460129

Headlam Group plc

Annual Report and Accounts 2000

Ordering: We receive orders from our customers electronically or over the telephone and our real-time environment results in an immediate response.

16.22: an order received is processed through our integrated systems

Chairman's Statement

Our core floorcoverings distribution business had another good year, but elsewhere the group encountered trading difficulties during the second half of the year. As the year came to a close, these difficulties were being resolutely tackled and good progress has been made which is being followed through in the new financial year.

Financial performance

Operating profit before goodwill amortisation and asset impairment for the year, amounted to £29.5 million compared with £34.3 million for the previous year. The loss before taxation for the year of £44.0 million is stated after amortisation of goodwill totalling £60.8 million, a charge for asset impairment of £5.8 million and exceptional losses of £2.0 million. This result reflects the difficulties experienced in the group's activities outside the floorcoverings distribution businesses. The trading performance of the Eclipse businesses suffered badly, and the disposal of our fabrics businesses did not initially proceed to our original timetable. The profitability of the Gradus businesses slipped behind plan and was also marginally behind 1999 performance.

Earnings and dividend

Excluding goodwill amortisation, asset impairment and exceptional items, earnings per ordinary share were 19.7p. In view of this, together with the progress to date with the fabrics disposals and our expectations for the current year, the board is recommending a maintained final dividend of 7.55p per ordinary share. This makes a total of 10.35p per ordinary share and represents an increase of 3.5% over the previous year's total dividend of 10.0p per ordinary share. The dividend for the year is almost twice covered by the ordinary profit after taxation for the year excluding goodwill amortisation, asset impairment and exceptional items. If approved, the final dividend will be paid on 2 July 2001 to shareholders on the register at 15 June 2001.

Operations

During the course of a difficult year, the group's floorcoverings distribution activity proved resilient, improving turnover and profitability over the previous year both in the UK and in Continental Europe. The relocation of three UK floorcoverings businesses into new facilities in the first half of the year went well. The result achieved by Belcolor, acquired in January 2000, was ahead of expectations and was earnings enhancing for the group.

Eclipse - goodwill impairment

In view of the performance of Eclipse during 2000, the board has decided to write down the full carrying value of goodwill associated with this business. Further rationalisation of the Continental European Eclipse businesses is presently taking place, whilst the immediate focus within Eclipse is now upon improving the trading positions of the businesses located in the UK and the USA.

Since the end of 2000, the group has disposed of two fabrics businesses for a total consideration of £2.6 million. The remaining fabrics businesses are currently profitable.

Board changes

As was previously announced, Tony Brewer, who has been a director of the company since June 1991, and was previously

Our extensive product range of carpet, residential vinyl and wood and laminate flooring, coupled with our trade counter facilities, provides customers with a comprehensive choice and an immediate service.

It is pleasing that we have made a **good start and that we are on course** to deliver improved results for the year.

Managing Director of the Floorcoverings division, was appointed Chief Executive with effect from 6 November 2000, taking over from Ian Kirkham who resigned as a director.

The board would like to express their thanks to all the staff for their hard work, commitment and continued customer service.

Group outlook

The current year has started encouragingly with trading results for the first two months slightly ahead of plan. We are now well on course with the disposals of the fabrics businesses, and progressing with the restructuring of the Eclipse businesses. This augurs well for our plans to deliver our budgeted level of profitability. It is pleasing that we have made a good start and that we are on course to deliver improved results for the year.

TG Larman

TG Larman Chairman

Warehousing: Our continuing investment in IT and materials handling techniques, enables us to react to customers' requirements with speed and efficiency.

16.23: the order is transmitted directly to our fork-lift truck which enables our driver to locate and pick the goods

Chief Executive's Review

2000 proved to be another successful year for the floorcoverings distribution businesses both in the UK and Continental Europe. Whilst the performance of Gradus was initially below expectations, it is now enjoying the benefit of previous investment.

As communicated during the autumn of 2000, the Windowcoverings division, incorporating the fabrics and Eclipse businesses, was particularly disappointing. Action was taken during the latter part of 2000, and progress continues to be made on the restructuring of this division.

UK floorcoverings distribution

Sales revenues in both the residential and commercial sectors improved in line with our internal expectations, and available external market data indicates that we continued to increase our market share. The growth was well balanced between our regional centres, both MCD and the original businesses, and through the national distribution presence of Mercado.

JHS, the commercial carpet supplier, also had a successful year, expanding its product portfolio resulting in an improved market position.

Particularly pleasing was the successful relocation of a number of businesses being completed without detracting from normal activities. Included in these relocations were the recently acquired businesses of Haldon Thompsons, Clifford Carpets and LGS which were accommodated within existing operations.

In all cases, the acquired businesses have retained their own trade brand consistent with our policy of having autonomous brands which serves to maximise market penetration.

E-commerce development continued with the number of orders received through various formats increasing each month. Our business-to-business websites allow customers to place orders 24 hours a day, every day, with real-time access to stock information. Over 1,600 of our customers are now actively using this facility.

Continental European floorcoverings distribution

Key to our development in Continental Europe is the relationship which we have with principal suppliers who have encouraged this initiative and together we have expanded distribution of their products to our mutual benefit.

LMS, which distributes commercial and residential products throughout France, has

2000 proved to be **another successful year for the floorcoverings distribution businesses** both in the UK and Continental Europe.

performed particularly well during 2000, enlarging its market share and meaningfully increasing profitability. This trend has continued into 2001 and there are opportunities for both organic growth and complementary acquisitions to increase our presence in the French market.

As foreseen, 2000 was a transitional year for Lethem-Vergeer in the Netherlands with a realignment of the product portfolio requiring accelerated stock disposal resulting in a lower gross margin and subsequently depressed profitability. This process is now complete and during the first quarter of 2001 we have also been able to merge successfully the operations of our other Dutch business, Interplan, in order to prevent the recurrence of losses previously incurred.

The acquisition of Belcolor in Switzerland has been particularly successful, and, with the benefit of the existing strong management team, it enhances our base for further expansion in Continental Europe when the appropriate opportunity arises.

Gradus

All three businesses within Gradus showed positive sales growth during the year. However, profitability was slightly lower than the previous year due to increased investment in sales and marketing.

Accessories further developed its market position, not only with the core product offering, but also through initiatives in wall protection products, and the successful acquisition of Decor Fabrications, which complements our existing floor lighting operations.

Carpets launched a major new product initiative aimed at the general commercial sector. This resulted in sales growing by 10% against the previous year, but, due to

Chief Executive's Review

high marketing costs in the initial launch process, the resulting profitability was suppressed. However, it is particularly encouraging that sales from new products have continued to improve into this year and we have every confidence that 2001 will realise the benefits of last year's investment.

The fledgling commercial fabrics business formed in 1999 made a positive contribution in 2000, and is now well positioned to make a meaningful return on sales during 2001, consistent with other Gradus activities.

Eclipse

2000 proved to be a difficult year for our window blinds businesses.

In the UK, delays in product launches were compounded by the merger of Vertika, disrupting operations in Glasgow. This undermined the overall performance, and resulted in profitability being substantially below plan.

In the initial months of 2001, we have focused on improving performance in the core Eclipse UK business. Now that the logistics issues of the Vertika merger have been resolved, we expect a positive contribution this year.

All four operations in Continental Europe disappointed during the year. Sweden and the Netherlands are now showing some improvement, and plans are well advanced to restructure and eliminate losses in Germany and the Czech Republic.

Finally, in the USA, major innovative product launches during the year did not deliver the anticipated results and the contribution has been substantially below expectations. Senior management within Eclipse have been redeployed in order to initiate a more satisfactory result.

Fabrics

The performance of certain businesses deteriorated during the year, leading to our decision to divest of a number of them. This has resulted in the post year end disposal of B S Brown and Gordon John Textiles, and the impending sale of Claremont Fabrics.

Edinburgh Weavers and William O'Hanlon made a positive contribution during the year and continue to make progress.

Board outlook

2001 has commenced with the floorcoverings distribution businesses in both the UK and Continental Europe delivering improved results in line with our plans.

Our modern and extensive warehouses combined with the latest materials handling capability, provides our customers with the most efficient service.

With the restructuring of the Windowcoverings division underway we are now **confident that we have a platform for ongoing improvement.**

Gradus is benefiting from the initiatives of last year and we expect a growth in profits this year.

Eclipse in the UK is improving internal controls and should deliver enhanced profitability.

Plans are well advanced to restructure the Eclipse businesses located in Continental Europe. Our objective in the short-term is to ensure that loss-making operations are contained.

The management at Eclipse in the USA have been refocused with objectives to improve product placement, production techniques and overhead control in order that a more acceptable level of profitability can be realised.

Summary

Whilst 2000 has been a challenging year in the group's history we are pleased with the ongoing development of the floorcovering businesses, both distribution and Gradus. With the restructuring of the Windowcoverings division underway we are now confident that we have a platform for ongoing improvement.

AJ Brewer Chief Executive

Handling: Our computerised cutting tables enable us to process each customer's specific requirement with precision in under a minute.

16.29: the goods are automatically cut to meet the specific requirements of the order and packaged ready for despatch

Financial Review

Accounting policies

The financial statements have been prepared on a basis which is consistent with previous years.

