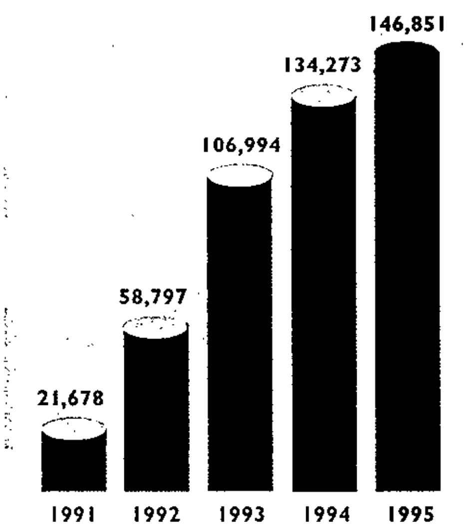
Contents

HEADLAM Group plc

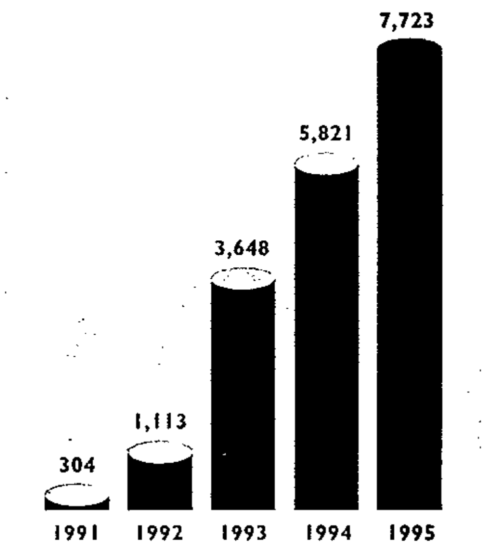
Directors	G Waldron Chairman I Kirkham Chief Executive A J Brewer S G Wilson BSc FCA T G Larman FCCA FCT *Non-executive*
Secretary and registered office	S G Wilson BSc FCA PO Box 1 Riverside Way Bedford Road Northampton NN1 5NH
Registration	Registered in England and Wales Number 460129
Merchant bankers	Robert Fleming & Co. Limited 25 Copthall Avenue London EC2R 7DR
Stockbrokers	Albert E Sharp Temple Court 35 Bull Street Birmingham B4 6ES
Solicitors	Eversheds 10 Newhall Street Birmingham B3 3LX
Auditors	KPMG Spencer House Cliftonville Road Northampton NN1 5BU
Public relations	Gavin Anderson (UK) Limited New Liverpool House 15-17 Eldon Street London EC2M 7LA
Registrars	Connaught St. Michaels Limited PO Box 30 Victoria Street Luton Bedfordshire LU1 2PZ
Principal bankers	National Westminster Bank Plc PO Box 21 41 The Drapery Northampton NN1 2EY

'I am delighted to inform you that the excellent progress achieved in previous years has been successfully maintained in 1995.'

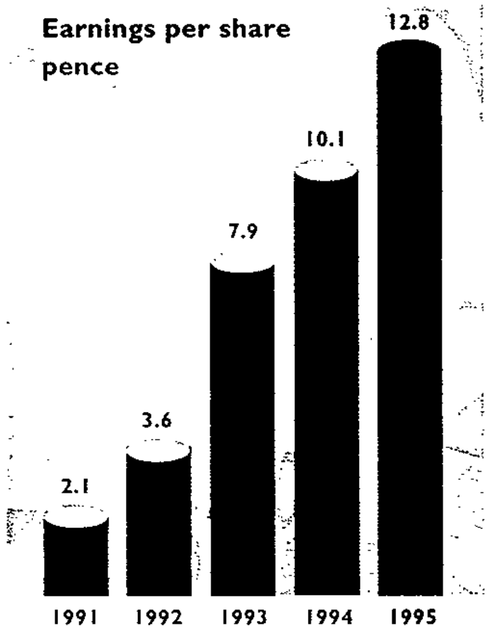
Turnover
£000



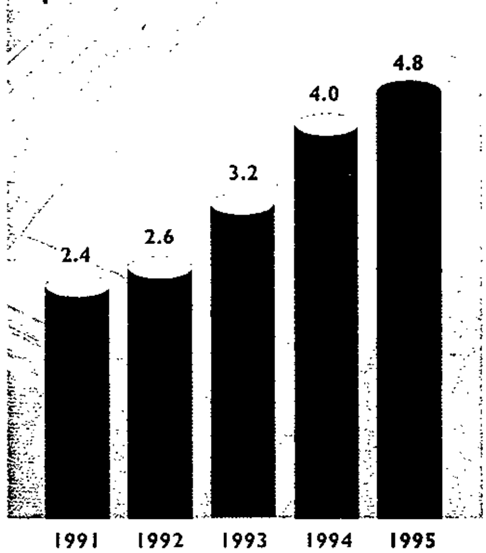
Profit before taxation
£000



Earnings per share
pence



Dividends per Ordinary share
pence



I am delighted to inform you that the excellent progress achieved in previous years has been successfully maintained in 1995 with sales rising to £146.9 million (1994: £134.3 million) and profit before taxation increasing by 33% to £7.7 million (1994: £5.8 million). Earnings per share increased by 27% to 12.8p (1994: 10.1p).

Dividends

Your Board is recommending to shareholders a final dividend of 3.6p per Ordinary share. This results in a total dividend of 4.8p (net) for the year (1994: 4.0p net) an increase of 20%. The final dividend is expected to be paid on 1 July 1996 to Ordinary shareholders on the register as at 5 June 1996 except for the Ordinary shares issued by way of a rights issue on 7 February 1996, which do not qualify for the final dividend in respect of the current year.

Operations

Once again trading conditions were difficult throughout the year as consumer hesitancy affected all our customers both large and small.

The Floorcovering division defied those conditions by selectively targeting its customer base. In certain areas of the UK where profitable growth opportunities have been limited, the division has concentrated on consolidating its market share and reducing its exposure to lower margin business. Conversely our recently relocated branch at Thatcham achieved record results thanks to improved service levels, higher operating efficiencies and further gains in market share.

Our Fabrics businesses encountered equally difficult markets but still achieved an acceptable growth rate assisted by another strong export performance. The division now covers most of the major soft furnishing product sectors and this wide divergence of product continues to ensure that sales increase in the face of a temporary decline in the UK market.

Recent developments

The recent profitable disposals of Aquatex in December 1995 and the merged Phipps-Faire and Minto & Turner businesses in January 1996, will now allow the Group to concentrate on its core activities of Floorcovering and Soft Furnishing Fabrics distribution. Both of these activities cover markets which are both substantial and highly fragmented and present extensive opportunities for future organic and acquisitive growth.

More recently with increased interest in our products from European customers we made our first direct move onto the Continent by acquiring the Dutch company, Maliegroep, for £9.7 million. Its principal subsidiary, Lethem-Vergeer, is a long established and successful distributor of carpets, vinyl floorcoverings and curtains.

Coupled with this, we achieved our long cherished ambition of complete UK geographical coverage in floorcovering distribution through the purchase of Mercado Holdings for £11.0 million. This large Leeds based distributor enables the Floorcovering division to offer an enhanced nationwide service to all our customers.

People

Our enthusiastic team has again proved capable of withstanding the rigours of an unhelpful market. Employees have had to work harder than ever to succeed and in many cases have simply refused to be daunted by the tough trading conditions.

On your behalf I would like to thank each and every one of them for their tireless efforts in collectively producing such a fine result.

It's heartening to also record the high number of employees who are shareholders either through their own efforts or one of the Group's share incentive schemes.

Shareholders

Enthusiasm for our expansion plans has been tremendous and the Board is fortunate to have the support of such an appreciative group of shareholders. This was recently demonstrated with the 97% rights issue acceptance which was completed during March 1996, raised £18.3 million net of expenses and affirmed your Board's decision to acquire two excellent businesses.

The future

The resilient results achieved during 1995 demonstrate yet again the Group's ability to succeed in generally difficult economic conditions. Our most recent acquisitions are complementary to the Group's strategy developed some four years ago which envisaged Headlam becoming a principal participant in the European household furnishings market.

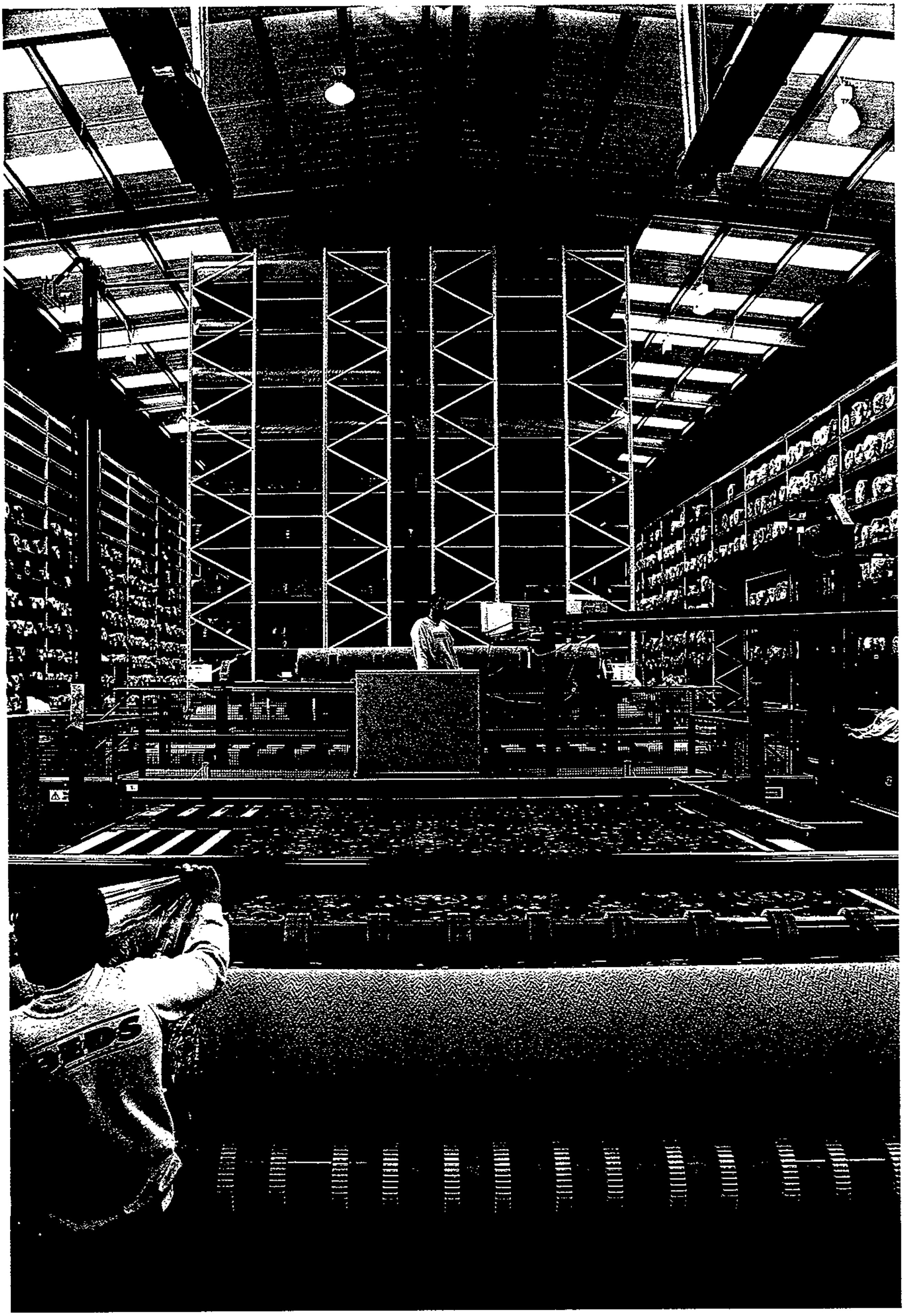
Your Group is extremely well placed to take advantage of the many opportunities that are now before it. As always the first priority is to add value to the recently acquired businesses and then, in due course, utilising our strong financial position, we intend to pursue further complementary acquisitions.

