	116	3,370

Notes to the Group Accounts
continued

5. Segmental information (continued)

(a) Primary reporting format – by business segment (continued)

	Flooring 2007 £'000	Other 2007 £'000	Total 2007 £'000
Revenue	129,891	7,361	137,252
Operating profit	22,334	309	22,643
Finance income			856
Income tax expense			(7,657)
Profit for the year			15,842
Segment assets	61,779	4,579	66,358
Segment liabilities	29,958	7,602	37,560
Depreciation	3,289	306	3,595
Purchase of property, plant and equipment	3,334	155	3,489

(b) Secondary reporting format – by geographic segment

	2008 £'000	2007 £'000
(i) Revenue from external customers by location of customer		
United Kingdom	67,441	59,013
Europe and Scandinavia	57,252	48,780
Australasia and Asia	24,485	22,025
Rest of the World	9,562	7,434
	158,740	137,252
(ii) Segment assets by location of assets		
United Kingdom	41,840	40,030
Europe and Scandinavia	23,137	16,518
Australasia and Asia	11,750	9,810
	76,727	66,358
(iii) Segment purchase of property, plant and equipment by location of assets		
United Kingdom	419	3,185
Europe and Scandinavia	2,662	147
Australasia and Asia	289	157
	3,370	3,489

6. 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.

	2008	2007
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	604,585	499,013
As a percentage of shares in issue	1.17%	0.98%

7. Profit before income tax

Profit before tax is stated after charging the following:

	2008 £'000	2007 £'000
Depreciation of property, plant and equipment (see note 15)	2,918	3,595
Hire of plant and machinery	44	47
Operating lease rentals – land and buildings	1,333	1,149
Operating lease rentals – other	798	631
Research and development	1,705	1,683
Gain on disposal of property, plant and equipment	(43)	(25)
Fees payable to the group's auditors for the audit of the parent company and consolidated financial statements	28	23
Fees payable to the group's auditors and their associates for other services:		
the audit of the group's subsidiaries pursuant to legislation	100	97
taxation services	50	59
other services	15	13

8. Staff costs and numbers

	2008 £'000	2007 £'000
Staff costs comprised:		
Wages and salaries	23,504	21,821
Social security costs	2,620	2,348
Pension costs – defined benefit scheme	860	836
– defined contribution schemes	276	274
	27,260	25,279

The average monthly number of employees during the year was:

	2008 Number	2007 Number
Manufacturing, selling and distribution	673	662
Administration	127	117
	800	779

Notes to the Group Accounts
continued

9. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £940,984 (2007: £827,814) of which £326,016 (2007: £280,585) relates to performance. Pension contributions amounted to £41,908 (2007: £41,908). The emoluments of the highest paid director, excluding pension contributions were £336,191 (2007: £273,434). Pension contributions for the highest paid director were £21,699 (2007: £21,699). 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 two directors (2007: two) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £229,303 (2007: £81,744); of these £139,678 (2007: £11,724) related to the highest paid director.

10. Finance income

	2008 £'000	2007 £'000
Interest receivable and similar income:		
On bank deposits	1,284	1,274
Other	5	14
	1,289	1,288
Expected return on pension scheme assets	3,001	2,947
Finance income	4,290	4,235
Preference share dividend	(11)	(11)
C share dividend	(106)	(113)
Interest on short-term borrowing and other financing costs	(217)	(228)
Interest on pension scheme liabilities	(3,084)	(2,955)
Other	(103)	(72)
Finance cost	(3,521)	(3,379)
Net finance income	769	856

11. Income tax expense

	2008 £'000	2007 £'000
Current tax		
Current tax – current year	9,532	8,219
Current tax – adjustments in respect of prior years	517	(141)
	10,049	8,078
Deferred tax		
Deferred tax – current year	46	(326)
Deferred tax – adjustments in respect of prior years	(593)	(95)
	(547)	(421)
Total taxation	9,502	7,657

The effective rates for both years are higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2008 £'000	2007 £'000
Profit before tax	29,857	23,499
Profit before tax multiplied by the standard rate of corporation tax in the UK of 29.5% (2007: 30%)	8,808	7,050
Effects of:		
Adjustments to tax in respect of prior periods	(76)	(236)
Adjustments in respect of tax rates	59	238
Permanent differences	617	605
Remeasurement of deferred tax due to change in UK tax rate	94	–
Total taxation	9,502	7,657

During the year, as a result of the change in the UK tax rate, deferred tax balances have been remeasured.

Notes to the Group Accounts
continued

12. Dividends

	2008 £'000	2007 £'000
Equity dividends		
Interim dividend for current year of 6.25p (2007: 5.25p)	3,195	2,672
Special dividend for previous year	–	15,269
Final dividend for previous year of 11.25p (2007: 8.0p)	5,751	4,072
Amounts recognised as distributions to equity holders in the year	8,946	22,013

A final dividend of 14.5p for the year ended 30 June 2008 will be proposed at the Annual General Meeting. This dividend is not reflected in these financial statements as it is not approved at the balance sheet date.

13. Earnings per share

	2008 Pence per share	2007 Pence per share
– Basic	39.7	31.1
– Diluted	39.5	30.9

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £20,355,000 (2007: £15,842,000) by 51,305,038 (2007: 50,897,640) shares, being the weighted average number of shares in issue throughout the year.

Diluted earning per share is calculated by dividing the profit for the year attributable to equity shareholders of £20,355,000 (2007: £15,842,000) by 51,519,840 (2007: 51,273,344) shares, being the weighted average number of shares in issue throughout the year, adjusted for the effect of all potentially dilutive shares.

14. Profit of parent company

The consolidated profit attributable to the shareholders of James Halstead plc includes a profit, after dividends received, of £16,230,515 (2007: £14,377,236) which has been dealt with in the accounts of that company. James Halstead plc, which prepares its accounts in accordance with UK GAAP, has taken advantage of the legal dispensations contained in Section 230 of the Companies Act 1985 allowing it not to publish either a separate profit and loss account or a separate statement of recognised gains and losses.

15. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 July 2006	11,514	43,250	54,764
Additions	–	3,489	3,489
Disposals	–	(613)	(613)
Exchange differences	(77)	51	(26)
At 30 June 2007	11,437	46,177	57,614
Additions	2,324	1,046	3,370
Disposals	(10)	(525)	(535)
Exchange differences	986	332	1,318
At 30 June 2008	14,737	47,030	61,767
Depreciation			
At 1 July 2006	2,805	33,272	36,077
Charge for the year	457	3,138	3,595
Disposals	–	(438)	(438)
Exchange differences	5	41	46
At 30 June 2007	3,267	36,013	39,280
Charge for the year	351	2,567	2,918
Disposals	(10)	(363)	(373)
Exchange differences	94	177	271
At 30 June 2008	3,702	38,394	42,096
Net book value			
At 1 July 2006	8,709	9,978	18,687
At 30 June 2007	8,170	10,164	18,334
At 30 June 2008	11,035	8,636	19,671

Included in freehold land and buildings is land with a cost of £2,375,000 (2007: £709,000) which is not depreciated.

16. Intangible assets

Intangible assets consist entirely of goodwill. There were no additions to goodwill in the year and no impairment write-downs were required.

Notes to the Group Accounts
continued

17. Deferred tax assets and liabilities

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Property revaluation £'000	Other timing differences £'000	Total £'000
At 1 July 2006	3,720	(1,610)	(1,063)	2,712	3,759
Credited/(charged) to income statement	(8)	242	–	187	421
Charged to equity	(1,783)	–	–	–	(1,783)
Exchange differences	–	–	–	37	37
At 30 June 2007	1,929	(1,368)	(1,063)	2,936	2,434
Credited/(charged) to income statement	(70)	343	–	274	547
Credited to equity	1,642	–	71	–	1,713
Exchange differences	–	–	–	51	51
At 30 June 2008	3,501	(1,025)	(992)	3,261	4,745

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same tax authority. The balances after allowing for such offsets are as follows:

	Asset £'000	Liability £'000	Total £'000
At 1 July 2006	4,822	(1,063)	3,759
At 30 June 2007	3,497	(1,063)	2,434
At 30 June 2008	5,737	(992)	4,745

All deferred tax assets and liabilities are analysed as non-current.

18. Inventories

	2008 £'000	2007 £'000
Raw materials	1,171	807
Consumable stores	255	224
Work in progress	516	686
Finished goods	28,699	22,182
	30,641	23,899

19. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	21,050	18,664
Other receivables	1,051	1,521
Prepayments and accrued income	933	654
	23,034	20,839

All amounts within trade and other receivables are due within one year. The fair value of amounts included trade and other receivables approximates to book value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The group does not hold any collateral as security.

The group's trade receivables are stated after a provision for impairment of £2,888,000 (2007: £2,763,000). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on specific risk assessments taking into account past default experience and is analysed as follows:

	2008 £'000	2007 £'000
At 1 July	2,763	2,340
Exchange movements	54	12
Charge to income statement (selling and distribution expenses)	71	411
	2,888	2,763

As at 30 June 2008, trade receivables of £6,284,000 (2007: £6,611,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008 £'000	2007 £'000
Up to three months	6,116	6,540
Over three months	168	71
Total	6,284	6,611

The maximum exposure to credit risk for trade and other receivables by currency was:

	2008 £'000	2007 £'000
Sterling	7,911	8,566
Euro	8,007	5,632
Australian dollars	2,633	2,089
New Zealand dollars	930	1,106
Norwegian Krone	708	721
US Dollars	1,574	1,256
Other currencies	1,271	1,469
Total	23,034	20,839

Notes to the Group Accounts
continued

20. Derivative financial instruments

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the entity concerned. The currencies giving rise to this risk are various, but the most significant are US Dollar and Euro. Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates.

The Group hedges, using forward exchange contracts, transactions denominated in a foreign currency which are not matched against other transactions in the same currency within the group. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. The group buys or sells foreign currency at spot where necessary to address any short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired at the balance sheet date.

Changes in the fair value of forward exchange contracts for which no hedge accounting is applied or where the hedge is considered ineffective are recognised in the income statement.

Other than the use of forward exchange contracts as detailed above, the group does not make use of derivative financial instruments.

21. Cash and cash equivalents

The fair values of cash and cash equivalents approximate to book value due to their short maturities.

The currency analysis of cash and cash equivalents is as follows:

	2008 £'000	2007 £'000
Sterling	27,454	22,811
Euro	1,098	(182)
Australian dollars	801	797
New Zealand dollars	87	247
Norwegian Krone	385	110
US Dollars	(394)	(540)
Other currencies	90	(487)
Total	29,521	22,756

22. Trade and other payables

	2008 £'000	2007 £'000
Amounts falling due within one year		
Trade payables	20,808	19,150
Value added, payroll and other taxes	1,536	1,215
Other payables	3,494	4,246
Accruals	14,226	12,061
	40,064	36,672
Amounts falling due after more than one year		
Other payables	350	306

The fair value of amounts included trade and other payables approximates to book value.

23. Borrowings

	2008 £'000	2007 £'000
Current liabilities		
C preference shares	–	2,653
Non-current liabilities		
Preference shares	200	200

All items included within borrowings are denominated in pounds sterling.

The C preference shares entitled the holders to the C share continuing dividend of 4% per annum. The shares were not listed and therefore no market price is available. The fair value of the C chares as at 30 June 2007 was not materially different from their fair value. The C shares were redeemed in full on 14 January 2008 in line with the terms under which they were originally issued.

The cumulative preference shares have no fixed repayment date. They are not listed and therefore no market price is available. At 30 June 2008 and 30 June 2007 the fair value of the preference shares was not materially different from their book value.