Divisional analysis

As mentioned in the 2000 half year statements, the segmental analysis displays the group's activities by reference to the Floorcoverings and Windowcoverings divisions. Previously, the analysis was Floorcoverings and Furnishings. Whilst there is no change in the businesses included in each division compared with previous years, the board is of the opinion that the term Windowcoverings more accurately reflects the majority of business activities included within this division.

Floorcoverings includes the UK and Continental European distribution businesses and Gradus, the business which manufactures and distributes contract flooring accessories and floorcoverings.

Windowcoverings includes the soft furnishing fabrics businesses and the Eclipse businesses which manufacture and distribute window blind systems.

Acquisitions, disposals and closures

During the year and the first quarter of 2001, the group acquired, disposed and closed businesses and segments of businesses.

The acquired businesses, all of which are included within the Floorcoverings division, are as follows

- Belcolor, a floorcoverings distribution business, located in Switzerland, acquired during January 2000.
- Clifford Carpets, a floorcoverings distribution business, located in the UK, acquired during January 2000.
- LGS, a floorcoverings distribution business, located in the UK, acquired during February 2000.
- Decor Fabrications, a commercial lighting business, located in the UK, acquired during July 2000.

The disposals and closures, all of which are included within the Windowcoverings division, are as follows

- ESV, a windowcoverings distribution business, located in the UK, which was closed during October 2000.
- Headlam Textile Printers, a transfer printing operation, located in the UK, which was closed during December 2000.
- BS Brown, a workwear fabrics distribution business, located in the UK, which was disposed during January 2001.
- The soft furnishing fabrics cut, make and trim operation, located in the UK, which was closed during February 2001.
- Gordon John Textiles, a soft furnishing fabrics business, located in the UK, which was disposed during February 2001.

With the exception of Headlam Textile Printers which was part of Claremont Fabrics, all of the above have been included in discontinued operations.

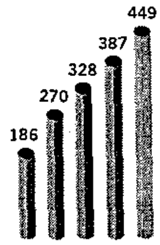
Turnover

During the year, the group's turnover increased by 16.0% from £386.9 million to £448.6 million. The turnover for the year includes turnover from acquired and discontinued businesses respectively amounting to £26.2 million and £16.5 million (1999: £21.1 million). Turnover from ongoing operations, excluding acquisitions, increased by 11.0% from £365.8 million to £405.9 million and includes a full year contribution from JHS, Eclipse and LMS which were all acquired during the first half of 1999.

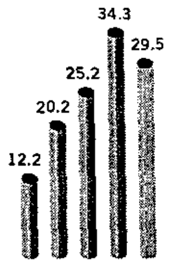
Operating performance

The underlying operating profit on ordinary activities for the year, stated before goodwill amortisation, asset impairment, and exceptional items, decreased by 13.8% from £34.3 million to £29.5 million.

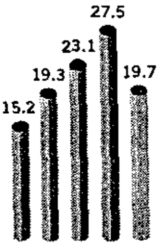
As highlighted in the segmental analysis this decline is principally attributable to a significant downturn in performance in the



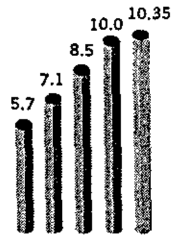
Turnover £m
1996-2000



Operating profit £m
1996-2000



EPS p
1996-2000



Dividends p
1996-2000

Windowcoverings division which, year on year, shows a decrease in operating profit of £6.1 million, down from £8.3 million to £2.2 million.

Asset impairment

As noted previously, two businesses have been disposed of since the year end. The two transactions involved the sale of the business and associated assets less certain liabilities. The net realisable value of these assets amounted to a value which was less than the value of the assets recorded in the consolidated balance sheet. Furthermore, it is likely that the future planned disposal of another soft furnishing fabrics business will give rise to a similar deficiency. Under these circumstances, the board has elected to recognise this impairment in asset value by way of a charge of £5.8 million against this year's results.

Goodwill amortisation

The goodwill arising on acquisitions completed during the year, amounting to £5.5 million has been capitalised and assigned a useful economic life of 20 years. Goodwill has been amortised during the period on a timing basis in order to match with post acquisition income and amounts to £0.3 million.

Goodwill amortisation arising on the acquisitions of JHS, LMS and Haldon Thompson amounted to £0.5 million.

As noted earlier, this year's decline in profitability is principally attributable to the under performance in the Windowcoverings division. In particular, the profit derived from the Eclipse businesses shows a significant downturn compared with the forecasts completed for Eclipse before the acquisition. In the light of this deterioration and in combination with the group's commitment to divest of substantial parts of the Eclipse activities, the carrying value of goodwill, capitalised on the acquisition of Eclipse, has been reviewed to determine the extent to which it has been impaired. The board has concluded that the goodwill no longer has any useful economic life and has therefore elected to recognise an impairment loss of £60.0 million in this year's results.

On the disposal of businesses in 2001, there will be a need to recognise a goodwill write off of £9.3 million through the consolidated profit and loss account. This was previously written off to reserves at the date of acquisition, as these transactions occurred before 1 January 1998, and has not been recognised through the consolidated profit and loss account.

Exceptional items

Exceptional items relate to a £1.4 million loss incurred on the closure of ESV, a business inherited through the acquisition of Eclipse, and losses of £0.6 million arising from the sale of properties.

Net interest payable

The group's interest cost increased from £3.1 million to £4.9 million. Interest cover based on profit before goodwill amortisation, asset impairment and exceptional items declined to 6.0 times compared with 11.1 times for the previous year.

Taxation on (loss)/profit on ordinary activities

The underlying rate of tax during the year was 32.9% (1999: 34.2%) giving rise to a charge of £7.1 million. However, a prior year adjustment of £3.4 million reduced the taxation charge to £3.7 million giving rise to an effective rate of 18.6% (1999: 30.5%). The prior year adjustment principally relates to tax deductible items that had previously been excluded pending final agreement with the Inland Revenue. The underlying rate of tax is maintained at a higher level than would ordinarily apply because of the inability of certain overseas businesses to fully utilise the tax relief available in the year.

Movement in shareholders' funds

Shareholders' funds have decreased from £119.4 million to £63.9 million. A substantial part of this decrease is caused by the board's decision to recognise the goodwill impairment loss relating to Eclipse amounting to £60.0 million.

Cash flows

Cash inflow from operating activities during the period amounted to £32.3 million compared with £32.0 million for the previous year emphasising the strength of the group's underlying trading performance. Within this inflow, net working capital investment amounted to £1.4 million (1999: £6.1 million), highlighting the cyclical nature of the group's working capital requirements. During the first

Financial Review

half of the year, working capital investment absorbed £12.1 million of which £10.7 million was released during the second half of the year.

Cash inflow before financing for the year amounted to £0.9 million compared with a cash outflow of £15.7 million for the previous year. The year on year improvement was attributable to the following principal items shown

	£m
Purchase of fixed assets	**4.9**
Sale of fixed assets and investments	**3.8**
Acquisitions	**14.2**
Bank and loan interest	**(1.6)**
Taxation	**(1.5)**
Dividends	**(3.9)**
	15.9

During the year, cash outflow was £3.5 million compared with £12.7 million for the previous year.

Treasury management and financial instruments

The group operates a policy of centralised treasury management covering its funding arrangements, foreign exchange and interest rate exposure.

The group's financial instruments, other than derivatives, comprise cash, borrowings and various items that arise directly from its operations such as trade debtors and trade creditors. The main purpose of these financial instruments is to raise finance for the group's trading operations.

The analysis set out below excludes trade debtors and trade creditors. In addition, the group has non-equity shares, which have a total nominal value of £50,000 and a market value at 31 December 2000 of £46,605. These financial instruments have been excluded from the analysis below.

The group enters into derivatives transactions for interest rate swaps and forward foreign currency contracts. The purpose of such transactions is to manage the interest rate and currency risks arising from the group's sources of finance and operations.

It is, and has been throughout the period under review, the group's policy that trading in financial instruments is not permitted.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the period under review.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows principally in sterling, euros, US dollars and Swiss francs at both fixed and floating rates of interest. Interest rate swaps have been used to manage the group's exposure to interest rate fluctuations and achieve desired interest profiles. During the year and at 31 December 2000, with the exception of £2.0 million Swiss franc fixed interest financial liabilities, all the group's borrowings were at floating rates. The board continues to monitor the group's interest rate risk and presently holds the view that, during this period of restructuring and divestment, the benefits of retaining flexibility outweigh the uncertainty associated with floating rate interest profiles.

Floating rate financial liabilities

The interest rate and currency profile of the group's floating rate financial liabilities at 31 December was as follows

Currency	Floating rate 2000 £m	1999 £m
Sterling	**33.7**	32.1
Euro	**0.7**	0.9
US dollar	**1.7**	4.4
Swiss franc	**1.1**	—
	37.2	37.4

The above analysis excludes financial liabilities used to provide a hedge against foreign net investments. The details of these foreign currency borrowings at 31 December are as follows

Currency	2000 £m	1999 £m
Euro	**7.2**	7.1
Swiss franc	**4.1**	—
	11.3	7.1

Included within the euro financial liability above is an amount of £4.3 million which is included in cash at bank and in hand as permitted by the group's bank set-off arrangements.

The floating rate financial liabilities are comprised of

- sterling denominated bank borrowings and overdrafts that bear interest at rates based on UK bank base rate and LIBOR for periods between one day and three months,
- US dollar denominated bank borrowings and overdrafts that bear interest at rates based on US prime rate and LIBOR for periods of one day,
- euro bank borrowings and overdrafts based on euro base rate, and
- Swiss franc denominated bank borrowings and overdrafts based on internal floating rates of the institutions providing the facilities.