As a result of the disposal of two non core profitable businesses at the start of the year, the usual balance between the first half and the anticipated final results will more heavily favour the second half as the newly acquired companies make a full contribution to the second six months.

1996 has started well with some early signs of a selective recovery in UK consumer spending which in turn has created a more buoyant feeling amongst our customers.

Our future now lies in the expansion of our Floorcovering and Soft Furnishing businesses. With a sharper focus, improving market conditions, a strong financial base and an exciting business strategy, we look forward to the next stage of the Group's development with relish.

G Waldron *Chairman* G Waldron *10 April 1996*



Floorcovering Distribution

	1995 £000	1994 £000
Turnover	75,304	75,592
Operating profit	4,629	3,158

Bar code driven computerised carpet cutting has been installed at all our major carpet distribution depots.

1995 presented us with the opportunity to build on our core business of Floorcovering and Soft Furnishing Fabrics distribution and to dispose of at a profit two of our non core businesses, Phipps-Faire and Aquatex. Both of these businesses were profitable but increasingly operated in markets outside the Group's main areas of activity. The sharper focus of the Group will enable more resources and time to be devoted to the areas of greatest opportunity.

Floorcovering Despite some early optimism in 1995, the UK floorcovering market declined slightly as a fairly robust contract market was eclipsed by a downturn in retail carpet sales. Accordingly our strategy was centred around improving the returns available from our existing volume base whilst holding our market share in anticipation of an improvement in consumer demand in 1996. Market conditions throughout the year were subsequently in line with our expectations except for the hot summer months which were unhelpful to the industry as a whole.

Our new depot at Thatcham began its first full year of operations and surpassed all expectations, fully justifying the capital expenditure incurred by the Group in 1994. Following this success, a second purpose built replacement depot was opened in Bedford in September, to develop a more broadly based floorcovering business in the East Midlands. Initial expectations have been fully met and the Bedford depot has begun to demonstrate its increased potential. Elsewhere, progress was made on a broad front as other depot locations responded to further operating efficiency measures, none more so than at KJC Carpets, which had previously taken longer than anticipated to return to profit following the acquisition of this loss making business in 1993. Happily KJC continues to record solid progress on a month by month basis.

Bedford's state of the art computer technology coupled with a purpose built distribution centre has improved our operating efficiency and generated increased demand from a wider customer base.


BEDS
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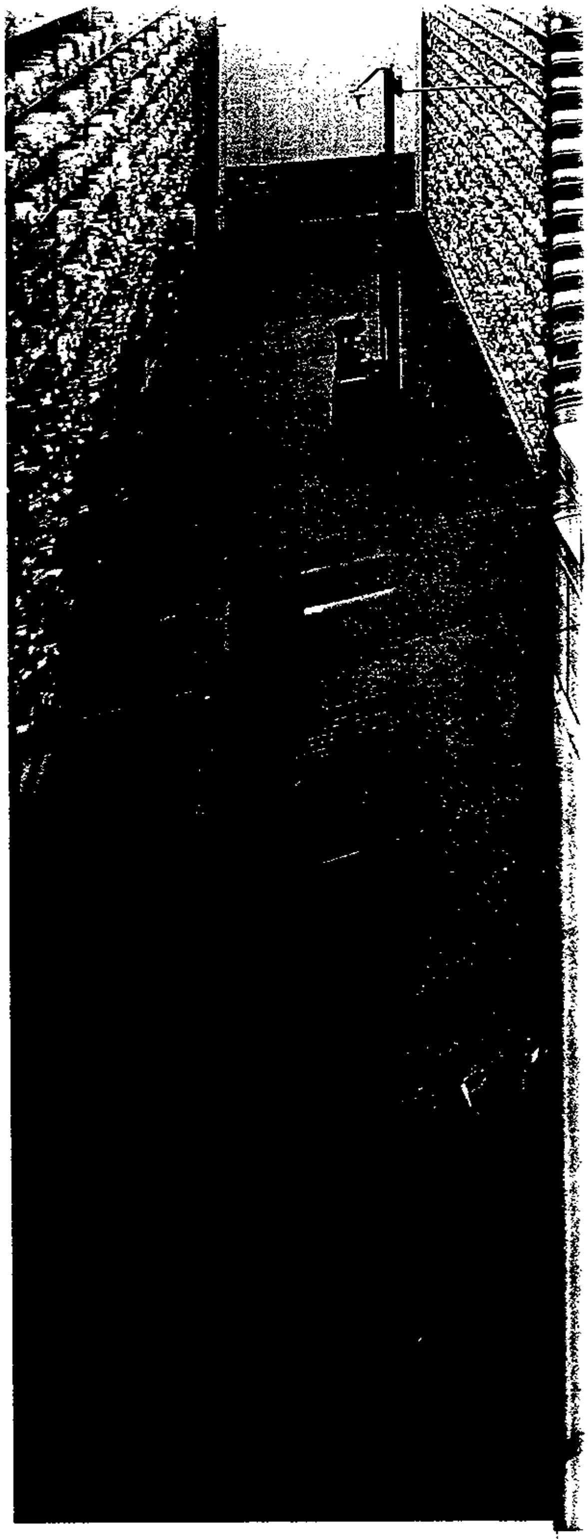


Notable throughout the year was the increased support offered by our supplier base. This assistance takes many forms but is culminating in closer co-operation between our key suppliers and our unified depot structure. We have continued to develop these important relationships and have been able to demonstrate successfully to many of the multinational floorcovering manufacturers the increased benefits of a value added, floorcovering distribution business.

In the spring of 1996 we welcomed two newly acquired businesses, Mercado Holdings and Maliegroep into our Floorcovering distribution network. Mercado will complete our UK geographical coverage whilst Maliegroep will bring a new dimension, giving us our first exposure to the European market.

There now exist the dual opportunities of further operating margin improvement in the UK and the gradual coverage of selected overseas markets.

High service levels and a wider product range have resulted in Florco, our Thatcham based business, expanding its market share substantially since becoming fully operational in its new distribution centre in December 1994.

Fabrics Distribution

	1995	1994
	£000	£000
Turnover	46,697	34,869
Operating profit	3,406	2,986

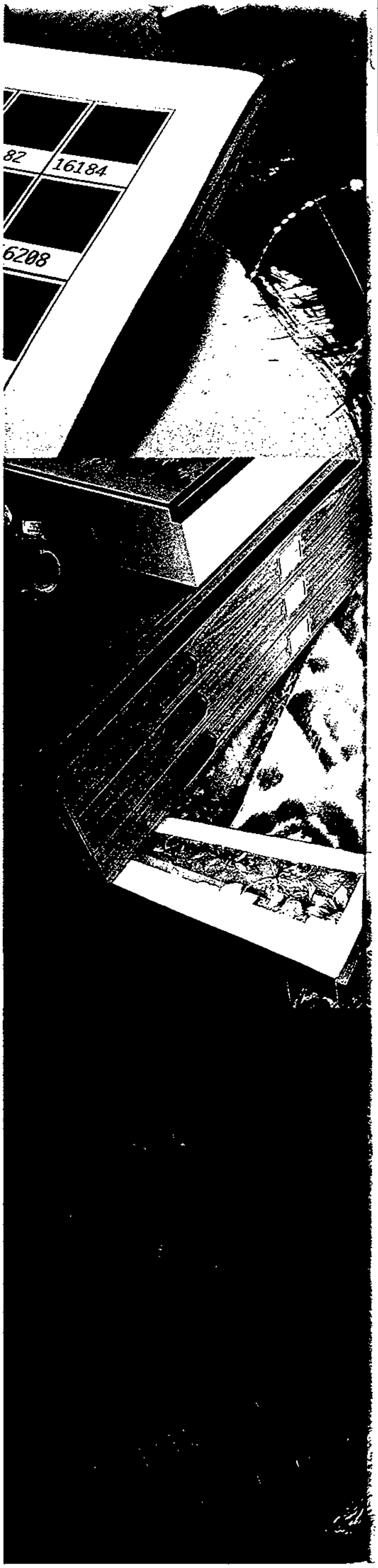
Ursula Greenwood, Managing Director, and Norman Reid, Contract Sales Manager present Edinburgh Weavers' latest collection to Ezra Attia, Chairman of E.A.A. International Ltd., one of the world's leading hotel interior designers.

Fabrics The year was punctuated by a significant decline in UK consumer demand for curtains and soft furnishing accessories and it was against this background that most of our businesses had to operate. Product development costs rose as the market developed an increased appetite for new product leading to a rise in design and colouring expenditure. The substantial increase in product offering helped to secure a modest improvement in market share, albeit at slightly lower margins. The new broader product range has been well received by our customers and will also bring benefits in 1996 as customers forward order commitments begin to be delivered.