Notes to the Group Accounts
continued

24. Retirement benefit obligations

Within the UK the group operates a pension scheme of the defined benefit type which was closed to new members with effect from April 2002. The assets of the scheme are held in separate trustee administered funds. In addition some employees both in the UK and overseas are provided with retirement benefits through defined contribution arrangements.

Disclosures relating to defined benefits are as follows:

	2008	2007
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)		
Discount rate at end of year	6.90%	5.80%
Expected return on plan assets at end of year	7,85%	6.40%
Future salary increases	3.50%	2.80%
Future pension increases	3.80%	3.10%
Rate of inflation	4.00%	3.30%
Future expected lifetime of pensioner at age 65:		
Male	22.2 years	19.8 years
Female	25.0 years	22.8 years

The expected return on plan assets is based on market expectations at the beginning of the year for returns over the entire life of the benefit obligations.

	2008 £'000	2007 £'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(54,333)	(53,821)
Fair value of scheme assets	41,828	47,390
Net liability before deferred taxation	(12,505)	(6,431)
Related deferred tax asset	3,501	1,929
Net liability after deferred taxation	(9,004)	(4,502)

	2008 £'000	2007 £'000
Amounts recognised in the income statement		
Current service cost	(526)	(801)
Interest on obligations	(3,084)	(2,955)
Expected return on scheme assets	3,001	2,947
	(609)	(809)

	2008 £'000	2007 £'000
Amounts recognised in the statement of recognised income and expense		
Actual return less expected return on scheme assets	(7,382)	3,246
Changes in assumptions underlying the present value of the scheme liabilities	1,057	2,697
	(6,325)	5,943

24. Retirement benefit obligations (continued)

	2008 £'000	2007 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	47,390	41,474
Expected return on scheme assets	3,001	2,947
Actuarial (losses)/gains	(7,382)	3,246
Employer contributions	860	836
Employee contributions	352	376
Benefits paid	(2,393)	(1,489)
	41,828	47,390

	2008 £'000	2007 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	53,821	53,875
Service cost	526	801
Interest cost	3,084	2,955
Employee contributions	352	376
Actuarial gains	(1,057)	(2,697)
Benefits paid	(2,393)	(1,489)
	54,333	53,821

Major categories of scheme assets as a percentage of total scheme assets

	2008	2007
Equities	83.3%	83.6%
Bonds	4.8%	5.8%
Property	5.3%	6.5%
Cash	6.6%	4.1%

History of scheme:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	(54,333)	(53,821)	(53,875)	(50,291)	(43,980)
Fair value of scheme assets	41,828	47,390	41,474	36,305	31,785
Net deficit	(12,505)	(6,431)	(12,401)	(13,986)	(12,195)
Experience adjustments on scheme assets	(7,382)	3,246	2,925	2,716	1,888
Experience adjustments on scheme liabilities	1,057	2,697	(1,379)	(4,464)	16

Notes to the Group Accounts
continued

25. Share capital

Ordinary shares	2008 £'000	2007 £'000
Authorised		
100,000,000 ordinary shares of 5p each	5,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
51,471,484 (2007: 51,106,072) ordinary shares of 5p each	2,574	2,555
16,042,530 B ordinary deferred shares of 1p	160	160
	2,734	2,715

The group also has preference shares in issue as detailed below which are required, under accounting rules, to be disclosed as financial instruments within creditors. Full details of these are given in note 8 of the James Halstead plc company accounts on page 58.

Preference shares	2008 £'000	2007 £'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
Nil (2007: 4,422,024) C preference shares of 60p each	–	2,653
200,000 5.5% preference shares of £1 each	200	200
	200	2,853

25. Share capital (continued)

Issue of ordinary shares and number of ordinary shares under option

Under the terms of the executive share option scheme approved on 3 December 1998, options were exercised on 365,412 during the year. Further options were granted over 389,500 during the year and details of these together with those options still outstanding are as follows:

Director's name	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.07	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.08
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
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	–	–	40,000	40,000
G R Oliver	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
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	–	–	40,000	40,000
	12 May 08	11 May 11	11 May 18	555.000	–	–	50,000	50,000
M Halstead	24 May 04	24 May 07	23 May 14	221.000	14,986	(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
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	–	–	40,000	40,000
	12 May 08	11 May 11	11 May 17	555.000	–	–	50,000	50,000
Total – directors					222,986	(74,986)	220,000	368,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.07	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.08
	25 Oct 02	24 Oct 05	24 Oct 12	129.665	16,612	–	–	16,612
	24 May 04	23 May 07	23 May 14	221.000	5,376	(426)	–	4,950
	01 Sep 04	30 Aug 07	30 Aug 14	221.000	20,000	(20,000)	–	–
	04 May 05	03 May 08	03 May 15	256.250	280,000	(270,000)	(10,000)	–
	17 Jul 05	16 Jul 08	16 Jul 15	289.000	10,388	–	–	10,388
	09 Jan 06	08 Jan 09	08 Jan 16	354.250	354,000	–	(10,000)	344,000
	24 Oct 06	23 Oct 09	23 Oct 16	354.250	10,000	–	–	10,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	–	–	169,500	169,500
Total – employees					696,376	(290,426)	149,500	555,450
Grand total					919,362	(365,412)	369,500	923,450

The market price of the shares at 30 June 2008 was 498.75p (2007: 577.50p).

The share price during the year ranged from 475.50p to 630.0p.

Notes to the Group Accounts
continued

25. Share capital (continued)

Share based payments

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 above. 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 2008 and 30 June 2007:

Expected life of option	3 years
Expected share price volatility	18.5%-21.8%
Expected dividend yield	8.0%-8.7%
Risk free interest rate	3.8%-4.4%
Exercise prices	221.00p-578.85p

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.