Fixed rate financial liabilities

The weighted average interest rate and currency profile of the group's fixed rate financial liabilities at 31 December was as follows

Currency	Fixed rate financial liabilities 2000	Weighted average interest rate	Weighted average period for which interest rate is fixed
	£m	%	years
Swiss franc	**2.0**	**4.49**	**2.75**

Financial assets

The interest rate and currency profile of the group's financial assets at 31 December was as follows

Currency	Floating rate 2000 £m	1999 £m
Euro	**1.2**	—
US dollar	—	0.9
	1.2	0.9

Financial Review

The floating rate financial assets are comprised of cash at bank that bears interest at overnight rates based on EURIBOR and US Prime. The above analysis of financial assets excludes financial assets held in the same currency as the overseas operations.

Liquidity risk

The group's net indebtedness increased from £33.6 million to £38.9 million. Balance sheet gearing, based on shareholders' funds before the capitalisation of goodwill, increased from 67.7% at 31 December 1999 to 78.7%. Balance sheet gearing derived from shareholders' funds after the capitalisation of goodwill was 61.0% compared with 28.2% for the previous year.

The group's cash position during the year reduced by £3.7 million from £10.9 million to £7.2 million.

Total group financial liabilities at 31 December were as follows

	2000 £m	1999 £m
Bank loans and overdraft	**41.0**	40.5
Obligations under finance leases and similar hire purchase contracts	**5.2**	4.0
	46.2	44.5

The maturity profile of the group's financial liabilities at 31 December was as follows

	2000 £m	1999 £m
In one year or less, or on demand	**8.0**	13.5
In more than one year but not more than two years	**33.9**	13.2
In more than two years but not more than five years	**4.3**	17.8
	46.2	44.5

The group has various undrawn committed borrowing facilities expiring in one year or less which at 31 December 2000 amounted to £39.4 million. As mentioned previously, the board has placed an increasing emphasis on short-term flexibility whilst it manages this transitional period of restructuring and divestment.

Gradus manufacture and supply a comprehensive range of commercial carpets, flooring accessories and upholstery and window fabrics for the contract market.

Foreign currency risk

The group's overseas subsidiaries have their operations denominated in the currency of the country where they are based. In order to protect the group's sterling balance sheet from foreign currency movements, the group finances a significant part of its net investment by means of foreign currency borrowings.

The group's policy is to eliminate all currency movements on its selling and buying activities through currency contracts for a period of up to twelve months forward. As at 31 December 2000, after taking account of forward foreign contracts, the group has eliminated exposure to movements in foreign currency.

Gains and losses on currency contracts are not recognised until the exposure that is being hedged is recognised. Unrecognised gains and losses on currency contracts and the movements during the year are as follows

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on currency contracts at 1 January 2000	0.1	0.2	(0.1)
Gains and losses arising in previous years that were recognised in 2000	0.1	0.2	(0.1)
Gains and losses arising before 1 January 2000 that were not recognised in 2000	—	—	—
Gains and losses arising in 2000 that were not recognised in 2000	—	—	—
Unrecognised gains and losses on currency contracts at 31 December 2000	—	—	—
Gains and losses expected to be arising in 2001 that were not recognised in 2000	—	—	—

Fair values

As at 31 December 2000, there was no material difference between the book and fair value of the group's financial instruments.

SG Wilson Finance Director

Delivery: Our commitment to service is highlighted by the ongoing investment in our large fleet of delivery vehicles which enables us to provide a next day service.

07.00: The goods on this lorry will be with our customer within 16 hours of their order

Directors, Officers and Advisers

Board of Directors

TG Larman Non–executive Chairman
Aged 55; joined the board during March 1994 and was appointed Chairman on 1 January 2000. He is Chairman of the Audit Committee and was formerly the Finance Director of NFC plc, now Exel plc.

AJ Brewer Chief Executive
Aged 40; joined the board during June 1991, appointed Chief Executive 6 November 2000 and was formerly Managing Director of the Floorcoverings Division.

G Waldron Executive Director
Aged 70; joined the board during June 1991. He is the non-executive Chairman of Tandem Group plc, a non-executive director of Ryland Group plc and until 31 December 1999 was the group's Chairman.

SG Wilson Finance Director
Aged 46; Chartered Accountant, joined the board during December 1991.

TJ Anderson Non–executive Director
Aged 62; joined the board during August 1998. He is Chairman of the Remuneration Committee, a non-executive director of Azlan Group PLC, formerly a Group General Manager of Electrocomponents Plc and formerly a director of R S Components Limited.

Company Secretary
GM Duggan
Aged 40; joined the company during April 1998.

Advisers

Merchant Bankers
ING Barings Limited
60 London Wall
London EC2H 5TQ

Stockbrokers
Old Mutual Securities
Temple Court
35 Bull Street
Birmingham B4 6ES

Solicitors
Eversheds
115 Colmore Row
Birmingham B3 3AL

Auditors
KPMG Audit Plc
Norfolk House
Silbury Boulevard
Central Milton Keynes MK9 2HA

Public Relations
Gavin Anderson (UK) Limited
New Liverpool House
15-17 Eldon Street
London EC2M 7LA

Registrars
Connaught St. Michaels Limited
PO Box 30
Cresta House
Alma Street
Luton
Bedfordshire LU1 2PU

Principal Bankers
Barclays Bank PLC
PO Box 34
15 Colmore Row
Birmingham B3 2BY

The Royal Bank of Scotland plc
Corporate and Institutional Banking
2nd Floor
79-83 Colmore Row
Birmingham B3 2AP

Financial Calendar

Group results	
Annual General Meeting	23 May 2001
Interim results announced	August 2001
Full year results announced	March 2002

Dividend dates	
Ordinary shares	
Final dividend for 2000 (payable to qualifying shareholders on the register as at 15 June 2001, if approved)	2 July 2001
Interim dividend for 2001 announced	August 2001
Interim dividend for 2001 payable	January 2002
5.6% Preference shares	
Interim dividend for 2001 payable	June 2001
Final dividend for 2001 payable	December 2001

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activities
The group's activities include the wholesale distribution of floorcoverings, the manufacture and distribution of contract floorcoverings and flooring accessories, the merchant converting and distribution of soft furnishing fabrics and the manufacture and merchandised distribution of window blind systems.

Review of the business
A review of the group's trading operations and future developments is contained in the Chairman's Statement, the Chief Executive's Review and the Financial Review on pages 2 to 17.

Dividends
An interim ordinary dividend of 2.80p per share (1999: 2.45p) was paid on 5 January 2001 and your board is recommending a maintained final ordinary dividend of 7.55p per share (1999: 7.55p), making a total ordinary dividend of 10.35p per share (1999: 10.0p) for the year. The final dividend, if approved, will be payable on 2 July 2001 to shareholders whose names appear on the register at the close of business on 15 June 2001. Preference dividends of £3,000 (1999: £129,000) have been paid during the year.

Directors and directors' interests
The names of the directors in office at the end of the year are shown below together with their beneficial interests in the issued ordinary share capital of Headlam Group plc.

	Number of ordinary shares	
	31 December 2000	31 December 1999
G Waldron	**2,420,855**	2,420,855
AJ Brewer	**431,474**	431,474
SG Wilson	**199,013**	161,686
TG Larman	**6,944**	6,944
TJ Anderson	**4,000**	4,000

As at the date of this report, there have been no changes to the end of year holdings.

No director had any interests in the preference share capital of the company on those 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 in the Report of Directors' Remuneration on pages 29 to 32.

In accordance with an announcement made on 6 November 2000, AJ Brewer became Chief Executive with effect from that date following the resignation of I Kirkham on 3 November 2000.

With the exception of I Kirkham, all directors served throughout the year. The directors retiring in accordance with the Articles of Association at the Annual General Meeting are SG Wilson and G Waldron who, being eligible, offer themselves for re-election. As G Waldron has reached the age of 70, the ordinary resolution for his re-election will expire at the conclusion of the next Annual General Meeting. Details of directors' service contracts are given in the report on corporate governance. No other person has acted as a director of the company during the financial year ended 31 December 2000.

Post balance sheet events

On 12 January 2001, the company disposed of the business and certain assets and liabilities of BS Brown & Son for a total consideration of £570,000.

On 28 February 2001, the company disposed of the business and certain assets and liabilities of Gordon John Textiles for a total consideration of £2.0 million of which £1.4 million was paid on completion with £0.425 million to be paid on deferred terms and the balance of £0.175 million satisfied by the issue of redeemable preference shares with a redemption date of 31 January 2002.

Substantial shareholdings

At the date of this report, the following interests in 3% or more of the issued ordinary share capital of the company had been notified to directors

	Number of shares	%
Schroder Investment Management	13,904,459	16.61
Lazard Asset Management	5,028,000	6.01
Legal & General Investment Management	3,366,249	4.02
Scudder Threadneedle Investments	2,585,160	3.09

Policy on payment of creditors

The group agrees the terms of payment as part of the conditions of supply of goods and services. The group seeks to strictly comply with these payment terms whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The payment policy has been and will continue to be developed to meet the group's specific requirements and is not based on any specified code or standard relating to payment practice. The number of creditor days of the company at 31 December 2000 was 26 days (1999: 40 days).