During the year we added to our group of Soft Furnishing companies by acquiring from Courtaulds Textiles the complementary business of Edinburgh Weavers, whose principal activity is refurbishing international hotel chains and the export of curtain fabrics. We also added a small in-house transfer printing operation, which has given the Fabrics Division a short run printing facility enabling it to respond quickly to the variable demand levels experienced throughout the year.

Claremont Fabrics continued to make progress, although constrained by their existing outgrown distribution facilities, which currently do not promote high operating efficiencies. All planning and geophysical issues associated with the new building have finally been settled and work will shortly commence in Glossop on a purpose built freehold design studio and distribution site, with completion of the project towards the end of 1996. Rehousing Claremont is an essential and major step forward for the division and is planned to produce many improvements including higher operating efficiencies more akin to those currently being achieved elsewhere in the Group.

William O'Hanlon generated its first full year of profits for the Group, the outlook for this



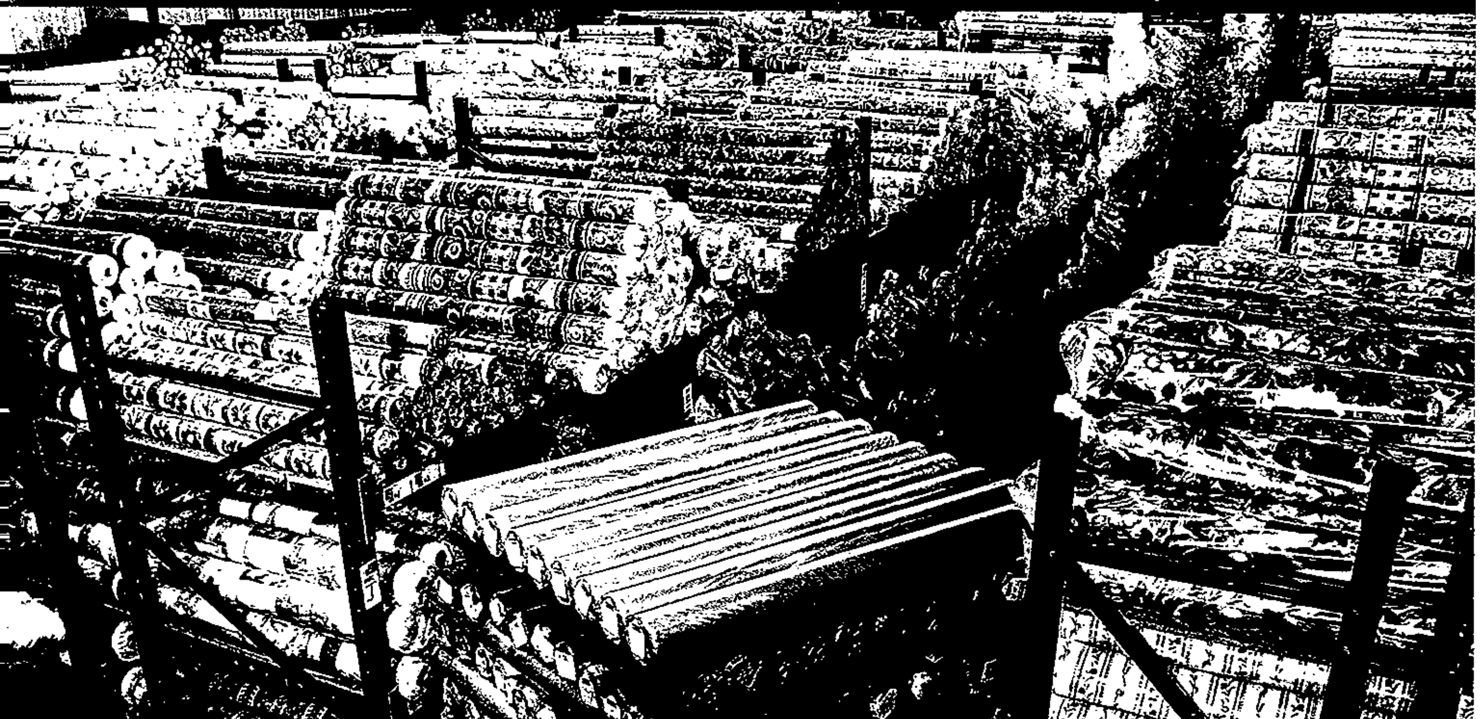
At Claremont Fabrics, individual design flair combines with computer aided design technology to produce patterned upholstery and curtain fabrics for a worldwide market.

business looks particularly promising, hence the recent acquisition of the freeholds of its two existing leased premises in mid Wales. This investment will enable us to reduce costs whilst removing the constraints of a long lease as we expand its operations.

1995 saw Gordon John Textiles implement its rationalisation plan by initially moving premises followed by the introduction of a fully integrated computer system. The warehouse and distribution functions were also brought in-house to facilitate improved customer service levels. The business is now responding to this investment with a rise in margins and overall profitability.

Gordon John Textiles has benefited from a substantial investment programme which has re-equipped the business and transformed it into a design led company.


GORDON JOHN



Some modest increase in fabric demand has been recorded since the year end but improvements in divisional performance are more likely to be internally generated in 1996. This is our key objective and is not unlike the task faced so successfully by the Floorcovering Division in 1995.

Ian Kirkham *Chief Executive* *10 April 1996*

Public area and Scandinavian themed guest room at Radisson SAS Portman Hotel, London recently refurbished using Edinburgh Weavers' interior fabrics.

The directors present their annual report and the audited financial statements for the year ended 31 December 1995.

Principal activities

The Group's activities include the wholesale distribution of floorcoverings and merchant converting of materials for supply to the soft furnishings, clothing and allied industries.

Discontinued activities include the merchant converting of materials and components for supply to the footwear, clothing and allied industries.

Review of business

A review of the Group's trading operations and future developments is contained in the Chairman's statement and the Chief Executive's review.

Results and dividends

Group profit before taxation amounted to £7.7 million (1994: £5.8 million) which after taxation and dividends paid and proposed on equity and non-equity shares, resulted in a profit retained for equity shareholders amounting to £3.3 million (1994: £2.4 million). Further information on the result for the year and the financial position of the Group is set out in the financial statements.

An interim Ordinary dividend of 1.2p per share (1994: 1.0p) was paid on 30 November 1995 and your Board is pleased to recommend an increased final Ordinary dividend of 3.6p per share (1994: 3.0p), making a total Ordinary dividend of 4.8p (1994: 4.0p) for the year. The final dividend, if approved, will be payable on 1 July 1996 to shareholders whose names appear on the register at the close of business as at 5 June 1996.

Preference dividends of £2,800 (1994: £2,800) have been paid.

Acquisition and disposal of businesses

During February 1995, the Company acquired the dry printing activities and associated assets of a business which was subsequently renamed Headlam Textile Printers Limited and in May 1995, acquired the furnishing fabric converting business and associated assets and certain liabilities of Edinburgh Weavers.

In December 1995, the Company disposed of its entire interest in the waterproof, breathable fabric business, Aquatex Functional Fabrics Limited.

Further information concerning acquisitions and disposals is given in the Chairman's statement, the Chief Executive's review and the financial statements.

Post balance sheet events

In January 1996, the Company disposed of its entire interest in Phipps-Faire Limited, the merchant converting business which supplies materials and components to the footwear and allied industries.

During February 1996 the Company announced a rights issue to raise approximately £18.3 million, net of expenses, to fund part of the cost of the acquisition of Mercado Holdings Limited and Maliegroep B.V. Details of the rights issue and acquisitions were sent to shareholders on 7 February 1996.

The acquisition of Mercado Holdings Limited was completed during February 1996 and Maliegroep B.V. during March 1996.

Directors and directors' interests

The names of the directors in office at the end of the year are shown below together with their beneficial interest in the issued Ordinary share capital of Headlam Group plc at the beginning and end of the year. The directors' beneficial interests have changed since the end of the year following the rights issue announced during 1996 and the revised figures are also shown below.

	Ordinary share capital		
	1 January 1995	31 December 1995	10 April 1996
G Waldron	4,165,706	3,382,102	3,492,887
I Kirkham	4,158,426	3,290,337	3,398,135
A J Brewer	4,084,478	3,237,620	3,343,464
S G Wilson	58,672	156,587	161,823
T G Larman	5,000	5,000	6,250

The interests referred to above include a holding of 4,064,495 Ordinary shares at 1 January 1995 and 3,129,495 Ordinary shares at 31 December 1995, in which G Waldron, I Kirkham and A J Brewer have a joint interest. This holding was increased to 3,232,073 following the rights issue. No director had any interest in the Preference share capital of the Company on these dates. In addition to the interests shown above, options under the executive and sharesave option schemes have been granted to directors to subscribe for Ordinary shares as detailed opposite. The market price of the shares at 31 December 1995 was 220p and the range during the year was 142p to 220p.

All directors served throughout the year and no other person has acted as a director of the Company during the financial year ended 31 December 1995. The director retiring by rotation at the Annual General Meeting is A J Brewer who, being eligible, offers himself for re-election.

During the year the Company maintained insurance to cover directors' and officers' liabilities as defined by section 310 of the Companies Act 1985.

Share option schemes

Executive scheme

The Company operates a share option scheme for executives which was approved by shareholders on 1 July 1988. Options granted under this scheme are normally exercisable between the third and tenth anniversaries of their date of grant, subject to the movement of the Company's earnings per share exceeding that of the General Index of Retail Prices (all items) over the relevant period.

	Number of shares					Exercise price			
	1 January 1995	Granted during year	Exercised during year	31 Dec 1995	10 April 1996	31 Dec 1995 or earlier date of exercise	10 April 1996	Date from which exercisable	Expiry date
G Waldron	146,396	-	146,396	-	-	58.08p	-	-	-
	15,250	-	-	15,250	15,812	145.08p	139.92p	15/10/1996	15/10/2003
I Kirkham	150,642	-	150,642	-	-	58.08p	-	-	-
	17,284	-	-	17,284	17,922	145.08p	139.92p	15/10/1996	15/10/2003
	20,000	-	-	20,000	20,737	158.95p	153.30p	14/10/1997	14/10/2004
	-	39,000	-	39,000	40,438	137.70p	132.80p	04/08/1998	04/08/2005
A J Brewer	150,642	-	150,642	-	-	58.08p	-	-	-
	15,250	-	-	15,250	15,812	145.08p	139.92p	15/10/1996	15/10/2003
	14,000	-	-	14,000	14,516	158.95p	153.30p	14/10/1997	14/10/2004
	-	36,000	-	36,000	37,327	137.70p	132.80p	04/08/1998	04/08/2005
S G Wilson	150,642	-	150,642	-	-	58.08p	-	-	-
	45,752	-	-	45,752	47,439	145.08p	139.92p	15/10/1996	15/10/2003
	14,000	-	-	14,000	14,516	158.95p	153.30p	14/10/1997	14/10/2004
	-	36,000	-	36,000	37,327	137.70p	132.80p	04/08/1998	04/08/2005

During the year the directors exercised options over 598,322 Ordinary shares and retained a beneficial interest in 405,595.