26. Share premium account

	2008 £'000	2007 £'000
At 1 July	803	321
Share options exercised	905	482
At 30 June	1,708	803

27. Retained earnings

	2008 £'000	2007 £'000
At 1 July	32,289	34,462
Profit for the year	20,355	15,842
Share-based payment expense	22	15
Actuarial (loss)/gain (net of deferred tax)	(4,683)	4,160
Deferred taxation – change of rate	71	–
Transfer to capital reserve	(2,653)	(177)
Equity dividends paid	(8,946)	(22,013)
At 30 June	36,455	32,289

28. Other reserves

	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total £'000
At 1 July 2006	3,449	–	–	3,449
Transfer from retained earnings	177	–	–	177
Fair value adjustments	–	(37)	–	(37)
Exchange rate adjustments	–	–	284	284
At 30 June 2007	3,626	(37)	284	3,873
Transfer from retained earnings	2,653	–	–	2,653
Fair value adjustments	–	(169)	–	(169)
Exchange rate adjustments	–	–	2,053	2,053
At 30 June 2008	6,279	(206)	2,337	8,410

29. Cash inflow from operations

	2008 £'000	2007 £'000
Operating profit	29,088	22,643
Depreciation	2,918	3,595
Profit on sale of property, plant and equipment	(43)	(25)
Increase in inventories	(5,294)	(3,807)
Increase in trade and other receivables	(638)	(940)
Increase in trade and other payables	1,539	4,826
Share-based payment expense	22	15
Retirement benefit obligations	(334)	(35)
Changes in fair value of financial instruments	40	37
	27,298	26,309

Notes to the Group Accounts
continued

30. Commitments

	2008 £'000	2007 £'000
Capital commitments		
Contracted for but not incurred – property plant and equipment	302	185

Operating lease commitments

The group leases various warehouses and items of plant and equipment under non-cancellable leases over various periods. The future minimum aggregate lease payments under non-cancellable operating leases are as follows:

	2008 Land and buildings £'000	2008 Other £'000	2007 Land and buildings £'000	2007 Other £'000
Not later than one year	1,003	791	804	552
Later than one year and not later than five years	2,257	1,076	1,604	897
Later than five years	1,425	69	536	62
	4,685	1,936	2,944	1,511

31. Financial instruments

For cash and cash equivalents and trade and other payables and receivables the fair value approximates to their book value due to the short maturity profile of these financial instruments. On receivables, allowances are made within the book value for credit risk. The fair value of forward exchange contracts is determined by reference to spot rates adjusted for the forward points to the contract value date.

The book values and fair values of financial instruments are set out below:

	2008 Book value £'000	2008 Fair value £'000	2007 Book value £'000	2007 Fair value £'000
Current:				
Trade and other receivables	23,034	23,034	20,839	20,839
Forward exchange contracts (see note 20)	149	149	54	54
Cash and cash equivalents	29,521	29,521	22,756	22,756
Trade and other payables	(40,064)	(40,064)	(36,672)	(36,672)
Forward exchange contracts (see note 20)	(1,153)	(1,153)	(582)	(582)
Borrowings	–	–	(2,653)	(2,653)
Total	11,487	11,487	3,742	3,742
Non-currrent:				
Borrowings	(200)	(200)	(200)	(200)

Other than forward exchange contracts which are categorised as hedging instruments, all financial assets are categorised as loans and receivables and all financial liabilities are categorised as financial liabilities measured at amortised cost.

31. Financial instruments (continued)

Sensitivity analysis

The group's principal exposures in relation to market risks are to changes in the Euro exchange rate against sterling and to changes in UK interest rates. The group does not fix the interest rate receivable on its sterling balances, and based on balances held at the year end a 1% increase or decrease in sterling interest rates would lead to an increase or decrease in post-tax earnings of £194,000 (2007: £160,000). The table below details the notional impact of changes in the Euro exchange rate against sterling on the group's post-tax profit and equity. The gains and losses arise from the translation of receivables, payables, cash and forward exchange contracts which are denominated in currencies other than each subsidiary's reporting currency.

	2008 Post-tax profits £'000	2008 Equity £'000	2007 Post-tax profits £'000	2007 Equity £'000
Euro 5% stronger against sterling	(23)	(40)	(93)	–
Euro 5% weaker against sterling	21	36	84	–

32. Group companies

The following information is not a complete listing of all group companies as at 30 June 2008, but includes only those companies principally affecting the profits or assets of the group.

Name of subsidiary	Country of incorporation and operation	Proportion owned by the group (%)
*Polyflor Limited	England	100
Halstead Flooring International Limited	England	100
*Phoenix Distribution (N.W.) Limited	England	100
Halstead Flooring Concepts Pty Limited	Australia	100
*Polyflor Australia Pty Limited	Australia	100
*James Halstead Flooring New Zealand Limited	New Zealand	100
*Objectflor Art und Design Belags GmbH	Germany	100
*Karndean International GmbH	Germany	100
*Falck Design AB	Sweden	100

* The activities of these trading subsidiaries are described in the chief executive's report on page 2.

Notes to the Group Accounts
continued

33. Exchange rates

The most significant sterling exchange rates used in the accounts under the group's accounting policies are:

	2008 Average	2008 Closing	2007 Average	2007 Closing
Euro	1.37	1.26	1.49	1.49
Australian dollars	2.24	2.07	2.36	2.36
New Zealand dollars	2.61	2.61	2.60	2.60
Swedish Krona	12.75	11.97	13.76	13.76

34. Related parties

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The group's contributions to the defined benefit pension scheme are disclosed in note 24 on page 38.

The key management of the group comprises the executive and non-executive directors. Details of their terms of employment are contained in the Board Report on Remuneration on page 12. Details of their emoluments, pension contributions and gains on the exercise of share options for the year are given in note 9. Details of outstanding share options are given in note 25.

35. Transition to International Financial Reporting Standards (IFRS)

The group's date of transition to accounting under IFRS is 1 July 2006 and its date of adoption of IFRS is 1 July 2007. The group's first IFRS reporting date is 30 June 2008 and hence the group's financial statements for the year ended 30 June 2008 are prepared in accordance with IFRS for the first time.