Environmental issues

The group continuously monitors the nature and extent of those activities that have a bearing on the environment. It is recognised that the group's greatest potential impact on the environment is from excessive energy consumption, inefficient transportation, unnecessary waste materials and unsuitable products for resale. To minimise these effects the group has procedures to reduce energy consumption, manage distribution to minimise fuel consumption and therefore traffic pollution, to recycle waste and to source from suppliers who are environmentally aware.

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 and savings related share option schemes.

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.

Donations

The group contributed charitable donations of £9,000 (1999: £9,000) during the year. The board has maintained its policy on political donations and the group has made no contributions during the year.

Directors' Report

Annual General Meeting
Notice of this year's Annual General Meeting is set out on page 69. At this meeting, the following three special resolutions will be proposed as special business.

Resolution 6: 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 allotting up to 4,184,916 ordinary shares, representing approximately 5% of the issued ordinary share capital as at 26 March 2001, and dealing with some of the practical issues that can arise on pro-rata issue of shares. This resolution follows the form used in recent years.

Resolution 7: Purchase of ordinary shares
The directors are seeking authority to enable the company to make market purchases of up to 12,563,703 of its own ordinary shares, being approximately 15% of the existing issued ordinary share capital. The maximum price for such a share purchase would be 5% above the average middle market price of an ordinary share of the company as shown in the Stock Exchange Daily Official List for each of the five business days prior to the day on which the shares are purchased, and the minimum price would be the nominal value. The authority would be valid until the conclusion of the next Annual General Meeting of the company. The company would only exercise the authority if the effect of doing so would be to increase the earnings per share of the remaining shareholders and be in the best interests of shareholders generally. In addition, in exercising such authority, the company would comply with the current guidelines of the ABI and UK Listing Authority. The company has no present intention of making market purchases of its own ordinary shares, but would like to have the flexibility to consider such purchases in the coming year.

Resolution 8: Purchase of preference shares
The directors are seeking authority to enable the company to make market purchases of up to 50,000 of its own preference shares, being 100% of the existing issued preference share capital. The maximum price for such a share purchase would be 5% above the average middle market price of a preference share of the company as shown in the Stock Exchange Daily Official List for each of the five business days prior to the day on which the shares are purchased, and the minimum price would be the nominal value. The authority would be valid until the conclusion of the next Annual General Meeting of the company. The company would only exercise the authority if the effect of doing so would be to increase the earnings per share of the remaining shareholders and be in the best interests of shareholders generally. In addition, in exercising such authority, the company would comply with the current guidelines of the ABI and UK Listing Authority. The company has no present intention of making market purchases of its own preference shares, but would like to have the flexibility to consider such purchases in the coming year.

Auditors
A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the company.

By order of the board
GM Duggan Secretary
26 March 2001

Corporate Governance

Corporate Governance

The board is accountable to shareholders for good governance and the information and statements below describe how the principles identified in the Combined Code on corporate governance ("Code") are applied to the group.

The procedures adopted by the board and subsequently reviewed and updated, are designed to comply with the Code, defining the constitution and responsibilities of the board and the various board committees as appropriate.

Statement of compliance

The group has complied throughout the year with the provisions of the Code of Best Practice set out in Section 1 of the Code except for the following matters.

The Code recommends that directors' service contracts have a notice period of twelve months. The board believes that the contract terms of certain current executive directors, which have a notice period of two years, are appropriate for the business. New executive appointments to the board will be subject to Code compliant service contracts.

Throughout the year the group has had two independent non-executive directors and therefore does not comply with Code provision D.3.1 which requires that the Audit Committee should comprise at least three directors, all non-executive. Whilst the board supports the principles of the Code it considers that compliance should have regard to the size of the group in this respect.

In view of the size of the board it is not considered necessary to nominate a senior independent director and in this respect the group does not comply with Code provision A.2.1.

As stated in last year's annual report the board continued to seek guidance with respect to the most effective means of implementing the requirements of the Code. This process was completed by 30 September 2000. As a result the group did not comply with principle D2.1 for the period 1 January 2000 to 30 September 2000.

The principal corporate governance procedures are summarised below.

The board

The board comprises the non-executive Chairman, a further non-executive director and three executive directors, details of whom are set out on page 20. It is the view of the board that both non-executive directors can be considered independent of the executive management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. Furthermore, the board acknowledges that there should be a clear division of responsibilities at the head of the group and accordingly the roles of the Chairman and the Chief Executive are clearly defined.

Any director who is appointed by the board during the year is required to retire at the next Annual General Meeting ("AGM") and seek election by the shareholders. One third of the members of the board must retire by rotation every year and offer themselves for re-election, if eligible. In addition any director shall retire by rotation at the third AGM after his last appointment or re-appointment.

As set out on page 29, AJ Brewer and SG Wilson have service contracts that have a notice period of two years from the company and twelve months from the director whilst agreements with TG Larman, TJ Anderson and G Waldron may be terminated by either party without notice or compensation.

The board has not complied with the provision of the Code which requires the appointment of a senior independent director, believing that it is inappropriate in view of the size of the group and the composition of the existing board. Furthermore shareholders are able to contact any member of the board.

Corporate Governance

The board is responsible to shareholders for the effective control and proper management of the company and there is a schedule of matters specifically reserved to the board for approval. These include risk management including pensions and insurance, determining strategy and policy, acquisitions and disposals, approval of major capital expenditure projects and consideration of significant financial matters. The board meets a minimum of ten times per year to consider information previously agreed with, and requested from, the management of subsidiary undertakings, such information being supplied on a timely basis to enable the board to discharge its duties. Additional meetings are arranged when necessary.

All directors have access to the company secretary, who is responsible to the board for ensuring all applicable procedures and regulations are complied with. Each director has access to independent professional advice in connection with their duties at the company's expense.

The board has established three committees in which the non-executive directors play an active role and which operate within defined terms of reference laid down by the board.

Audit Committee
The committee comprises the two non-executive directors TG Larman and TJ Anderson and an executive director, G Waldron. TG Larman is Chairman of the committee. The committee is responsible for maintaining and monitoring the adequacy of the group's financial and internal controls and risk management, monitoring the company's accounting policies and financial reporting, providing a forum through which the auditors report to the board and the non-executive directors and ensuring the provision of information to enable the board to present a balanced and understandable assessment of the company's position and prospects. The committee also discusses the scope of the auditors' work and their associated fees. It meets at least twice a year and the auditors, the Chief Executive and the Finance Director attend when appropriate. The effectiveness of the group's systems of internal control is formally reviewed on an annual basis. The committee receives reports from the auditors commenting on the internal control matters that have been identified and meets with the auditors at least once a year to ensure that there are no unresolved issues of concern.

Remuneration Committee
The committee comprises TG Larman, TJ Anderson and G Waldron. TJ Anderson is Chairman of the committee. The committee makes recommendations to the board on the company's framework of executive remuneration and determines, on behalf of the board, specific remuneration packages for each of the executive directors.

The remuneration policy has been determined with a view to providing rewards which are designed to attract, retain and motivate executives of the appropriate calibre. In considering these matters, the committee takes account of the methods of aligning the interests of directors with shareholders and of current market practice with regard to levels of remuneration and has received advice from independent consultants.

The remuneration structure relating to the directors is set out in the Report of Directors' Remuneration on pages 29 to 32.

Nomination Committee
The committee comprises TG Larman, TJ Anderson and AJ Brewer and is responsible for making recommendations to the board on any appointment to the board and at senior executive level.

Relations with shareholders
The company seeks to develop regular dialogue with shareholders through meetings with individual shareholders, principally via the executive directors, and with shareholders who have the opportunity to attend the company's Annual General Meeting, where they are able to raise questions with the board. The Chairmen of the Audit and Remuneration Committees attended last year's Annual General Meeting and intend to be present at the forthcoming meeting. At last year's Annual General Meeting, all resolutions were passed on a show of hands. After the vote the level of proxies lodged on each resolution was announced to the meeting.

Information on the company is available on the company's website.

Internal control

The directors are responsible for establishing and maintaining the group's systems of internal control and for reviewing their effectiveness. The systems of internal control are designed to meet the group's particular needs and the risks to which it is exposed and to manage, rather than eliminate the risk of failure to achieve business objectives. They can therefore by their nature, provide only reasonable and not absolute assurance against material misstatement or loss.

Principle D2.1 of the Code requires that the directors review the effectiveness of all internal controls including financial, operational, compliance and risk management controls. The board reports that during the year it has undertaken a formal review of the risks faced by the group and the associated controls. This review identified areas where additional controls were required and action plans were put in place to address this. The output of these reviews form an important element of management reporting and a process is in place for monitoring the achievement of action plans together with the identification of new and emerging risks.

As stated in last year's annual report the board continued to seek guidance with respect to the most effective means of implementing the requirements of the Code. This process was completed by 30 September 2000. As a result the group did not comply with principle D2.1 for the period 1 January 2000 to 30 September 2000. During this period the group continued to monitor its controls as described in the previous year's annual report.

Key elements of the group's systems of internal control are as follows

Management structure

Clear lines of authority exist between subsidiary companies and the board's executive directors. The board meets regularly and has a schedule of matters reserved for its consideration and decision to provide control over strategic, financial and organisational matters.