A J Brewer exercised his option on 15 May 1995 and the remaining directors exercised their options on 25 May 1995, when the middle market prices were 170p per share and 174p per share respectively.

The number of shares covered by each option and the option price per share were adjusted following the rights issue announced during 1996. The revised figures are shown above in the columns headed 10 April 1996.

Sharesave scheme

The Company operates a sharesave scheme for employees which was approved by shareholders on 25 May 1990. Options granted under this scheme are normally exercisable within six months of the completion of the relevant savings contract.

None of the directors participated in the scheme prior to 1995 or exercised options during the year.

	Number of shares			Exercise price			
	Granted during year	31 Dec 1995	10 April 1996	31 Dec 1995	10 April 1996	Date from which exercisable	Expiry date
I Kirkham	11,979	11,979	12,420	144.00p	138.88p	01/11/2000	30/04/2001
A J Brewer	11,979	11,979	12,420	144.00p	138.88p	01/11/2000	30/04/2001
S G Wilson	11,979	11,979	12,420	144.00p	138.88p	01/11/2000	30/04/2001

The number of shares covered by each option and the option price per share were adjusted following the rights issue announced during 1996. The revised figures are shown above in the columns headed 10 April 1996.

continued

Directors' remuneration

Full consideration has been given to the Best Practice provisions relating to remuneration policy, service contracts and compensation arising from the Greenbury Code of Best Practice.

The Remuneration Committee

The remuneration and other emoluments of executive directors are determined by the Remuneration Committee which is composed of T G Larman and G Waldron.

Salary and benefits

Executive salaries are subject to annual review by the Committee, but there is no contractual entitlement to any increase in basic salary. The non-executive director's fee is determined by the full Board. Each of the executive directors participate in the private medical expenses scheme and is entitled to a car appropriate to his responsibilities and position.

Performance related pay

G Waldron, I Kirkham, A J Brewer and S G Wilson are entitled to receive an annual performance related cash bonus. In the case of G Waldron, I Kirkham and S G Wilson this is calculated by reference to the growth in the earnings per share of the Company over the financial period and, in the case of A J Brewer, part to such growth in earnings per share and part to the extent to which the profit before taxation of the Floorcovering Distribution division for the relevant financial year exceeds the budgeted target.

Pension scheme

I Kirkham, A J Brewer and S G Wilson participate in the Company's pension scheme.

The Greenbury Code of Best Practice recommended that pension entitlement earned by each individual director during the year, calculated on a basis to be recommended by the Faculty of Actuaries, should be disclosed. As these recommendations have yet to be finalised, the Company has continued to disclose pension information on the same basis as in previous years. Such disclosure is essentially based on contributions paid by the Company and satisfies the requirements of the Companies Act 1985 and the Cadbury Code of Best Practice.

Service contracts

I Kirkham, A J Brewer and S G Wilson have entered into service contracts with the Company with a commencement date of 1 July 1995. Each of the above service contracts is terminable on 24 months notice by the Company, or 12 months notice by the relevant director, in each case expiring at any time.

Directors' emoluments

The emoluments of each of the directors are set out below:

	Salary and fees £	Benefits £	Annual bonus £	1995 Total £	1994 Total £	Pensions 1995 £	Pensions 1994 £
Executive							
G Waldron	56,500	4,269	18,000	78,769	108,050	25,700	23,400
I Kirkham	95,000	5,142	36,000	136,142	105,559	23,909	18,418
A J Brewer	79,000	5,935	26,320	111,255	79,902	19,749	17,683
S G Wilson	79,000	5,992	36,000	120,992	103,624	19,749	17,681
Non-executive							
T G Larman	15,000	-	-	15,000	11,250	-	-
	324,500	21,338	116,320	462,158	408,385	89,107	77,182

Share capital

Details of the changes in the authorised and issued share capital of the Company are set out in note 18 to the financial statements on page 48.

At an Extraordinary General Meeting of the Company held on 23 February 1996 an ordinary resolution was passed approving the increase in the authorised share capital of the Company from £2,825,000 to £3,775,000 by the creation of 19,000,000 Ordinary shares of 5p each and authorising the directors to allot relevant securities pursuant to Article 17 of the Company's Articles of Association.

CREST

Notice is given, in accordance with the Uncertificated Securities Regulations 1995, "the Regulations", that the Company will resolve, by a resolution of its directors, that title to the Ordinary shares of 5p each in the share capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the directors will be effective immediately from 26 April 1996.

The above notice is the notice that the Company is obliged to give to its members, under the Regulations, of the passing of a "directors' resolution", as defined in the Regulations, in relation to its Ordinary shares. The directors' resolution will enable the Company's Ordinary shares to join CREST in due course. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution as the permission of the operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. It is currently envisaged that the Company will join CREST during autumn 1996.

The effect of the directors' resolution is to disapply, in relation to the Ordinary shares, those provisions of the Company's Articles of Association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system. Since CREST is voluntary and does not change shareholders' rights, the Company is able to make its shares available for settlement in CREST without the approval of shareholders at the Annual General Meeting.

Cadbury Code of Best Practice

The Board of Headlam Group plc agrees with the principles which underlie the recommendations of the Cadbury Committee on the Financial Aspects of Corporate Governance as detailed in the Code of Best Practice.

During the year the Board has considered and taken further action to remedy some areas which were not in compliance with the Code's requirements. In addition, following the publication of further guidance on internal control and going concern, the Board has been able to justify making a statement on these matters as described below. However, the presence of only one non-executive director during the year has meant that compliance has been in accordance with the spirit of the Code rather than its precise requirements.

The Company operated Remuneration and Audit Committees during the year.

Going concern

The accounts have been prepared on the going concern basis since the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

continued

Internal control

The directors are responsible for the Company's system of internal control. Such a system can provide only reasonable and not absolute assurance against misstatement or loss.

The Company has established an internal control framework which is regularly reviewed and updated. The Board has reviewed the effectiveness of the internal financial control framework for the period covered by these financial statements.

Clear lines of authority exist between subsidiary companies and the Group's executive management. As far as possible subsidiary companies are given autonomy, whilst operating within the established internal control environment. Local management review their operations for key risks and allocate resources to minimise such risks.

The Group has a comprehensive system for reporting financial performance to the Board which includes but is not limited to

- a comprehensive budgeting system including detailed reviews at all levels of the operation together with formal reviews and approvals of the annual budget by the directors;
- monthly actual reporting for all operations on an accurate and timely basis measured against budget, prior year and the latest forecast including detailed explanation of any major variances; and
- the Company has clearly defined guidelines for capital expenditure and investment appraisal. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements when businesses are being acquired. Any disposal of a company or business needs formal Board approval.

Above all the most significant internal control factor is the continuing improvement in the quality and integrity of personnel within the Group to improve not only overall performance but also to ensure that the assets are safeguarded.

Other substantial shareholdings

In addition to their own holdings referred to on page 22, the directors have, at the date of this report, been advised of the following notifiable interests in excess of 3% of the issued Ordinary share capital of the Company.

The Framlington Group plc	4.5%
Friends Provident Life Office	4.2%
General Accident Group	3.4%

Tangible fixed assets

The movements in tangible fixed assets during the year are set out in note 10 to the financial statements on page 42.

Research and development

The Group pursues programmes of research and development in order to improve products and processes and achieve specific standards of quality to complement its service to customers.

Employees

It is the Group's continued practice to maintain employee participation and involvement in matters which affect their interests. The directors encourage employee interest in the Group's performance through the executive share option scheme and the sharesave scheme.

The Group gives equal consideration to applications for employment from able-bodied and disabled people having regard to their particular aptitudes and abilities. It is Group policy wherever practicable to continue to employ, train and promote the career development of existing employees who become disabled.

Charitable donations

Donations made during the year amounted to £1,300 (1994: £2,400).

Close company status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Annual General Meeting

Notice of the 1996 Annual General Meeting is set out on page 60 of this report.

Auditors

Our auditors, KPMG, have indicated that a limited liability company, KPMG Audit Plc, is to assume responsibility for certain aspects of their audit business. Accordingly, a resolution is to be proposed at the Annual General Meeting for the appointment of KPMG Audit Plc as auditors of the Company.

By order of the Board

S G Wilson *Secretary*

10 April 1996

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and the result for that period. In preparing those 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 whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of Headlam Group plc

KPMG

We have audited the financial statements on pages 30 to 55.

Respective responsibilities of directors and auditors

As described on page 28 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
Northampton

10 April 1996

Group plc

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain freehold properties, and in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements comprise the accounts of the Company and all subsidiary undertakings made up to 31 December each year. As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.

The acquisition method of accounting has been applied to acquisitions and disposals during the year. Under this method of accounting, the results of subsidiary undertakings acquired or disposed of during the year are included from the effective date of acquisition or to the date of disposal. Goodwill arising on the acquisition of subsidiary companies and businesses, being the excess of the consideration given over the fair value of the net assets at the date of acquisition, is taken directly to reserves. If a subsidiary undertaking is disposed of, any goodwill arising on acquisition which has been written off directly to reserves or which has not been amortised through the profit and loss account is taken into account when determining the profit or loss on disposal.

Turnover

Turnover is the total amount receivable from external customers for goods supplied and services provided in the ordinary course of business and excludes value added tax.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date and the differences arising are included in the profit and loss account.

Hire purchase contracts and operating leases

Assets acquired under hire purchase contracts are recorded in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is recorded as a hire purchase creditor and the interest element of the hire purchase charge is set against profit over the contract period.

Payments under operating leases are charged to the profit and loss account in the period in which payments are due.