The disclosures which follow are required in the year of transition under the provisions of IFRS 1 – First Time Adoption of International Financial Reporting Standards.

First time adoption – Exemptions in IFRS 1

Full retrospective application of IFRS is required except that certain optional exemptions from the requirements of other IFRS are permitted by IFRS 1. The group has elected to take advantage of the following such reliefs:

- IFRS 3 – Business Combinations will be applied prospectively from the date of transition and hence previous business combinations have not been restated;
- the recognition and measurement principles in IFRS 2 – Share-Based Payment have not been applied to share options granted before 7 November 2002;
- the cumulative translation differences for all foreign operations have been deemed zero at the date of transition;
- previous revaluations of property made under UK GAAP have been used as deemed cost at the date of transition.

35. Transition to International Financial Reporting Standards (IFRS) (continued)

Reconciliation of shareholders' equity at 1 July 2006 (the group's transition date to IFRS)

	Note	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		18,687	–	18,687
Intangible assets	a	3,232	–	3,232
Deferred tax assets	b	–	4,822	4,822
		21,919	4,822	26,741
Current assets				
Inventories		19,770	–	19,770
Trade and other receivables	c	19,991	(171)	19,820
Derivative financial instruments	c	–	296	296
Deferred tax assets	b	1,102	(1,102)	–
Cash and cash equivalents		30,050	–	30,050
		70,913	(977)	69,936
Current liabilities				
Trade and other payables	c	32,238	(182)	32,056
	c	–	334	334
Current income tax liabilities		5,173	–	5,173
Borrowings		274	–	274
		37,685	152	37,837
Net current assets		33,228	(1,129)	32,099
Non-current liabilities				
Pension scheme deficit	b	8,681	3,720	12,401
Deferred tax liabilities	d	–	1,063	1,063
Borrowings		4,155	–	4,155
Other payables		286	–	286
		13,122	4,783	17,905
Net Assets		42,025	(1,090)	40,935
Equity				
Equity share capital		2,543	–	2,543
Equity share capital (B shares)		160	–	160
		2,703	–	2,703
Share premium account		321	–	321
Retained earnings	c, d	32,008	2,454	34,462
Other reserves	d	6,993	(3,544)	3,449
Total equity attributable to shareholders of the parent		42,025	(1,090)	40,935

Notes to the Group Accounts
continued

35. Transition to International Financial Reporting Standards (IFRS) (continued)

Reconciliation of shareholders' equity at 30 June 2007

	Note	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		18,334	–	18,334
Intangible assets	a	3,004	228	3,232
Deferred tax assets	b	–	3,497	3,497
		21,338	3,725	25,063
Current assets				
Inventories		23,899	–	23,899
Trade and other receivables	c	20,943	(104)	20,839
Derivative financial instruments	c	–	54	54
Deferred tax assets	b	1,568	(1,568)	–
Cash and cash equivalents		22,756	–	22,756
		69,166	(1,618)	67,548
Current liabilities				
Trade and other payables	c	37,203	(531)	36,672
Derivative financial instruments	c	–	582	582
Current income tax liabilities		5,024	–	5,024
Borrowings		2,653	–	2,653
		44,880	51	44,931
Net current assets		24,286	(1,669)	22,617
Non-current liabilities				
Pension scheme deficit	b	4,502	1,929	6,431
Deferred tax liabilities	d	–	1,063	1,063
Borrowings		200	–	200
Other payables		306	–	306
		5,008	2,992	8,000
Net Assets		40,616	(936)	39,680
Equity				
Equity share capital		2,555	–	2,555
Equity share capital (B shares)		160	–	160
		2,715	–	2,715
Share premium account		803	–	803
Retained earnings	a, c, d, e	29,928	2,361	32,289
Other reserves	c, d, e	7,170	(3,297)	3,873
Total equity attributable to shareholders of the parent		40,616	(936)	39,680

35. Transition to International Financial Reporting Standards (IFRS) (continued)

Reconciliation of Consolidated Income Statement for the year ended 30 June 2007

	Note	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
Revenue		142,948	(5,696)	137,252
Cost of sales		(76,557)	–	(76,557)
Gross profit		66,391	(5,696)	60,695
Selling and distribution expenses	f	(31,953)	5,696	(26,257)
Administrative expenses	a, c	(11,986)	191	(11,795)
Operating profit		22,452	191	22,643
Finance income		856	–	856
Profit before income tax		23,308	191	23,499
Income tax expense		(7,657)	–	(7,657)
Profit for the year attributable to equity shareholders		15,651	191	15,842
Earning per ordinary share of 5p				
– basic		30.7p	0.4p	31.1p
– diluted		30.5p	0.4p	30.9p

Notes to the reconciliations

a Intangible assets

Under UK GAAP goodwill was amortised over its useful economic life, tested for impairment and provided against if necessary. Under IFRS goodwill is no longer amortised but must be tested for impairment at the date of transition to IFRS (1 July 2006) and at each balance sheet date thereafter. Goodwill was tested and found not to be impaired as at 1 July 2006 and 30 June 2007. Goodwill amortisation of £228,000 charged, under UK GAAP, to the income statement in the year ended 30 June 2007, has been credited back under IFRS. This results in a reduction of £228,000 in administration expenses for the year and an increase in the balance sheet value of goodwill of £228,000.

b Deferred tax assets

Under IFRS the pension scheme deficit, previously recorded, under UK GAAP, in the balance sheet net of the associated deferred tax asset, must be recorded gross. The deficit has therefore been grossed up by £3,720,000 at 1 July 2006 and £1,929,000 at 30 June 2007. The associated deferred tax asset, together with other deferred tax assets previously recorded in debtors under UK GAAP (£1,102,000 at 1 July 2006 and £1,568,000 at 30 June 2007), must be shown in the balance sheet under non-current assets.

c Derivatives and Hedge Accounting

Under IFRS all derivative financial instruments are accounted for at fair value whilst other financial instruments are accounted for at amortised cost or fair value according to their classification. Subject to strict criteria, under IFRS, movements in fair value of derivative financial instruments and financial assets and liabilities which form part of a hedging relationship may be recorded in a separate reserve within equity. Movements in fair value of such items which do not form part of a hedging relationship are taken direct to the income statement. Under UK GAAP, derivative financial instruments were not recorded in the balance sheet, and assets and liabilities which were hedged by such instruments were allowed to be recorded at the hedged rate. The group has, therefore, under IFRS, recorded its derivative financial instruments at fair value in the balance sheet and restated the value of certain financial assets and liabilities previously recorded at a hedged rate under UK GAAP.