Group procedures manual

The ethos of the group, delegation of responsibility and other control procedures together with accounting policies and procedures are communicated through the group and laid out in the group procedures manual which is periodically updated.

Identification of business risks

The board is responsible for identifying the major business risks faced by the group and for determining courses of action to minimise those risks.

Planning process

The group operates a comprehensive planning system, including detailed reviews at all subsidiary companies, together with formal reviews and approval of annual plans by the board. Actual performance is reported on a monthly basis measured against plan and prior year including detailed explanation of major variances.

Corporate Governance

Control procedures
The group and its subsidiary companies have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. The board considers that the measures taken, including physical controls, segregation of duties, reviews by management and the completion of the audit, provide sufficient and objective assurance.

During the year the board established a process of hierarchical reporting in order to evaluate systems of controls. These provide a documented and auditable trail of accountability, the results of which are periodically reviewed by management for completeness and accuracy. These procedures were completed by the end of September 2000, and apply to the company and its subsidiary undertakings and provide for successive assurances to be given at increasingly higher levels of management through to the board. Planned corrective actions will be monitored for timely completion.

Monitoring and corrective action
There are clear and consistent procedures in place for monitoring the systems of internal control. The Audit Committee meets at least twice a year and, with its remit, reviews the effectiveness of the group's systems of internal control. The committee receives reports from management.

In accordance with the Code the board has undertaken an assessment of the need for a group internal audit function.The board considers that the control systems and procedures undertaken by the group are adequately performed by management and therefore does not currently propose to introduce a group internal audit function but will keep it under review.

Quality and integrity of personnel
The integrity and competence of personnel is ensured throughout the recruitment process. Ethical standards expected of personnel are laid out in the group procedures manual.

Investment appraisal
The group has clearly defined guidelines for capital expenditure and investment appraisal. These include annual plans, detailed appraisal and review procedures, levels of authority and due diligence requirements when businesses are being acquired. Any acquisition or disposal of a business needs formal board approval.

The board reports that full procedures are in place to achieve compliance with the internal control aspects of the Code for the next financial period.

Going Concern
The directors report that, after making enquiries, they have 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.

By order of the board

GM Duggan Secretary
26 March 2001

Report of Directors' Remuneration

The Code referred to in the report on corporate governance, requires the board to report to shareholders each year on the company's policy on directors' remuneration, setting out the remuneration package of each individual director. The composition of and the policy relating to the Remuneration Committee is set out in the report on corporate governance on pages 25 to 28.

Remuneration structure

Salary and benefits

Executive salaries are reviewed annually and take account of executive directors' levels of responsibility and the competitiveness relative to similar sized companies in the same and similar business sectors. Executive directors participate in the private health scheme and are entitled to a company car.

Performance related pay

Two executive directors participate in the company's performance related annual bonus scheme. In the case of SG Wilson, this is calculated by reference to the growth in the basic earnings per share of the company over the financial period. In the case of AJ Brewer, for the year 2000, this was calculated in part by the growth in basic earnings per share and in part to the extent to which the profit before taxation of the Floorcoverings division exceeded the planned target.

Service contracts

AJ Brewer and SG Wilson have entered into service agreements that are terminable on two years' notice by the company subject to earlier expiry upon the director reaching the normal retirement age of sixty. TG Larman, TJ Anderson and G Waldron do not have service contracts.

The board has reviewed the notice periods in respect of directors' service contracts, which the Code recommends should not exceed one year, and considers the current arrangements to be appropriate for the business.

Directors' emoluments

Details of directors' emoluments for the year ended 31 December 2000 are set out below

	Salary and fees		Benefits		Performance related pay		Total	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Executive								
AJ Brewer	**199**	160	**12**	9	**64**	80	**275**	249
SG Wilson	**195**	160	**11**	8	**—**	64	**206**	232
G Waldron	**60**	58	**13**	11	**—**	12	**73**	81
I Kirkham	**206**	220	**9**	7	**—**	84	**215**	311
Non-executive								
TG Larman	**55**	29	**—**	—	**—**	—	**55**	29
TJ Anderson	**22**	21	**—**	—	**—**	—	**22**	21
	737	648	**45**	35	**64**	240	**846**	923

I Kirkham resigned as a director on 3 November 2000 and was paid compensation for loss of office, including pension and other benefits, totalling £436,000.

Report of Directors' Remuneration

Pension benefits

AJ Brewer and SG Wilson participate in the group's defined benefit pension scheme which provides benefits based upon pensionable service and pay. The maximum pension payable under the scheme is two-thirds of final pensionable pay subject to Inland Revenue limits. There are also lump sum death-in-service benefits and pension provisions for members' dependants.

Details of pensions earned by the executive directors for the year ended 31 December 2000 are shown below

	Increase in accrued pension during the year £pa	Transfer value of increase £	Accumulated accrued pension 31 December 2000 £pa	Accumulated accrued pension 31 December 1999 £pa
AJ Brewer	2,162	19,167	20,164	17,806
SG Wilson	2,748	31,486	24,525	21,540
I Kirkham	2,111	29,673	24,704	22,347

The increase in accrued pension during the year excludes any increase for inflation of accumulated accrued pension and the transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

In addition to salary, G Waldron receives a payment of £26,000 which is made directly to a personal pension arrangement.

Directors' interests in share option schemes

Executive schemes

The directors participate in three executive share option schemes, which were approved by shareholders on 1 July 1988, 10 June 1996 and 4 June 1998. Options granted under the 1988 Inland Revenue approved scheme are normally exercisable between the third and tenth anniversaries of their date of grant, subject to the movement of the company's basic earnings per share exceeding that of the General Index of Retail Prices, all items, over the relevant period. Options granted under the 1996 and 1998 unapproved schemes are normally exercisable between the third and seventh anniversaries of their date of grant, subject to the movement of the company's basic earnings per share exceeding that of the General Index of Retail Prices, all items, by 2% per annum and 3% per annum respectively over the relevant period.

Details of executive options held by executive directors are set out below.

	Period of exercise	Option price per share	Number of ordinary shares At 31 December 2000	At 31 December 1999
1988 approved scheme				
G Waldron	October 1996 - October 2003	139.92p	**15,812**	15,812
AJ Brewer	October 1996 - October 2003	139.92p	**15,812**	15,812
	October 1997 - October 2004	153.30p	**14,516**	14,516
	August 1998 - August 2005	132.80p	**37,327**	37,327
SG Wilson	August 1998 - August 2005	132.80p	—	37,327
1996 unapproved scheme				
AJ Brewer	May 2000 - May 2004	311.50p	**112,000**	112,000
SG Wilson	May 2000 - May 2004	311.50p	**102,000**	102,000
1998 unapproved scheme				
AJ Brewer	December 2001 - December 2005	225.50p	**25,000**	25,000
SG Wilson	December 2001 - December 2005	225.50p	**25,000**	25,000

Options granted to I Kirkham lapsed at the date of his resignation. No other options granted to directors lapsed during the year.

During the year SG Wilson exercised his option over 37,327 ordinary shares retaining a beneficial interest in all 37,327 shares. The option was exercised on 8 June 2000 at 132.80p per share when the closing middle market price was 321.50p per share. The closing middle market price of the shares at 31 December 2000 was 137.00p and the range during the year was 116.50p to 424.50p.

Gains on share options

Gains on share options represent the number of shares under option which have been exercised valued at the difference between market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows

	Exercise price per share	Number of shares	Market price per share at date of exercise	**Gain 2000 £000**	Gain 1999 £000
SG Wilson	132.80p	37,327	321.50p	**70**	—

Equity participation plan

Details of awards made to executive directors on 2 September 1999 in respect of the award period 1 January 1999 to 31 December 2001 are set out below

	Number of shares
AJ Brewer	18,713
SG Wilson	18,713

The award granted to I Kirkham lapsed at the date of his resignation.

Report of Directors' Remuneration

Sharesave scheme

The company operates a sharesave scheme for employees, which was approved by shareholders on 25 May 1990 and approved by the Inland Revenue on 23 April 1992. 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. Details of sharesave options held by directors are set out below

			Number of ordinary shares	
	Period of exercise	Option price per share	**At 31 December 2000**	At 31 December 1999
AJ Brewer	November 2000 - April 2001	138.88p	**12,420**	12,420
SG Wilson	November 2000 - April 2001	138.88p	**12,420**	12,420
G Waldron	December 2002 - May 2003	269.00p	**6,412**	6,412
TG Larman	December 2000 - May 2001	269.00p	**3,624**	3,624

As at the date of this report, there have been no changes to the end of year position.