Tangible fixed assets and depreciation
Depreciation is calculated to write down the cost or valuation, less estimated residual value, of tangible fixed assets by equal instalments over their expected useful lives. The rates generally applicable are:

Freehold and long leasehold properties	- 2% per annum
Short leasehold properties	- Period of lease
Plant and equipment	- 10-33.33% per annum

Freehold land is not depreciated.

Investments
Investments are stated at the lower of cost and net realisable value.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in the normal course of business in bringing the stock to its present location and condition.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pensions
The expected cost of pensions in respect of the Group's defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of a qualified actuary.

Consolidated profit and loss account
for the year ended 31 December 1995

	Note	1995 £000	1994 £000
Turnover	1		
Continuing operations		120,055	
Acquisitions		1,946	
		122,001	110,461
Discontinued operations		24,850	23,812
		146,851	134,273
Cost of sales	2	(112,700)	(103,023)
Gross profit		34,151	31,250
Net operating expenses	2	(25,425)	(24,483)
Operating profit			
Continuing operations		7,351	
Acquisitions		110	
		7,461	5,449
Discontinued operations		1,265	1,318
		8,726	6,767
Profit on disposal of land and buildings		-	378
Provision for loss on disposal of land and buildings		(720)	(359)
Profit on disposal of discontinued operations		879	-
Profit on ordinary activities before interest		8,885	6,786
Net interest payable	3	(1,162)	(965)
Profit on ordinary activities before taxation	4	7,723	5,821
Taxation on profit on ordinary activities	6	(2,432)	(1,834)
Profit for the financial year	7	5,291	3,987
Dividends paid and proposed on equity and non-equity shares	8	(2,025)	(1,636)
Profit retained for equity shareholders	19	3,266	2,351
Earnings per share	9	12.8p	10.1p

Neither the Group nor the Company has any recognised gains or losses other than the profit for the financial year as set out above.

Consolidated balance sheet
at 31 December 1995

Group plc

	Note	1995 £000	1994 £000
Fixed assets			
Tangible assets	10	17,334	15,924
Current assets			
Stocks	12	29,442	25,335
Debtors	13	28,332	28,615
Investments	14	301	396
Cash at bank and in hand		6,374	3,568
		64,449	57,914
Creditors: amounts falling due within one year	15	(44,259)	(40,319)
Net current assets		20,190	17,595
Total assets less current liabilities		37,524	33,519
Creditors: amounts falling due after more than one year	16	(6,994)	(6,766)
Provisions for liabilities and charges	17	(668)	(526)
		29,862	26,227
Capital and reserves			
Called up share capital	18	2,132	2,086
Share premium account	19	9,764	9,231
Revaluation reserve	19	1,643	1,643
Special reserve	19	6,095	6,305
Profit and loss account	19	10,228	6,962
Shareholders' funds			
Equity		29,812	26,177
Non-equity		50	50
		29,862	26,227

These financial statements were approved by the Board on 10 April 1996 and signed on its behalf by:

I Kirkham
SG Wilson
Directors

	Note	1995 £000	1994 £000
Fixed assets			
Tangible assets	10	13,399	12,226
Investment in subsidiary undertakings	11	23,445	22,784
		36,844	35,010
Current assets			
Debtors: amounts falling due within one year	13	5,403	7,749
Debtors: amounts falling due after more than one year	13	11,739	6,357
Investments	14	251	346
Cash at bank and in hand		1,136	1,125
		18,529	15,577
Creditors: amounts falling due within one year	15	(10,286)	(6,347)
Net current assets		8,243	9,230
Total assets less current liabilities		45,087	44,240
Creditors: amounts falling due after more than one year	16	(7,026)	(6,984)
Provisions for liabilities and charges	17	(295)	-
		37,766	37,256
Capital and reserves			
Called up share capital	18	2,132	2,086
Share premium account	19	9,764	9,231
Revaluation reserve	19	1,137	1,137
Special reserve	19	18,941	18,941
Profit and loss account	19	5,792	5,861
Shareholders' funds			
Equity		37,716	37,206
Non-equity		50	50
		37,766	37,256

These financial statements were approved by the Board on 10 April 1996 and signed on its behalf by:

I Kirkham
SG Wilson
Directors

I Kirkham

	Note	1995 £000	1994 £000
Net cash inflow from operating activities	23	8,810	3,410
Returns on investments and servicing of finance			
Bank and loan interest		(1,055)	(905)
Hire purchase interest		(107)	(62)
Dividends		(1,748)	(1,064)
Net cash outflow from returns on investments and servicing of finance		(2,910)	(2,031)
UK corporation tax paid including advance corporation tax		(1,738)	(1,200)
Investing activities			
Purchase of tangible fixed assets		(2,181)	(6,977)
Sale of tangible fixed assets		383	1,832
Net cash inflow from sale of businesses	21	2,170	-
Net cash outflow from purchase of businesses	21	(1,106)	(5,403)
Purchase of investments		-	(215)
Sale of investments		149	105
Net cash outflow from investing activities		(585)	(10,658)
Net cash inflow/(outflow) before financing		3,577	(10,479)
Financing			
Issue of Ordinary share capital		579	9,577
Expenses paid in connection with share issues		-	(390)
Repayment of loans		(10)	(219)
Capital element of hire purchase contract payments		(603)	(559)
Net cash (outflow)/inflow from financing		(34)	8,409
Increase/(decrease) in cash and cash equivalents	24	3,543	(2,070)

Note of consolidated historical cost profits and losses
for the year ended 31 December 1995

	1995 £000	1994 £000
Reported profit on ordinary activities before taxation	7,723	5,821
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	35	35
Historical cost profit on ordinary activities before taxation	7,758	5,856
Historical cost profit for the year retained after taxation and dividends	3,301	2,386

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1995

	1995 £000	1994 £000
Profit on ordinary activities after taxation	5,291	3,987
Dividends		
Equity shares	(2,022)	(1,633)
Non-equity shares	(3)	(3)
Equity share capital issued	579	9,898
Cost of share issues	-	(390)
Goodwill arising on acquisitions	(210)	(4,895)
Addition to shareholders' funds	3,635	6,964
Shareholders' funds at 31 December 1994	26,227	19,263
Shareholders' funds at 31 December 1995	29,862	26,227

Group plc

1. Segmental analysis

By activity:

	Turnover £000	Profit before taxation £000	Operating capital employed £000
1995			
Floorcovering Distribution	75,304	4,629	5,357
Fabrics Distribution	46,697	3,406	14,718
Discontinued operations	24,850	1,265	3,206
	146,851	9,300	23,281
Central operations		(574)	12,544
		8,726	35,825
Provision for loss on disposal of land and buildings		(720)	
Profit on disposal of discontinued operations		879	
		8,885	
Net interest payable		(1,162)	
		7,723	
1994			
Floorcovering Distribution	75,592	3,158	13,673
Fabrics Distribution	34,869	2,986	10,057
Discontinued operations	23,812	1,318	4,320
	134,273	7,462	28,050
Central operations		(695)	7,145
		6,767	35,195
Profit on disposal of land and buildings		378	
Provision for loss on disposal of land and buildings		(359)	
		6,786	
Net interest payable		(965)	
		5,821	

1. **Segmental analysis *continued***

The segmental analysis by activity for 1994 has been re-classified following the merger of the Specialist and Soft Furnishing Fabrics divisions during 1995.

Inter-segmental turnover by activity is not material.

Discontinued operations comprise the results of Aquatex Functional Fabrics Limited, which was disposed of in December 1995, and Phipps-Faire Limited, which was disposed of in January 1996.

By origin:

All turnover originates from activities located in the United Kingdom.

	1995	1994
	£000	£000
By destination:		
United Kingdom	135,790	125,043
Continental Europe	8,179	6,724
Asia and Australasia	2,338	1,985
Africa and the Middle East	482	338
America	62	183
	146,851	134,273

Operating capital employed:

Operating capital employed as shown in the segmental analysis by activity excludes net borrowings, taxation and dividends and is arrived at as follows:

	1995	1994
	£000	£000
Shareholders' funds	29,862	26,227
Net borrowings		
Bank overdraft	1,918	2,655
Cash	(6,374)	(3,568)
Bank loans	5,239	5,249
Loan notes	950	950
Loans	270	270
Taxation		
Corporation tax	2,088	2,014
Deferred tax	373	176
Dividends	1,499	1,222
Operating capital employed	35,825	35,195

2. Cost of sales and net operating expenses

	Continuing operations £000	Acquisitions £000	Discontinued operations £000	Total £000
1995				
Cost of sales	92,054	1,171	19,475	112,700
Net operating expenses				
Sales and distribution	15,193	488	2,487	18,168
Administration	5,457	177	1,623	7,257
	20,650	665	4,110	25,425
1994				
Cost of sales	84,569		18,454	103,023
Net operating expenses				
Sales and distribution	14,403		1,882	16,285
Administration	6,040		2,158	8,198
	20,443		4,040	24,483

3. Net interest payable

	1995 £000	1994 £000
On bank loans, overdrafts and other loans wholly repayable in five years	1,095	908
Hire purchase contracts	107	62
Interest receivable	(40)	(5)
	1,162	965

4. Analysis of profit on ordinary activities before taxation

	1995 £000	1994 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
Owned	1,242	506
Hire purchase contracts	433	320
Auditors' remuneration		
Audit	79	75
Operating lease rentals		
Plant and equipment	1,116	1,296
Other	286	374
Remuneration paid to auditors in respect of other services amounted to	45	116

5. Employees

	1995	1994
	No	No
The average number of employees during the year was:		
By sector:		
Floorcovering Distribution	427	458
Fabrics Distribution	221	181
Central operations	11	9
	659	648
Discontinued operations	107	111
	766	759
By function:		
Production	62	55
Sales and distribution	531	514
Administration	173	190
	766	759

	£000	£000
The aggregate emoluments for the year were:		
Wages and salaries	10,776	10,114
Social security	990	842
Pensions	458	478
	12,224	11,434
The aggregate directors' emoluments for the year were:		
Remuneration as executives including pension contributions	536	475
Fees	15	11
	551	486

The emoluments of the chairman and highest paid director were:

	1995		1994	
	Including pension contributions £000	Excluding pension contributions £000	Including pension contributions £000	Excluding pension contributions £000
Chairman	104	79	131	108
Highest paid director	160	136	131	108

5. Employees *continued*

The emoluments, excluding pension contributions, of the directors, including the Chairman and highest paid director, were within the following bands:

	1995 No	1994 No
£10,001 - £15,000	1	1
£75,001 - £80,000	1	1
£100,001 - £105,000	-	1
£105,001 - £110,000	-	2
£110,001 - £115,000	1	-
£120,001 - £125,000	1	-
£135,001 - £140,000	1	-

Directors' emoluments include bonuses amounting to £116,320 (1994 : £81,530).