Notes to the Group Accounts
continued

35. Transition to International Financial Reporting Standards (IFRS) (continued)

The effects are as follows:

	Balance sheet as at 1 July 2006 £'000	Balance sheet as at 30 June 2007 £'000
Trade and other receivables	(171)	(104)
Derivative financial instruments (asset)	296	54
Trade and other payables	182	531
Derivative financial instruments (liability)	(334)	(582)
	(27)	(101)
Retained earnings	(27)	(64)
Other reserves (hedging reserve)	–	(37)
	(27)	(101)

	Income statement for the year ended 30 June 2007 £'000
Reversal of opening fair value adjustment	27
Current year fair value adjustment	(64)
	(37)

d Valuation of Properties and Deferred Tax

Freehold land and buildings were included at valuation under UK GAAP. On the introduction of FRS 15, as permitted, the book values of freehold properties, as modified by subsequent additions and disposals, which had been the subject of past revaluations were retained. Deferred tax was not provided as it was believed that such a liability would not crystallise. Under IFRS, the group will adopt the deemed cost basis for freehold property. As such the revaluation reserve, previously shown under UK GAAP, is transferred to retained earnings under IFRS. Under IFRS, deferred tax must be provided on the potential gain on the sale of the freehold property at its revalued level, hence the reduction to net assets shown above. The effects of these changes at both 1 July 2006 and 30 June 2007 are to decrease other reserves by transferring the revaluation reserve of £3,544,000 into retained earnings, increase the deferred tax liability in non-current assets by £1,063,000 and increase retained earnings by £2,481,000.

e Foreign exchange translation differences

Under UK GAAP translation differences on the consolidation of foreign currency net investments were taken to the profit and loss account reserve. Under IFRS these differences must now be recorded in a separate reserve. The group has taken the transitional exemption allowed under IFRS 1 to apply this treatment from the date of transition only (1 July 2006). The credit of £284,000 to the profit and loss account under UK GAAP relating to currency translation differences on foreign currency net investments for the year ended 30 June 2007 has been transferred to a separate reserve within other reserves.

35. Transition to International Financial Reporting Standards (IFRS) (continued)

f Revenue

Under UK GAAP settlement and volume discounts were included in selling and distribution costs. Under IFRS these are now classified within the consolidated income statement as a reduction in revenue. The effect on the income statement is a reduction in revenue and a consequent reduction in selling and distribution expenses of £5,696,000 resulting in no adjustment to operating profit or retained income.

g Other

The group has reviewed the impact of various other differences between UK GAAP and IFRS and where the impact of these differences is immaterial to the group's figures, no adjustment has been made to those previously reported.

Ten Year Summary

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	UK	UK	UK	UK	UK	UK	UK	UK		
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	IFRS	IFRS
Revenue	84,305	92,821	93,541	93,033	99,775	104,703	112,353	126,024	137,252	158,740
Profit (before exceptional items)	9,251	9,946	10,689	11,275	12,211	13,699	13,760	17,481	23,499	29,857
Exceptional items*	(3,363)	–	–	–	–	10,396	–	–	–	–
Profit before income tax	5.888	9,946	10,689	11,275	12,211	24,095	13,760	17,481	23,499	29,857
Income tax	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)	(9,502)
Profit after income tax	2,858	6,741	7,151	7,810	8,565	18,157	9,484	11,834	15,842	20,355

Unless otherwise stated all amounts are in £ thousands.

Underlying/headline earnings per 5p share**	10.20p	11.10p	12.33p	14.42p	16.81p	17.47p	19.20p	23.80p	31.10p	39.70p
Net dividends paid per ordinary share of 5p***	5.19p	5.59p	6.05p	6.55p	7.05p	8.00p	9.38p	10.63p	13.25p	17.5p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	1.97	1.99	2.04	2.20	2.38	2.18	2.05	2.24	2.35	2.27

* 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.

** For 1999 to 2006, underlying/headline earnings per share is as defined in the notes to the accounts for the relevant year. For 2007 and 2008 underlying/headline earnings per share and basic earning per share are the same. 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.

Figures for years ended 30 June 1999 to 30 June 2006 have not been restated to reflect the impact of IFRS. Had this exercise been undertaken the major changes would have been the re-allocation of settlement and volume discounts to revenue, with no impact on profit before income tax and the removal of the amortisation of goodwill.

Company Balance Sheet
as at 30 June 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible fixed assets	2	4,370	4,602
Investments	3	20,093	20,093
		24,463	24,695
Current assets			
Debtors	4	19,345	23,697
Cash at bank, in hand and on short term deposit	12	18,484	10,086
		37,829	33,783
Creditors – amounts falling due within one year	5	(17,894)	(22,311)
Net current assets		19,935	11,472
Total assets less current liabilities		44,398	36,167
Creditors – amounts falling due after more than one year	6	(200)	(200)
		44,198	35,967
Capital and reserves			
Equity share capital		2,574	2,555
Equity share capital (B shares)		160	160
Called up share capital	8	2,734	2,715
Share premium account	9	1,708	803
Capital redemption reserve	10	6,279	3,626
Profit and loss account	11	33,477	28,823
Total shareholders' funds		44,198	35,967

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2008.