By order of the board

GM Duggan Secretary

26 March 2001

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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 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

We have audited the financial statements of Headlam Group plc which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Reconciliation of Net Cash Flow to Movements in Net Debt, Consolidated Statement of Total Recognised Gains and Losses, Note of Consolidated Historical Cost Profits and Losses and Reconciliation of Movements in Consolidated Shareholders' Funds and Notes 1 to 35.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described in the Statement of Directors' Responsibilities, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Directors' Report, the Corporate Governance Statement and the Report of Directors' Remuneration. 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 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 as at 31 December 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Milton Keynes

26 March 2001

Notes

1 The maintenance and integrity of the Headlam Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
Turnover			
Continuing operations		**405,905**	365,787
Acquisitions		**26,185**	—
		432,090	365,787
Discontinued operations		**16,556**	21,091
	2	**448,646**	386,878
Cost of sales	3	**(309,117)**	(271,030)
Gross profit	3	**139,529**	115,848
Net operating expenses	3	**(176,593)**	(84,028)
Operating (loss)/profit			
Continuing operations		**(34,202)**	33,889
Acquisitions		**994**	—
		(33,208)	33,889
Discontinued operations		**(3,856)**	(2,069)
Operating profit before goodwill amortisation and asset impairment		**29,516**	34,259
Goodwill amortisation (including goodwill impairment of £60.0 million)		**(60,757)**	(2,439)
Asset impairment		**(5,823)**	—
		(37,064)	31,820
Loss on closure of discontinued operation		**(1,454)**	—
Loss on sale of properties in continuing operations		**(604)**	—
	2	**(39,122)**	31,820
Net interest payable and other similar items	4	**(4,914)**	(3,096)
(Loss)/profit on ordinary activities before taxation	5	**(44,036)**	28,724
Taxation on (loss)/profit on ordinary activities	7	**(3,696)**	(9,494)
(Loss)/profit for the financial year	8	**(47,732)**	19,230
Dividends paid and proposed on equity and non-equity shares	9	**(8,650)**	(8,461)
Retained (loss)/profit for the financial year	23	**(56,382)**	10,769
Earnings/(loss) per share			
Basic	10		
Before goodwill amortisation		**15.6p**	27.5p
After goodwill amortisation		**(57.0p)**	24.4p
Diluted	10		
Before goodwill amortisation		**15.6p**	27.2p
After goodwill amortisation		**(57.0p)**	24.1p

Consolidated Balance Sheet

at 31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Intangible assets	11	**14,422**	69,787
Tangible assets	12	**54,856**	49,822
Investments	13	**466**	466
		69,744	120,075
Current assets			
Stocks	15	**82,115**	81,784
Debtors	16	**79,075**	86,230
Investments	17	**—**	28
Cash at bank and in hand		**7,216**	10,871
		168,406	178,913
Creditors: amounts falling due within one year	18	**(135,384)**	(148,095)
Net current assets		**33,022**	30,818
Total assets less current liabilities		**102,766**	150,893
Creditors: amounts falling due after more than one year	19	**(38,219)**	(30,993)
Provisions for liabilities and charges	21	**(667)**	(451)
Net assets		**63,880**	119,449
Capital and reserves			
Called up share capital	22	**4,235**	4,220
Share premium account	23	**48,303**	47,838
Revaluation reserve	23	**3,606**	3,866
Special reserve	23	**—**	49,654
Profit and loss account	23	**7,736**	13,871
Shareholders' funds			
Equity		**63,830**	119,399
Non-equity		**50**	50
		63,880	119,449

These financial statements were approved by the board on 26 March 2001 and signed on its behalf by

AJ Brewer
Director

SG Wilson
Director

Company Balance Sheet

at 31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	12	**33,995**	33,946
Investments	13	**466**	466
Investments in subsidiary undertakings	14	**76,895**	128,567
		111,356	162,979
Current assets			
Debtors: amounts falling due within one year	16	**25,390**	8,276
Debtors: amounts falling due after more than one year	16	**38,689**	52,096
		64,079	60,372
Investments	17	**—**	24
Cash at bank and in hand		**2,816**	5,614
		66,895	66,010
Creditors: amounts falling due within one year	18	**(39,260)**	(42,789)
Net current assets		**27,635**	23,221
Total assets less current liabilities		**138,991**	186,200
Creditors: amounts falling due after more than one year	19	**(36,600)**	(32,534)
Provisions for liabilities and charges	21	**(168)**	—
Net assets		**102,223**	153,666
Capital and reserves			
Called up share capital	22	**4,235**	4,220
Share premium account	23	**48,303**	47,838
Revaluation reserve	23	**3,606**	3,866
Special reserve	23	**20,578**	70,232
Profit and loss account	23	**25,501**	27,510
Shareholders' funds			
Equity		**102,173**	153,616
Non-equity		**50**	50
		102,223	153,666

These financial statements were approved by the board on 26 March 2001 and signed on its behalf by

AJ Brewer
Director

SG Wilson
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
Net cash inflow from operating activities	27	**32,309**	32,000
Returns on investments and servicing of finance	28	**(4,652)**	(3,056)
Taxation		**(9,184)**	(7,700)
Capital expenditure and financial investments	28	**(847)**	(9,978)
Acquisitions	25	**(8,389)**	(22,605)
Equity dividends paid		**(8,323)**	(4,381)
Cash inflow/(outflow) before financing		**914**	(15,720)
Financing	28	**(4,411)**	3,046
Decrease in cash in the year		**(3,497)**	(12,674)

Reconciliation of Net Cash Flow to Movements in Net Debt

		2000 £'000	1999 £'000
Decrease in cash in the year		**(3,497)**	(12,674)
Cash outflow/(inflow) from reduction/(increase) in debt		**4,891**	(14,836)
Change in debt resulting from cash flows		**1,394**	(27,510)
Debt acquired with subsidiaries		**(3,080)**	(2,513)
New finance leases and similar hire purchase contracts		**(2,996)**	(1,770)
Translation difference		**(634)**	583
Movement in net debt in the year		**(5,316)**	(31,210)
Net debt at 1 January		**(33,631)**	(2,421)
Net debt at 31 December	29	**(38,947)**	(33,631)

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2000

	2000 £'000	1999 £'000
(Loss)/profit for the financial year	**(47,732)**	19,230
Currency translation differences on foreign currency net investments	**167**	(87)
Total recognised gains and losses for the financial year	**(47,565)**	19,143

Note of Consolidated Historical Cost Profits and Losses

for the year ended 31 December 2000

	2000 £'000	1999 £'000
Reported (loss)/profit on ordinary activities before taxation	**(44,036)**	28,724
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	**260**	58
Historical cost (loss)/profit on ordinary activities before taxation	**(43,776)**	28,782
Historical cost (loss)/profit for the year retained after taxation and dividends	**(56,122)**	10,827

Reconciliation of Movements in Consolidated Shareholders' Funds

for the year ended 31 December 2000

	2000 £'000	1999 £'000
(Loss)/profit for the financial year	**(47,732)**	19,230
Dividends		
Equity shares	**(8,647)**	(8,332)
Non-equity shares	**(3)**	(129)
Retained (loss)/profit for the financial year	**(56,382)**	10,769
Equity share capital issued	**480**	51,044
Cost of share issues	**—**	(330)
Shares issued from Qualifying Employee Share Trust	**166**	—
Currency translation differences on foreign currency net investments	**167**	(87)
Net (reduction)/addition to shareholders' funds	**(55,569)**	61,396
Shareholders' funds at 1 January	**119,449**	58,053
Shareholders' funds at 31 December	**63,880**	119,449

Notes to the Financial Statements

1. Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties, and in accordance with applicable accounting standards. The following principal accounting polices have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

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

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised within fixed assets and amortised on a straight line basis over a period of 20 years. On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging or crediting the unamortised amount of any related goodwill or negative goodwill.

Goodwill relating to acquisitions made prior to 1 January 1998, the date on which FRS10 'Goodwill and intangible assets' was adopted, has, as a matter of accounting policy, been written off against reserves on acquisition. In accordance with the transitional rules of FRS10 this treatment, which applied under the previous accounting standard has continued to be applied. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging or crediting the amount of any related goodwill or negative goodwill previously taken to reserves.

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.

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.

For consolidation purposes, the assets and liabilities of overseas subsidiaries are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Finance leases, similar hire purchase contracts and operating leases
Assets acquired under finance leases and similar 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 on a straight line basis over the term of the lease.

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
Motor vehicles	25% per annum
Office and computer equipment	10-33⅓% per annum
Warehouse and production equipment	10-20% per annum

Freehold land is not depreciated.

Fixed asset investments
In the company's balance sheet investments in subsidiary undertakings are stated at cost less any impairment in value. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the company to which the provisions of section 131 of the Companies Act 1985 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. In the consolidated financial statements the excess of the fair value of the consideration shares issued over their nominal value is credited to special reserves.

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

Research and development expenditure
Expenditure on research and development is written off against profits in the year in which it is incurred.

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 taxable 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 group operates both defined benefit and defined contribution schemes.

The expected cost of pensions in respect of the group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the expected remaining service lives of employees in the schemes. Variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of a qualified actuary. The amount charged to the profit and loss account in respect of the defined contribution schemes equates to contributions paid to the trustees and is in accordance with the scheme rules.