6. Taxation on profit on ordinary activities

	1995 £000	1994 £000
UK Corporation tax at 33% (1994: 33%)	2,280	1,840
Over provision in earlier years	(45)	(182)
Deferred taxation	197	176
	2,432	1,834

7. Profit for the financial year

	1995 £000	1994 £000
Dealt with in the accounts of:		
Headlam Group plc	1,956	4,261
Subsidiary undertakings	3,335	(274)
	5,291	3,987

8. Dividends paid and proposed on equity and non-equity shares

	1995 £000	1994 £000
Equity shares		
Interim paid 1.2p (1994: 1.0p)	523	411
Final proposed 3.6p (1994: 3.0p)	1,499	1,222
Non-equity shares paid	3	3
	2,025	1,636

9. Earnings per share

	1995	1994
	£000	£000
Profit for the financial year after dividends paid on non-equity shares	5,288	3,984
	No	No
Average number of Ordinary shares in issue during the year	41,246,609	39,437,484
Earnings per share	12.8p	10.1p

There would be no material effect on earnings per share if the number of Ordinary shares in issue was increased on the exercise of all existing options.

10. Tangible fixed assets

		Land and buildings			
		Long	Short	Plant and	
	Freehold	leasehold	leasehold	equipment	Total
Group	£000	£000	£000	£000	£000
Cost or valuation					
At 1 January 1995	11,311	1,265	21	5,205	17,802
Assets acquired on acquisition of businesses	-	-	-	267	267
Additions	1,546	-	-	1,756	3,302
Disposals	(197)	-	-	(771)	(968)
At 31 December 1995	12,660	1,265	21	6,457	20,403
Depreciation					
At 1 January 1995	319	31	16	1,512	1,878
Charge for the year	695	14	1	965	1,675
Disposals	(43)	-	-	(441)	(484)
At 31 December 1995	971	45	17	2,036	3,069
Net book value					
At 31 December 1995	11,689	1,220	4	4,421	17,334
At 31 December 1994	10,992	1,234	5	3,693	15,924

10. Tangible fixed assets *continued*

Company	Land and buildings Freehold £000	Long leasehold £000	Plant and equipment £000	Total £000
Cost or valuation				
At 1 January 1995	11,243	1,300	254	12,797
Additions	1,546	-	440	1,986
Transfers from subsidiary undertakings	172	-	19	191
Disposals	(197)	-	(133)	(330)
At 31 December 1995	12,764	1,300	580	14,644
Depreciation				
At 1 January 1995	384	66	121	571
Charge for the year	695	14	45	754
Transfers from subsidiary undertakings	39	-	12	51
Disposals	(43)	-	(88)	(131)
At 31 December 1995	1,075	80	90	1,245
Net book value				
At 31 December 1995	11,689	1,220	490	13,399
At 31 December 1994	10,859	1,234	133	12,226

Included within freehold land and buildings is freehold land amounting to £4,411,471 (1994: £5,204,000) which is not depreciated.

Certain freehold land and buildings were revalued on an open market present use basis by a firm of chartered surveyors and valuers at 31 December 1990.

In the opinion of the directors the market value of land and buildings is not materially different from the book value. The directors' opinion is supported by a valuation based on an open market present use basis conducted by a firm of chartered surveyors and valuers at 31 March 1995.

continued

10. Tangible fixed assets *continued*

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Cost or valuation of freehold land and buildings comprises:				
Present use valuation at 31 December 1990	1,643	1,643	1,137	1,137
Cost	11,017	9,668	11,627	10,106
	12,660	11,311	12,764	11,243
Under the historical cost convention, freehold land and buildings would have been shown at the following amounts:				
Historical cost	11,017	9,668	11,627	10,106
Depreciation based on cost	(955)	(338)	(981)	(325)
	10,062	9,330	10,646	9,781
The net book value of plant and equipment acquired under hire purchase:				
Cost	2,850	1,763	102	153
Depreciation	(931)	(559)	(8)	(67)
	1,919	1,204	94	86

11. Investment in subsidiary undertakings

	Shares £000	Loans £000	Total £000
At 1 January 1995	16,092	6,692	22,784
Additions	740	661	1,401
Disposals	(740)	-	(740)
At 31 December 1995	16,092	7,353	23,445

Information concerning the principal subsidiary undertakings and trading entities is given on page 55.

12. Stocks

	Group 1995 £000	Group 1994 £000
Raw materials and consumables	4,185	3,443
Finished goods and goods held for resale	25,257	21,892
	29,442	25,335

13. Debtors

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Assets held for resale	664	1,102	664	1,102
Trade debtors	23,175	24,449	-	-
Amounts due from subsidiary undertakings due within one year	-	-	3,545	5,883
Other debtors	3,133	2,246	1,047	668
Prepayments and accrued income	1,360	818	147	96
	28,332	28,615	5,403	7,749
Amounts due from subsidiary undertakings due after more than one year	-	-	11,739	6,357

14. Investments

	Group			Company		
	UK Listed £000	Other £000	Total £000	UK Listed £000	Other £000	Total £000
At 1 January 1995	95	301	396	95	251	346
Disposals	(95)	-	(95)	(95)	-	(95)
At 31 December 1995	-	301	301	-	251	251

HEADLAM Group plc

15. Creditors: amounts falling due within one year

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Bank overdraft	1,918	2,655	6,202	1,590
Loans	270	270	-	-
Obligations under hire purchase contracts	750	497	31	24
Trade creditors	29,317	27,835	319	165
Bills of exchange payable	2,632	197	-	-
Amounts due to subsidiary undertakings	-	-	17	1,833
Corporation tax	2,088	2,014	466	353
Taxation and social security	2,784	2,276	377	321
Other creditors	756	1,534	490	607
Accruals	2,245	1,819	885	232
Dividends	1,499	1,222	1,499	1,222
	44,259	40,319	10,286	6,347

16. Creditors: amounts falling due after more than one year

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Loan notes	950	950	950	950
Bank loans	5,239	5,249	5,224	5,224
Obligations under hire purchase contracts	805	567	52	10
Amounts due to subsidiary undertakings	-	-	800	800
	6,994	6,766	7,026	6,984

	Group 1995 £000	Group 1994 £000	Company 1995 £000	Company 1994 £000
Borrowings repayable after more than one year are repayable as follows:				
Loan notes:				
Repayable between 1 and 2 years	250	-	250	-
Repayable between 2 and 5 years	700	950	700	950
	950	950	950	950
Bank loans:				
Repayable between 1 and 2 years	5,015	25	5,000	-
Repayable between 2 and 5 years	224	5,224	224	5,224
	5,239	5,249	5,224	5,224
Obligations under hire purchase contracts:				
Repayable between 1 and 2 years	573	365	31	10
Repayable between 2 and 5 years	232	202	21	-
	805	567	52	10

16. Creditors: amounts falling due after more than one year *continued*

The loan notes were issued in connection with the following acquisitions:

	Amount £000	Issue date	Annual Interest	Earliest redemption date
Minto & Turner Limited	250	September 1992	8%	September 1997
Shulman & Sons Limited	700	April 1993	6%	April 1998

The loan notes issued in connection with Minto & Turner Limited can be redeemed at the loan note holders' option prior to September 1997 if the Group elects to dispose of certain freehold land and buildings.

The bank loans are secured by a fixed charge over certain freehold land and buildings.

17. Provisions for liabilities and charges

The movements in provisions for liabilities and charges were as follows:	Deferred taxation £000	Other £000	Total £000
Group			
At 1 January 1995	176	350	526
Utilised during the year	-	(350)	(350)
Provided in the year	197	295	492
At 31 December 1995	373	295	668

	Other £000
Company	
At 1 January 1995	-
Provided in the year	295
At 31 December 1995	295

Amounts provided and unprovided in respect of deferred taxation are analysed as follows:

	Group			
	Amount provided		Amount unprovided	
	1995 £000	1994 £000	1995 £000	1994 £000
Accelerated capital allowances	547	382	(13)	(24)
Other timing differences	(174)	(206)	(386)	(203)
	373	176	(399)	(227)

No provision has been made in the deferred taxation account for the estimated corporation tax which would be payable on disposal of revalued properties because, in the opinion of the directors, no such assets are likely to be disposed of in the foreseeable future.

18. Share capital

	No of shares	1995 £000	1994 £000
Authorised:			
Ordinary shares of 5p each	55,500,000	2,775	2,775
5.6% Preference shares of £1 each	50,000	50	50
		2,825	2,825
Issued:			
Allotted, called up and fully paid Ordinary shares of 5p each:			
At 1 January 1995	40,721,252	2,036	1,759
Allotted under share option schemes	909,896	46	16
Allotted under a rights issue	-	-	253
Allotted for acquisitions	-	-	4
Allotted under scrip dividends	-	-	4
At 31 December 1995	41,631,148	2,082	2,036
5.6% Preference shares of £1 each:			
At 1 January and 31 December 1995	50,000	50	50
		2,132	2,086

1,617 Ordinary shares of 5p each were issued during the year on the exercise of options under the sharesave scheme at a price of 58.08 p per share. Of these 933 were issued in February 1995 and 684 in September 1995.