M Halstead
Director

G R Oliver
Director

Notes to the Financial Statements of the Company

1. Accounting policies

Basis of preparation

The financial statements for the company have been prepared under the historical cost convention (as modified by the calculations of the charge for share-based payments which are based on fair value) and in accordance with the Companies Act 1985. The company continues to prepare its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). The directors consider that the accounting policies set out below are applicable, are supported by reasonable judgements and estimates and have been consistently applied. The financial statements have been prepared on the going concern basis.

Profit and recognised gains and losses of the company

The Company has taken advantage of the legal dispensation contained in Section 230 of the Companies Act 1985 allowing it not to publish a separate profit and loss account and related notes.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the company's shareholders.

Share based payments

The company grants share options to certain James Halstead group employees. 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.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under such leases are charged to the income statement on a straight line basis over the period of the lease.

Tangible fixed assets

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 company'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.

Investments

Investments in subsidiaries are stated at cost less provision for impairment in value.

1. Accounting policies (continued)

Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries 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.

Pension scheme arrangements

The company operates a defined benefit scheme (which was closed to new members with effect from April 2002). The company also operates a defined contribution scheme for those employees who prefer this option or who are unable to join the defined benefit scheme. As the company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme on a consistent and reasonable basis, the company accounts for the scheme as though it were a defined contribution scheme. Accordingly the amount charged to the profit and loss account is the contribution payable in the year to both the defined benefit and defined contribution schemes. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

2. Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2007	6,798	408	7,206
Additions	–	89	89
Disposals	–	(97)	(97)
At 30 June 2008	6,798	400	7,198
Depreciation			
At 30 June 2007	2,329	275	2,604
Charge for the year	177	60	237
Disposals	–	(61)	(61)
Additions	–	48	48
At 30 June 2008	2,506	322	2,828
Net book value			
At 30 June 2008	4,292	78	4,370
At 30 June 2007	4,469	133	4,602

Notes to the Financial Statements of the Company
continued

3. Investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost			
At 30 June 2007 and 30 June 2008	28,233	1,260	29,493
Provision for impairment			
At 30 June 2007 and 30 June 2008	9,400	–	9,400
Net book value			
At 30 June 2007 and 30 June 2008	18,833	1,260	20,093

At 30 June 2008, the company held directly and indirectly equity and voting rights of the following undertakings:

Name of subsidiary	Country of incorporation and operation	Proportion owned by the parent company (%)	Shares at cost £'000
Polyflor Limited	England	100	3,000
Halstead Flooring International Limited	England	100	–
JHL Limited	England	100	–
Titan Leisure Group Limited	England	100	15,200
Titan CPL Limited	England	–	–
Phoenix Distribution (N.W.) Limited	England	–	–
Halstead Flooring Concepts Pty Limited	Australia	100	6,176
Polyflor Australia Pty Limited	Australia	–	–
James Halstead Flooring New Zealand Limited	New Zealand	–	–
Objectflor Art und Design Belags GmbH	Germany	100	3,857
Karndean International GmbH	Germany	–	–
Falck Design AB	Sweden	–	–
			28,233

4. Debtors

	2008 £'000	2007 £'000
Trade debtors	290	1
Current accounts with subsidiary undertakings	16,734	22,115
Other debtors	1,958	1,517
Prepayments and accrued income	363	64
	19,345	23,697

5. Creditors – amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	1,497	806
Current accounts with subsidiary undertakings	9,255	12,113
Corporation tax payable	844	363
Other taxation and social security	70	141
C preference shares	–	2,653
Other creditors	2,893	3,652
Accruals and deferred income	3,335	2,583
	17,894	22,311

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

	2008 £'000	2007 £'000
Preference shares	200	200

7. Deferred taxation

	2008 £'000	2007 £'000
Accelerated capital allowances	(17)	751
Short-term timing differences	(1,195)	(991)
	(1,212)	(240)
Opening balance	(240)	44
Credit to profit and loss account	(972)	(284)
Balance at 30 June	(1,212)	(240)

The deferred tax debtor is included within other debtors in note 4.

Notes to the Financial Statements of the Company
continued

8. Share capital

Ordinary shares	2008	2007
	£'000	£'000
Authorised		
100,000,000 ordinary shares of 5p each	5,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
51,471,484 (2007: 51,106,072) ordinary shares of 5p each	2,574	2,555
16,042,530 B ordinary deferred shares of 1p	160	160
	2,734	2,715

The group also has preference shares as detailed below which are required, under accounting rules to be disclosed as financial instruments within creditors.

Preference shares	2008	2007
	£'000	£'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
Nil (2007: 4,422,024) C preference shares of 60p each	–	2,653
200,000 5.5% preference shares of £1 each	200	200
	200	2,853

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 one 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.

8. Share capital (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. Those shareholders who chose to retain their C shares beyond the initial redemption date had the right to redeem the C shares on 14 January each year until 14 January 2008. 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. The remaining 4,422,024 C shares were redeemed on 14 January 2008. On redemption all C shares are cancelled and not re-issued.

Those shareholders who chose to retain their C shares beyond the initial redemption date were entitled to receive the C share continuing dividend of 4% per annum payable annually in arrears on the nominal value of 60 pence. The final such payment was made on 14 January 2008.

The 5.5% (2007: 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% (2007: 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 Financial Statements of the Company
continued

9. Share premium account

	2008 £'000	2007 £'000
At 1 July	803	321
Share options exercised	905	482
At 30 June	1,708	803

10. Capital redemption reserve

	2008 £'000	2007 £'000
At 1 July	3,626	3,449
Redemption of C shares	2,653	177
At 30 June	6,279	3,626

11. Profit and loss account

	2008 £'000	2007 £'000
At 1 July	28,823	36,621
Profit for the year	16,231	14,377
Share-based payment transactions	22	15
Transfer to capital reserve	(2,653)	(177)
Equity dividends paid	(8,946)	(22,013)
At 30 June	33,477	28,823

The company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The company's profit for the financial year was £16,230,515 (2007: £14,377,236).