Notes to the Financial Statements

2. Segmental analysis

	Turnover		Profit before interest and taxation		Operating net assets	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
By activity						
Floorcoverings						
Continuing activities	**331,794**	300,752	**27,163**	26,905	**71,653**	72,229
Acquisitions	**26,185**	—	**1,277**	—	**10,055**	—
Less: goodwill amortisation	—	—	**(787)**	(370)	—	—
	357,979	300,752	**27,653**	26,535	**81,708**	72,229
Windowcoverings						
Continuing activities	**74,111**	65,035	**2,913**	7,108	**23,863**	81,026
Less: goodwill impairment	—	—	**(59,970)**	(2,069)	—	—
Less: asset impairment	—	—	**(2,633)**	—	—	—
	74,111	65,035	**(59,690)**	5,039	**23,863**	81,026
Discontinued operations	**16,556**	21,091	**(666)**	1,188	**1,825**	11,524
Less: asset impairment	—	—	**(3,190)**	—	—	—
	16,556	21,091	**(3,856)**	1,188	**1,825**	11,524
	90,667	86,126	**(63,546)**	6,227	**25,688**	92,550
	448,646	386,878	**(35,893)**	32,762	**107,396**	164,779
Central operations			**(1,171)**	(942)		
less: exceptional items			**(2,058)**	—		
			(39,122)	31,820		

By origin	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
UK	**357,684**	334,927	**26,599**	29,947	**78,883**	116,551
Europe	**71,677**	38,146	**1,559**	1,969	**20,570**	22,087
USA	**19,285**	13,805	**1,358**	2,343	**7,943**	26,141
	448,646	386,878	**29,516**	34,259	**107,396**	164,779
Less: goodwill amortisation			**(787)**	(2,439)		
Less: goodwill impairment			**(59,970)**	—		
Less: asset impairment			**(5,823)**	—		
Less: exceptional items			**(2,058)**	—		
			(39,122)	31,820		

Turnover by destination

	2000 £000	1999 £000
UK	**346,757**	324,352
Continental Europe	**79,325**	45,113
Asia and Australasia	**1,549**	1,895
Africa and the Middle East	**1,229**	909
America	**19,786**	14,609
	448,646	386,878

Operating net assets

Operating net assets, as shown in the segmental analysis by activity, excludes net borrowings, other than finance leases and similar hire purchase contracts, taxation and dividends and is arrived at as follows

	2000 £'000	1999 £'000
Net assets	**63,880**	119,449
Net borrowings		
Bank overdraft	**729**	793
Cash	**(7,216)**	(10,871)
Bank loans	**40,278**	39,741
Loan notes	**16**	30
Taxation		
Corporation tax	**651**	7,049
Deferred tax	**401**	256
Dividends	**8,657**	8,332
Operating net assets	**107,396**	164,779

3. Cost of sales and net operating expenses

	Continuing operations 2000 £'000	Discontinued operations 2000 £'000	Total 2000 £'000	Continuing operations 1999 £'000	Discontinued operations 1999 £'000	Total 1999 £'000
Cost of sales	**296,733**	**12,384**	**309,117**	255,069	15,961	271,030
Gross profit	**135,357**	**4,172**	**139,529**	110,718	5,130	115,848
Sales and distribution	**71,557**	**2,871**	**74,428**	53,869	2,566	56,435
Administration	**97,008**	**5,157**	**102,165**	26,217	1,376	27,593
Net operating expenses	**168,565**	**8,028**	**176,593**	80,086	3,942	84,028

The figure for continuing operations for 2000 includes the following amounts relating to acquisitions: cost of sales £18,891,000, gross profit £7,294,000, sales and distribution expenses £4,411,000 and administrative expenses £1,606,000, giving total net operating expenses of £6,017,000.

Notes to the Financial Statements

4. Net interest payable and other similar items

	2000 £'000	1999 £'000
Interest payable and similar charges		
Bank loans and overdrafts	**(4,707)**	(2,663)
Other	**(10)**	(58)
Finance leases and similar hire purchase contracts	**(275)**	(419)
	(4,992)	(3,140)
Interest receivable	**78**	44
	(4,914)	(3,096)

5. (Loss)/profit on ordinary activities before taxation

	2000 £'000	1999 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of tangible fixed assets		
Owned	**4,381**	2,992
Finance lease and similar hire purchase contracts	**938**	916
Loss/(profit) on sale of fixed assets	**250**	(91)
Research and development	**527**	295
Auditors' remuneration		
Group	**344**	340
Company	**53**	51
Operating lease rentals		
Plant and machinery	**5,984**	5,437
Other	**2,769**	2,063
Goodwill amortisation	**787**	2,439
Goodwill impairment	**59,970**	—
Exceptional items		
Loss on disposal of land and buildings	**604**	—
Closure costs	**1,454**	—

Fees paid to KPMG Audit Plc and its associates in respect of non-audit services amounted to £232,000 (1999: £473,000). Included in this sum is £54,000 (1999: £210,000) in respect of the acquisition of subsidiary undertakings which has been capitalised.

6. Employees

The average number of employees during the year was

	2000 No.	1999 No.
By sector		
Floorcoverings	**1,892**	1,693
Windowcoverings	**878**	724
Central operations	**14**	15
	2,784	2,432
By function		
Production	**505**	429
Sales and distribution	**1,860**	1,611
Administration	**419**	392
	2,784	2,432

The aggregate emoluments for the year were

	2000 £'000	1999 £'000
Wages and salaries	**50,831**	38,760
Social security	**5,608**	4,001
Pensions	**2,821**	1,803
	59,260	44,564
Remuneration of directors		
Directors' emoluments excluding pension contributions	**846**	923
Gains made on exercise of share options	**70**	101
Compensation for loss of office	**436**	—
	1,352	1,024
Company contributions to money purchase arrangement	**26**	26

Further details of directors' emoluments, share options and pension entitlement are given in the Report of Directors' Remuneration on pages 29 to 32.

Notes to the Financial Statements

7. Taxation on (loss)/profit on ordinary activities

	2000 £'000	1999 £'000
UK Corporation tax at 30% (1999: 30.25%)	**6,858**	9,585
Over provision in earlier years	**(3,385)**	(1,176)
Deferred taxation	**138**	35
Overseas taxation	**85**	1,050
	3,696	9,494

8. (Loss)/profit for the financial year

	2000 £'000	1999 £'000
Dealt with in the accounts of		
Headlam Group plc	**(42,910)**	30,800
Subsidiary undertakings	**(4,822)**	(11,570)
	(47,732)	19,230

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

	2000 £'000	1999 £'000
Equity shares		
Interim proposed 2.80p (1999: 2.45p)	**2,328**	2,035
Final proposed 7.55p (1999: 7.55p)	**6,319**	6,297
Total dividend 10.35p (1999: 10.00p)	**8,647**	8,332
Non-equity shares		
Paid	**3**	129
	8,650	8,461

10. Earnings/(loss) per share

	2000 £'000	1999 £'000
Profit/(loss) figure used for basic and diluted earnings per share calculation		
Profit/(loss) for the financial year after dividends paid on non-equity shares		
Before goodwill amortisation	**13,022**	21,540
After goodwill amortisation	**(47,735)**	19,101
	No.	No.
Weighted average number of ordinary shares in issue during the year	**83,614,426**	78,436,955
Basic earnings per share		
Before goodwill amortisation	**15.6p**	27.5p
After goodwill amortisation	**(57.0p)**	24.4p
Diluted earnings per share		
Before goodwill amortisation	**15.6p**	27.2p
After goodwill amortisation	**(57.0p)**	24.1p

Reconciliation of average number of ordinary shares used for basic and diluted earnings per share calculation	2000 No.	1999 No.
Weighted average number of ordinary shares in issue during the year used for basic earnings per share calculation	**83,614,426**	78,436,955
Weighted average number of shares under option	**2,113,229**	3,028,620
Number of ordinary shares that would have been issued at fair value	**(2,018,503)**	(2,104,642)
Average number of ordinary shares used for diluted earnings per share calculation	**83,709,152**	79,360,933

11. Intangible fixed assets

	Note	Goodwill £'000	Patents and trademarks £'000	Total £'000
Cost				
At 1 January 2000		72,158	73	72,231
Acquisition of businesses	24	5,456	—	5,456
At 31 December 2000		**77,614**	**73**	**77,687**
Amortisation/depreciation				
At 1 January 2000		2,439	5	2,444
Charge for the year		**787**	**64**	**851**
Goodwill impairment		**59,970**	—	**59,970**
At 31 December 2000		**63,196**	**69**	**63,265**
Net book value				
At 31 December 2000		**14,418**	**4**	**14,422**
At 31 December 1999		69,719	68	69,787

Notes to the Financial Statements

12. Tangible fixed assets

Group

	Land & buildings Freehold £'000	Long leasehold £'000	Short leasehold £'000	Plant & equipment £'000	Under the course of construction £'000	Total £'000
Cost or valuation						
At 1 January 2000	34,640	258	154	17,148	4,387	56,587
Acquisition of businesses	2,708	—	—	525	—	3,233
Additions	3,231	27	13	5,412	—	8,683
Disposals	(546)	(14)	—	(1,605)	—	(2,165)
Adjustment for foreign exchange rate differences	278	7	—	270	28	583
Transfer to use	3,303	—	—	881	(4,184)	—
Transfer to assets for resale	(1,170)	—	—	—	—	(1,170)
At 31 December 2000	42,444	278	167	22,631	231	65,751
Depreciation						
At 1 January 2000	1,674	—	53	5,038	—	6,765
Charge for the year	961	34	6	4,318	—	5,319
Disposals	(26)	(14)	—	(1,177)	—	(1,217)
Adjustment for foreign exchange rate differences	16	—	—	59	—	75
Reclassification	—	21	(21)	—	—	—
Transfer to assets for resale	(47)	—	—	—	—	(47)
At 31 December 2000	2,578	41	38	8,238	—	10,895
Net book value						
At 31 December 2000	39,866	237	129	14,393	231	54,856
At 31 December 1999	32,966	258	101	12,110	4,387	49,822

Company	Land & buildings Freehold £'000	Short leasehold £'000	Plant & equipment £'000	Under the course of construction £'000	Total £'000
Cost or valuation					
At 1 January 2000	31,697	66	723	3,302	35,788
Additions	**2,326**	**13**	—	—	**2,339**
Disposals	**(501)**	—	**(32)**	—	**(533)**
Transfers from subsidiary undertakings	—	—	**22**	—	**22**
Transfer to use	**3,302**	—	—	**(3,302)**	—
Transfer to assets for resale	**(1,170)**	—	—	—	**(1,170)**
At 31 December 2000	**35,654**	**79**	**713**	—	**36,446**
Depreciation					
At 1 January 2000	1,382	—	460	—	1,842
Charge for the year	**578**	—	**117**	—	**695**
Disposals	**(26)**	—	**(17)**	—	**(43)**
Transfer from subsidiary undertakings	—	—	**4**	—	**4**
Transfer to assets for resale	**(47)**	—	—	—	**(47)**
At 31 December 2000	**1,887**	—	**564**	—	**2,451**
Net book value					
At 31 December 2000	**33,767**	**79**	**149**	—	**33,995**
At 31 December 1999	30,315	66	263	3,302	33,946

The group and company fixed asset movement tables shown above include within freehold land and buildings, freehold land which at 31 December 2000 amounted to £7,546,000 (1999: £7,616,000) which is not depreciated.