908,279 Ordinary shares of 5p each were issued on the exercise of options under the executive share option scheme. These were issued as follows:

	Option price per share			
	58.08p No	145.08p No	158.95p No	Total No
May 1995	845,802	-	-	845,802
October 1995	6,725	45,752	10,000	62,477
	852,527	45,752	10,000	908,279

The Company had the following options outstanding at 31 December 1995:

Date of grant	Period of exercise	Option price per share	No of Ordinary shares: Directors	Other employees	Total
Executive scheme					
12 May 1992	May 1995-May 2002	58.08p	-	5,380	5,380
28 October 1992	October 1995-October 2002	58.08p	-	13,450	13,450
15 October 1993	October 1996-October 2003	145.08p	93,536	292,309	385,845
23 December 1993	December 1996-December 2003	152.16p	-	10,167	10,167
14 October 1994	October 1997-October 2004	158.95p	48,000	235,500	283,500
4 August 1995	August 1998-August 2005	137.70p	111,000	339,000	450,000
			252,536	895,806	1,148,342

18. Share capital *continued*

Date of grant	Period of exercise	Option price per share	No of Ordinary shares: Directors	Other employees	Total
Sharesave scheme					
19 May 1992	September 1997-February 1998	58.08p	-	97,605	97,605
23 October 1995	November 2000-April 2001	144.00p	35,937	542,982	578,919
			35,937	640,587	676,524

Preference shares

The Preference shares carry a fixed cumulative preferential dividend at the rate of 5.6% per annum. On a winding up they entitle the holders to repayment of the capital paid up on the shares, together with a premium of 7.5p per share and a sum equal to any arrears of the fixed dividend thereon. The dividend will be calculated to the date of the return of capital and will be payable irrespective of whether such dividend has been declared or earned or not, in priority to any payment to the holders of any other shares. The Preference shares do not entitle the holders to any further participation in the profits or assets of the Company.

The Preference shares have no voting rights unless the fixed cumulative Preference dividend is in arrears for a period of six months or a resolution is to be proposed to alter the provisions of the Memorandum of Association of the Company with respect to its objects, or varying or abrogating any of the special rights or privileges attached to Preference shares, or for winding-up the Company.

19. Reserves

	Share premium account £000	Revaluation reserve £000	Special reserve £000	Profit and loss account £000	Total £000
Group					
At 1 January 1995	9,231	1,643	6,305	6,962	24,141
Retained profit	-	-	-	3,266	3,266
Arising on share issues	533	-	-	-	533
Goodwill arising on acquisitions	-	-	(210)	-	(210)
At 31 December 1995	9,764	1,643	6,095	10,228	27,730
Company					
At 1 January 1995	9,231	1,137	18,941	5,861	35,170
Retained loss	-	-	-	(69)	(69)
Arising on share issues	533	-	-	-	533
At 31 December 1995	9,764	1,137	18,941	5,792	35,634

The cumulative amount of goodwill written off to the special reserve at 31 December 1995 was £13,186,000 (1994: £12,976,000).

20. Acquisitions

	Edinburgh Weavers £000	Other £000
Fixed assets	11	256
Stocks	321	292
Debtors	573	83
Cash	1	-
Creditors due within one year	(610)	-
Net assets acquired	296	631

Total consideration comprised:

	Cash £000	Deferred consideration £000	Acquisition costs capitalised £000	Total £000
Edinburgh Weavers	347	-	33	380
Other	686	30	41	757
	1,033	30	74	1,137

Total goodwill written off in the year comprised:

	Total consideration £000	Fair value of assets acquired £000	Goodwill arising £000
Edinburgh Weavers	380	296	84
Other	757	631	126
	1,137	927	210

21. Effects of Group acquisition and disposal of businesses

	Acquisitions		Disposals
	1995	1994	1995
	£000	£000	£000
Net assets acquired and disposed of:			
Fixed assets	267	472	131
Stocks	613	4,860	922
Debtors	656	4,585	1,274
Cash and cash equivalents	1	(535)	180
Hire purchase contracts	-	(31)	(27)
Creditors due within one year	(610)	(9,123)	(1,515)
Provisions	-	(110)	-
	927	118	965
Goodwill on acquisition of businesses excluding costs	136	4,504	-
Costs of acquisition and disposal of businesses	74	391	211
Provision	-	-	295
Profit on disposal	-	-	879
Total consideration paid/received	1,137	5,013	2,350
Analysis of cash flows in respect of acquisitions and disposals:			
Cash consideration paid/received	1,033	4,477	2,350
Costs of acquisitions	74	391	-
Cash and cash equivalents acquired or disposed of	(1)	535	(180)
	1,106	5,403	2,170

22. Cash flows relating to Group acquisition and disposal of businesses

Acquisitions during the year generated £558,000 of the Group net operating cash flow, received £3,000 in respect of net returns on investments and servicing of finance and generated £1,000 in respect of investing activities.

The disposals during the year generated £234,000 of the Group net operating cash flow, paid £14,000 in respect of net returns on investments and servicing of finance and utilised £27,000 in respect of investing activities.

23. Reconciliation of Group operating profit to net cash inflow from operating activities

	1995 £000	1994 £000
Operating profit	8,726	6,767
Provision for loss on sale of land and buildings	(720)	-
Provision on disposal of discontinued operations	(295)	-
Depreciation	1,675	826
(Profit)/loss on sale of tangible fixed assets	(30)	56
Profit from sale of investments	(54)	-
Movement in stocks	(4,416)	(821)
Movement in debtors	(335)	(87)
Movement in creditors	4,259	(3,331)
Net cash inflow from operating activities	8,810	3,410

24. Analysis of changes in Group cash and cash equivalents during the year

	£000
At 1 January 1995	913
Net cash inflow	3,543
At 31 December 1995	4,456

Group cash balances and cash equivalents were as follows:

	1995 £000	1994 £000	Change in year £000
Cash at bank and in hand	6,374	3,568	2,806
Bank overdraft	(1,918)	(2,655)	737
	4,456	913	3,543

Analysis of changes in group financing during the year were as follows:

	Share capital £000	Share premium account £000	Loans £000	Hire purchase contracts £000
At 1 January 1995	2,086	9,231	6,469	1,064
Cash flows from financing	46	533	(10)	(603)
Inception of hire purchase contracts	-	-	-	1,121
Adjustments on acquisition and disposal of businesses	-	-	-	(27)
At 31 December 1995	2,132	9,764	6,459	1,555

25. Leasing commitments

	Group		Company	
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment
The annual commitments under non-cancellable operating leases were as follows:	£000	£000	£000	£000
Operating leases which expire:				
1996	11	130	-	3
1997 - 2000	117	1,185	-	-
Thereafter	213	35	-	-
	341	1,350	-	3

26. Future capital commitments

	Group 1995	Group 1994	Company 1995	Company 1994
Capital commitments authorised by the directors:	£000	£000	£000	£000
Not contracted for	3,234	3,058	2,775	1,842
Contracted for	751	1,613	751	1,613
	3,985	4,671	3,526	3,455

27. Contingent liabilities

	Group 1995	Group 1994	Company 1995	Company 1994
	£000	£000	£000	£000
Third party guarantees	550	550	-	-
Guarantees of subsidiary bank facilities	-	-	4,376	2,655

The Group enters into forward foreign exchange contracts to hedge foreign currency transactions. At 31 December 1995 the Group had contracted to exchange £4,461,000 (1994: £3,738,000) into various European currencies and US dollars.

28. Pension commitments

The Group operates a defined benefit pension scheme, the assets of which are held in a separate trustee administered fund.

A complete valuation of the scheme is undertaken at least every three years by an independent qualified actuary. The latest report which stated the position at 1 April 1994 disclosed a market value of scheme assets amounting to £4.7 million, the actuarial value of which represented a funding level of 110%.

The principal assumptions made in the valuation, which uses the projected unit method, are that the real rate of return on investments exceeds pay inflation by 2% per annum and that present and future pensions increase at 4.5% per annum.

The total pension cost for the Group was £458,000 (1994: £478,000). An amount of £245,000 is included in creditors (1994: £187,000), this being the difference between accumulated pension costs and the payment of contributions to the pension fund. The funding policy for the scheme is based on the advice of the scheme's actuary.

29. Post balance sheet events

On 19 January 1996, the Company disposed of the entire issued share capital of Phipps-Faire Limited for a cash consideration of £5.1 million. £4.95 million was paid on completion with the balance paid on 31 March 1996.

The trading results for Phipps-Faire Limited for the years ended 31 December 1994 and 1995 have been included in discontinued operations.

On 7 February 1996, the Company announced a rights issue to raise approximately £18.3 million, net of expenses, to fund part of the cost of the acquisition of Mercado Holdings Limited and Maliegroep B.V. Details of the rights issue and acquisitions were sent to shareholders on 7 February 1996.

At an Extraordinary General Meeting of the Company held on 23 February 1996, an ordinary resolution was passed approving the increase in the authorised share capital of the Company from £2,825,000 to £3,775,000 by the creation of 19,000,000 Ordinary shares of 5p each and authorising the directors to allot relevant securities pursuant to Article 17 of the Company's Articles of Association.

On 26 February 1996 the Company completed the acquisition of Mercado Holdings Limited and on 25 March 1996 completed the acquisition of Maliegroep B.V.

Principal subsidiary undertakings and trading entities

Fabrics Distribution

- Claremont Fabrics Limited
- Gordon John Textiles Limited
- William O'Hanlon and Company Limited
- Wiltex Readymades Limited
- Edinburgh Weavers Textiles Limited
- Headlam Textile Printers Limited
- B.S. Brown & Son, Limited

Floorcovering Distribution

- Headlam (Floorcovering Distributors) Limited
  - Faithfulls
  - Florco
  - Hadfields, Stockport
  - Beds Flooring
  - Headlam, Redditch
  - Hadfields, Somerton
  - Headlam, Newcastle
  - Headlam, Glasgow
  - Garrods
  - Shulman & Sons
  - K.J.C. Carpets

Discontinued Operations

- Aquatex Functional Fabrics Limited
- Phipps-Faire Limited
- Minto & Turner Limited

All companies are wholly owned subsidiaries. The investment comprises Ordinary share capital and parent company loan. Each company is incorporated in England and Wales and the principal place in which they operate is Great Britain.

The trading entities listed under Headlam (Floorcovering Distributors) Limited are trading branches and are not registered as independent legal entities.