12. Financial instruments

A full description of the James Halstead plc group's treasury policy is contained in the financial director's report on page 6.

FRS 13 "Derivatives and Other Financial Instruments: disclosures" requires certain disclosures in respect of financial assets and liabilities and these are set out below.

The company 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.

(i) Preference shares

(a) The preference shares in issue are fully described in note 8 on page 59. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2008 was £200,000 (2007: £200,000). At 30 June 2008 and 30 June 2007 the fair value of the preference shares was not materially different to their book value. Under the requirements of FRS 25 the preference shares are included in creditors.

12. Financial instruments (continued)

(b) The C redeemable non-cumulative preference shares ("C shares") are fully described in note 8 on page 58. The C shares outstanding as at 30 June 2007 were redeemed in full on 14 January 2008. The holders of the C shares were entitled to the C share continuing dividend of 4% per annum. At 30 June 2007 the fair value of the C preference shares was not materially different to their book value. Under the requirements of FRS 25 the C preference shares were included in creditors.

(ii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits, balances and cash in hand	
	2008	2007
	£'000	£'000
Sterling (including sterling equivalent of UK foreign currency balances)	18,484	10,086

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 the James Halstead group's currency exposures, the company operates bank accounts in certain foreign currencies with its UK clearing banks some of which are generally operated as overdrafts. Cash at bank and in hand in the company balance sheet is shown net of overdrafts in line with the company's arrangements with its bankers.

(iii) The management of the currency risk for the James Halstead plc group as a whole is undertaken by the company. The group uses foreign currency bank accounts and fixed forward currency exchange contracts to manage its exposure to risk from fluctuations in forward exchange rates. The vast majority of the group's forward contracts and all of its foreign currency bank accounts used for this purpose are managed by and are in the name of the holding company, James Halstead plc. The vast majority of the transactions the value of which are exposed to exchange rate fluctuations are not those of the company but of its subsidiaries. Hence the disclosures below relate almost entirely to bank accounts and fixed forward contracts as at the year end.

Net foreign currency monetary financial assets/(liabilities) within the balance sheet at book and fair value

	2008	2007
	£'000	£'000
Australian Dollars	(320)	(495)
Canadian dollars	(243)	(107)
Euro	(350)	(2,342)
Hong Kong Dollars	219	(117)
New Zealand Dollars	(165)	(150)
Norwegian Krone	(115)	(129)
US Dollars	(394)	(540)
Japanese Yen	92	(249)
Others	(67)	(100)
	(1,343)	(4,229)

Notes to the Financial Statements of the Company
continued

12. Financial instruments (continued)

The value of forward exchange contracts outstanding at the year end, recorded at year end rates was as follows:

	2008 £'000	2007 £'000
Contracts to sell:		
Australian Dollars	3,957	2,672
Canadian dollars	565	528
Euro	3,952	2,932
Hong Kong Dollars	1,515	700
New Zealand Dollars	573	717
Norwegian Krone	1,419	1,040
US Dollars	2,208	–
Others	1,375	825
	15,564	9,414
Contracts to buy:		
US Dollars	10,374	9,576
Japanese Yen	1,632	1,799
	12,006	11,375

The fair value of forward exchange contracts outstanding at the year end was as follows:

	2008 Asset/(liability) £'000	2007 Asset/(liability) £'000
Contracts to sell:		
Australian Dollars	(146)	(62)
Canadian dollars	14	(13)
Euro	(159)	13
Hong Kong Dollars	7	11
New Zealand Dollars	21	(39)
Norwegian Krone	(30)	(12)
US Dollars	37	–
Others	20	(1)
	(236)	(103)
Contracts to buy:		
US Dollars	(740)	(296)
Japanese Yen	(41)	(129)
	(781)	(425)

13. Employee costs and numbers

	2008 £'000	2007 £'000
Employee costs during the year		
Wages and salaries	1,110	1,039
Social security costs	234	175
Other pension costs	90	84
	1,434	1,298

Details of the group's employee share scheme are included in note 6 on page 29 of the James Halstead plc group financial statements.

	2008 Number	2007 Number
Employee numbers during the year including directors	25	18

All employees of the company are engaged in administration activities.

Shareholder Information

Financial calendar

Annual general meeting	10 December 2008 (see notice of meeting on pages 65 to 66).

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	2,743	6,457,519
10,001-50,000	260	5,475,037
50,001-250,000	74	8,662,087
250,001 and over	27	30,887,229
	3,104	51,481,872

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	838	13,703,728	26.62
Other limited companies/corporate bodies	51	621,579	1.21
Miscellaneous bodies/pension funds	9	66,704	0.13
Private individuals	2,199	37,020,147	71.90
Investment trusts and funds	7	69,714	0.14
	3,104	51,481,872	100.00

*as at 23 September 2008

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY THIRD ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, on 10 December 2008 at 12p.m. 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 2008 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

4 To re-elect Mr E K Lotz as a director in accordance with the articles of association.

5 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 6 and 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

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

7 That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £772,228 provided that this authority shall expire on the date falling one year after the date of this resolution, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

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

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

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

Notice of Annual General Meeting
continued

9 That the company is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) on the London Stock Exchange Limited of fully paid ordinary shares of 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
24 October 2008

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 8 December 2008 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 8 December 2008.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the direction of all of the other corporate representatives for the shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.

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 12 December 2008 to shareholders on the register as at 7 November 2008.

Notes

Notes

JAMES HALSTEAD PLC

2006 2007

JAMES HALSTEAD plc

Beechfield
Hollinhurst Road
Radcliffe
Manchester M26 1JN

Tel: +44 (0)161 767 2500
Fax: +44 (0)161 766 7499
www.jameshalstead.com

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