Financial record

HEADLAM Group

Trading results	1991 £000	1992 £000	1993 £000	1994 £000	1995 £000
Turnover	21,678	58,797	106,994	134,273	146,851
Operating profit	631	1,723	4,521	6,767	8,726
Profit on disposal of land and buildings	-	-	-	378	-
Provision for loss on disposal of land and buildings	-	-	-	(359)	(720)
(Loss)/profit on disposal of discontinued operations	-	(194)	(100)	-	879
Profit on ordinary activities before interest	631	1,529	4,421	6,786	8,885
Interest	(327)	(416)	(773)	(965)	(1,162)
Profit on ordinary activities before taxation	304	1,113	3,648	5,821	7,723
Taxation	(81)	(327)	(1,076)	(1,834)	(2,432)
Profit on ordinary activities after taxation	223	786	2,572	3,987	5,291
Dividends	(242)	(600)	(1,128)	(1,636)	(2,025)
Transfer (from)/to reserves	(19)	186	1,444	2,351	3,266

Capital employed	1991 £000	1992 £000	1993 £000	1994 £000	1995 £000
Fixed assets	3,438	8,589	11,089	15,924	17,334
Net current assets	3,925	6,119	15,367	17,595	20,190
Creditors: amounts falling due after one year	(1,342)	(1,924)	(6,625)	(6,766)	(6,994)
Provisions	(43)	(256)	(568)	(526)	(668)
Capital employed	5,978	12,528	19,263	26,227	29,862

HEADLAM Group

Group meeting and results

Annual General Meeting	*10 June 1996*
Interim results announced	*September 1996*
Full year results announced	*April 1997*

Dividend dates

Ordinary shares

Final dividend for 1995 (payable to qualifying shareholders on the register at 5 June 1996, if approved)	*1 July 1996*
Interim dividend for 1996 announced	*September 1996*
Interim dividend for 1996 payable	*November 1996*

5.6 per cent Preference shares

Interim dividend for 1996 payable	*28 June 1996*
Final dividend for 1996 payable	*31 December 1996*

Notes relating to the notice of Annual General Meeting

HEADLAM Group

Resolution 5, which is to be proposed as special business at this year's Annual General Meeting, relates to the dis-application of pre-emption rights. The purpose of this resolution is to give the directors limited authority to allot Ordinary shares for cash otherwise than on a pro rata basis. The authority will be limited to alloting up to 2,628,142 Ordinary shares, representing approximately 5 per cent of the issued Ordinary share capital as at 1 May 1996, and dealing with some of the practical difficulties that can arise on pro rata issues of shares. The resolution follows the form used in previous years.

Resolutions 6 and 7, which are to be proposed as special business at this year's Annual General Meeting, relate to executive share option schemes. The purposes of these resolutions are as follows:

Resolution 6.

Amendment to the Headlam Group executive share option scheme (the scheme)

Under the rules of the scheme shares issued under the Headlam Group sharesave scheme (the sharesave scheme) should be included when applying the limit that in any three year period no more than 3 per cent of the issued Ordinary share capital of the Company should be utilised for all share option schemes. The guidelines issued by the Association of British Insurers in respect of share option and profit sharing incentive schemes specify that this limit should not include shares issued under the sharesave scheme. Therefore it is proposed that the rules of the scheme relating to this limit be amended to exclude shares issued under the sharesave scheme.

Resolution 7.

The Headlam Group 1996 executive share option scheme (the 1996 scheme)

The provisions of the Finance Act 1996 have imposed new limits as to the maximum value of options that can be granted under the scheme. The participation of each individual under the scheme is limited so that no grants would be permitted that would result in the total value of Ordinary shares over which that individual holds subsisting options (valued at the date of grant) exceeding £30,000. Your Board believes that it is in the best interests of the Company to maintain the maximum flexibility to grant options consistent with the guidelines issued by the Association of British Insurers. Therefore it is proposed that the Company should adopt the 1996 scheme in parallel to the scheme. The 1996 scheme and the scheme will together be subject to lower overall limits on the number of Ordinary shares that may be acquired pursuant to them than would previously have been the case under the scheme.

The principal terms of the 1996 scheme are as follows:

General

The 1996 scheme will not be approved by the Board of Inland Revenue under Schedule 9 Income and Corporation Taxes Act 1988.

Eligibility

All full time directors and employees of the Group who are required to devote substantially the whole of their working hours to the business of the Group, and in any event for at least 25 hours and 20 hours respectively per week, will be eligible to be nominated for participation in the 1996 scheme. The 1996 scheme will be administered by a committee of the Board which will include one or more non-executive director (the committee).

Option price

The holder of an option under the 1996 scheme will be entitled to acquire Ordinary shares at a price determined by the committee at the time the option is granted. The option price may not be less than the greater of (i) the average of the middle market quotations of an Ordinary share as derived from the Official List of the London Stock Exchange for the three dealing days immediately preceding the date of grant and in the case of an option to subscribe for Ordinary shares (ii) the nominal value of an Ordinary share.

Performance targets

The exercise of an option under the 1996 scheme may be made conditional upon the achievement of an objective performance target determined by the committee when the option is granted.

Individual limits

Each individual's participation in the 1996 scheme will be limited so that the aggregate option price payable for the subscription of Ordinary shares on the exercise of all options granted in any ten year period under the 1996 scheme or any other discretionary share option scheme approved by the Company in General Meeting will not exceed the greater of four times taxable emoluments, excluding benefits-in-kind, and £100,000. However, if the proposed grant of an option would result in the limit being exceeded, options which have already been exercised can be left out of account if the committee is satisfied that there has been a significant improvement in the performance of the Company over the two or three years preceding the proposed grant.

Grant of options

Options will normally be granted within the period of 38 days commencing on the adoption of the 1996 scheme and thereafter within the period of 38 days commencing on the fourth dealing day after the date of the announcement of the annual or half year results of the Company in any year. Options under the 1996 scheme may also be granted at any other time when in the opinion of the committee circumstances are considered to be exceptional and justified. No consideration will be payable for the grant of an option. No options may be granted under the 1996 scheme after 30 June 1998.

Exercise and lapse of options

Options under the 1996 scheme will not be transferable and may normally only be exercised between the third and seventh anniversaries of the date of grant by a person who remains a director or employee. They may, however, be exercised for a limited period in certain special circumstances including death, retirement, redundancy, ill-health, injury or disability of the option holder or where the option holder's employing company or business is disposed of outside the Group, or, at the discretion of the committee, if the option holder ceases to be employed within the Group in any other circumstances. Exercise is also possible in the event of an amalgamation, reconstruction or takeover of the Company. In such circumstances an option holder may be allowed to release his rights under options in consideration of the grant of equivalent rights over shares in the acquiring company. Options may also be exercised in the event of a voluntary winding-up of the Company and in certain circumstances options may be exercised in the event of a demerger. Options under the 1996 scheme will normally lapse on the expiry of any of the periods allowed for exercise. Any performance target imposed on the grant of options under the 1996 scheme and referred to above will not normally apply where an option holder exercises options or releases rights under options in the special circumstances.

Limits applying to the 1996 scheme

The following limits will apply on the number of Ordinary shares which may be acquired by subscription:
(i) in any three year period not more than 3 per cent of the issued Ordinary share capital of the Company may in aggregate be placed under option under the 1996 scheme and any other executive share option scheme approved by the Company in General Meeting;
(ii) in any ten year period not more than 10 per cent of the issued Ordinary share capital of the Company may in aggregate be placed under option under the 1996 scheme and any other employee share scheme approved by the Company in General Meeting;
(iii) in any ten year period not more than 5 per cent of the issued Ordinary share capital of the Company may in aggregate be placed under option under the 1996 scheme and any other executive share option scheme approved by the Company in General Meeting; and
(iv) in any five year period not more than 5 per cent of the issued Ordinary share capital of the Company may in aggregate be placed under option under the 1996 scheme and any other employee share scheme approved by the Company in General Meeting.

Options which are surrendered or lapse by reason of non-exercise or otherwise will cease to count in calculating the above limits.

Adjustment and amendments

In the event of any rights issues, rights offers, capitalisation issues or other variation of or increase in the Ordinary share capital of the Company, the number and/or nominal value of shares subject to options and/or the option price may be adjusted by the Board as it deems appropriate.

Although the Board will have the power to amend the provisions of the 1996 scheme it will not be possible to amend them to the material advantage of participants without the prior approval of shareholders in General Meeting, except for minor amendments to benefit the administration of the 1996 scheme and amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company or the Group.

Notice of Annual General Meeting

HEADLAM Group

Notice is hereby given that the forty-eighth Annual General Meeting of Headlam Group plc will be held at The Belfry, Lichfield Road, Wishaw, Warwickshire B76 9PR on 10 June 1996 at 11.30 am for the following purposes:

As ordinary business:

1. **To receive, consider and adopt the report of the directors and the financial statements for the year ended 31 December 1995, together with the auditors' report.**
2. **To declare a final dividend.**
3. **To re-elect as a director A J Brewer who retires in accordance with the Articles of Association and is eligible for re-election.**
4. **To appoint KPMG Audit Plc as auditors of the Company and to authorise the directors to fix their remuneration.**

As special business:

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

5. **That, pursuant to and in accordance with the provisions of Article 18 of the Company's Articles of Association**

   5.1 the directors are empowered to allot equity securities; and the sum applicable for the purpose of Article 18 is £131,407.10; and

   5.2 such power shall expire at the conclusion of the next Annual General Meeting or on 9 September 1997, whichever is the earlier.

6. **That subject to the approval of the Board of the Inland Revenue, the rules of the Headlam Group executive share option scheme be amended such that in rule 4(d) (ii), the words "(other than the Headlam Group Sharesave Scheme)" are inserted immediately after the words "any other Employees' Share Scheme" and the directors be and are hereby authorised to do all such acts and things as are necessary to obtain such approval to such amendment.**
7. **That the Headlam Group 1996 executive share option scheme to be constituted by the rules produced in draft to this Meeting and for the purpose of identification initialled by the Chairman thereof, the principal terms of which are summarised on pages 58 and 59 of the annual report of which the notice convening this Meeting forms part, is hereby approved and adopted, and the directors are hereby authorised to do all acts and things necessary to carry the said scheme into effect.**

Notes relating to the proposed resolutions 5, 6 and 7 appear on pages 58 and 59.

By Order of the Board

S G Wilson ***Secretary*** ***10 May 1996***

Registered Office, Headlam Group plc, PO Box 1, Riverside Way, Bedford Road, Northampton NN1 5NH

Notes

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of the member.

A proxy need not be a member of the Company.

Proxy forms must be lodged with the registrar not later than 48 hours before the time fixed for the meeting. Completion of a form of proxy does not preclude a member from attending the meeting and voting thereat.

2. Ordinary shareholders only are entitled to attend and vote at this meeting.

3. Copies of the directors' service contracts, a summary of the directors' transactions in the Company's shares during the year and draft rules of the Headlam Group 1996 executive share option scheme will be available for inspection at the registered office of the Company during business hours from the date of this notice until the close of business on the business day preceding the Annual General Meeting and will also be available for inspection for at least 15 minutes prior to the meeting and throughout the meeting.

4. There are no service agreements between any director and any subsidiary of the Company.