An independent valuation of freehold land and buildings was carried out by Lambert Smith Hampton, a firm of chartered surveyors and valuers, as at 31 December 1998. Properties occupied by group companies were valued on an existing use basis, and those properties sublet to third parties were valued on an open market value basis.

Cost or valuation of freehold land and buildings comprises

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Cost	**38,520**	30,716	**31,730**	27,773
Present use valuation at 31 December 1990	**1,137**	1,137	**1,137**	1,137
Existing use and open market value	**2,787**	2,787	**2,787**	2,787
	42,444	34,640	**35,654**	31,697

Notes to the Financial Statements

12. Tangible fixed assets - continued

Under the historical cost convention, freehold land and buildings would have been shown at the following amounts

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Historical cost	**38,520**	30,716	**31,730**	27,773
Depreciation based on cost	**(2,260)**	(1,434)	**(1,569)**	(1,434)
	36,260	29,282	**30,161**	26,339

The net book value of plant and equipment acquired under finance leases and similar hire purchase contracts is

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Cost	**7,037**	4,508	**124**	156
Depreciation	**(2,428)**	(1,807)	**(56)**	(36)
	4,609	2,701	**68**	120

13. Fixed asset investments

	Group £'000	Company £'000
At 1 January 2000	466	466
Transferred from current asset investments	**28**	**24**
Written off during the year	**(28)**	**(24)**
At 31 December 2000	**466**	**466**

14. Investment in subsidiary undertakings

	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 2000	100,227	29,040	129,267
Additions	**8,090**	—	**8,090**
At 31 December 2000	**108,317**	**29,040**	**137,357**
Provisions			
At 1 January 2000	700	—	700
Created during the year	**59,505**	**257**	**59,762**
At 31 December 2000	**60,205**	**257**	**60,462**
Net book value			
At 31 December 2000	**48,112**	**28,783**	**76,895**
At 31 December 1999	99,527	29,040	128,567

Provisions created during the year relate to a re-assessment of the carrying value of the investments in certain businesses in the Windowcoverings division.

Information concerning the principal trading subsidiary undertakings and trading entities is given on page 67.

15. Stocks

	Group 2000 £'000	Group 1999 £'000
Raw materials and consumables	**7,324**	8,396
Work in progress	**605**	507
Finished goods and goods held for resale	**74,186**	72,881
	82,115	81,784

16. Debtors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Amounts falling due within one year				
Assets held for resale	**1,937**	5,360	**1,937**	5,360
Trade debtors	**61,648**	66,862	**—**	—
Amounts due from subsidiary undertakings	**—**	—	**20,809**	590
Corporation tax	**—**	—	**1,820**	—
Other debtors	**10,678**	9,455	**818**	2,281
Prepayments and accrued income	**4,812**	4,553	**6**	45
	79,075	86,230	**25,390**	8,276
Amounts falling due after more than one year				
Amounts due from subsidiary undertakings	**—**	—	**38,689**	52,096
Total debtors	**79,075**	86,230	**64,079**	60,372

17. Investments

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Listed investment	**—**	24	**—**	24
Other	**—**	4	**—**	—
	—	28	**—**	24

The above investments have been transferred to fixed asset investments during the year.

Notes to the Financial Statements

18. Creditors: amounts falling due within one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank overdraft	**729**	793	**23,869**	26,347
Loans and loan notes	**5,721**	11,677	**16**	1,397
Obligations under finance leases and similar hire purchase contracts	**1,494**	1,039	**224**	230
Trade creditors	**86,704**	89,382	**143**	2,244
Bills of exchange payable	**2,670**	5,007	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**2,760**	2
Corporation tax	**651**	7,049	**—**	1,944
Taxation and social security	**9,112**	7,697	**654**	67
Other creditors	**9,621**	8,889	**1,631**	1,039
Accruals	**10,025**	8,230	**1,306**	1,187
Dividends	**8,657**	8,332	**8,657**	8,332
	135,384	148,095	**39,260**	42,789

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

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank loans	**34,573**	28,094	**32,631**	28,000
Obligations under finance leases and similar hire purchase contracts	**3,646**	2,899	**2,138**	2,429
Amounts owed to subsidiary undertakings	**—**	—	**1,831**	2,105
	38,219	30,993	**36,600**	32,534

20. Analysis of total borrowings

Borrowings are repayable as follows	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank loans and overdrafts				
On demand	**729**	793	**23,869**	26,347
Within one year	**5,705**	11,647	**—**	1,367
Repayable between 1 and 2 years	**32,631**	12,594	**32,631**	12,500
Repayable between 2 and 5 years	**1,942**	15,500	**—**	15,500
	41,007	40,534	**56,500**	55,714
Loan notes				
Within one year	**16**	30	**16**	30
Obligations under finance leases and similar hire purchase contracts				
Within one year	**1,494**	1,039	**224**	230
Repayable between 1 and 2 years	**1,311**	581	**219**	224
Repayable between 2 and 5 years	**2,335**	2,318	**1,919**	2,205
	5,140	3,938	**2,362**	2,659
Total	**46,163**	44,502	**58,878**	58,403

Notes to the Financial Statements

21. Provisions for liabilities and charges

The movements in provisions for liabilities and charges were as follows

	Group			Company
	Deferred taxation £'000	Other £'000	Total £'000	Deferred taxation £'000
At 1 January 2000	256	195	451	—
Utilised during the year	—	(27)	(27)	—
Adjustment for foreign exchange rate differences	—	4	4	—
Acquired on acquisition	7	—	7	—
Created during the year	138	94	232	168
At 31 December 2000	401	266	667	168

Other provisions relate to pension payments arising in connection with overseas subsidiaries.

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

Group	Amount provided		Amount unprovided	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Accelerated capital allowances	701	667	(866)	(525)
Other timing differences	(300)	(411)	(1,345)	(1,688)
	401	256	(2,211)	(2,213)

Company	Amount provided		Amount unprovided	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Accelerated capital allowances	30	—	—	—
Other timing differences	138	—	—	—
	168	—	—	—

22. Share capital

	Number of shares	2000 £'000	1999 £'000
Authorised			
Ordinary shares of 5p each	107,840,000	5,392	5,392
5.6% Preference shares of £1 each	50,000	50	50
		5,442	5,442
Issued			
Allotted, called up and fully paid ordinary shares of 5p each			
At 1 January 2000	83,398,151	4,170	3,423
Allotted under share option schemes	300,169	15	17
Allotted for acquisitions	—	—	730
At 31 December 2000	83,698,320	4,185	4,170
5.6% Preference shares of £1 each			
At 1 January and 31 December 2000	50,000	50	50
		4,235	4,220

Details of the 300,169 shares of 5p each issued during the year under share option schemes, are set out below.

19,684 ordinary shares were issued on the exercise of options under the Headlam Group Sharesave Scheme as follows

	Option price per share		
	138.88p No.	269.00p No.	Total No.
January	11,092	573	11,665
February	383	—	383
April	2,076	2,940	5,016
October	—	100	100
December	2,520	—	2,520
	16,071	3,613	19,684

Notes to the Financial Statements

22. Share capital - continued

52,657 ordinary shares were issued on the exercise of options under the Gradus Group Sharesave Scheme at an option price of 194.59p per share. Of these, 828 were issued in August, 51,475 were issued in September and 354 were issued in October.

211,436 ordinary shares were issued on the exercise of options under the Inland Revenue Approved Headlam Group Executive Share Option Scheme as follows

	Option price per share			
	139.92p No.	153.30p No.	132.80p No.	Total No.
January	42,168	31,106	54,436	127,710
February	—	7,258	9,072	16,330
March	—	—	9,332	9,332
April	—	—	2,592	2,592
June	—	—	37,327	37,327
August	—	—	5,184	5,184
October	—	—	12,961	12,961
	42,168	38,364	130,904	211,436

9,835 ordinary shares were issued on the exercise of options under the Inland Revenue Approved Eclipse Blinds Plc Employee Share Option Scheme as follows

	Option price per share		
	152.50p No.	274.50p No.	Total No.
July	6,557	3,278	9,835

6,557 ordinary shares were issued on the exercise of options under the Eclipse Blinds Plc Unapproved Share Option Scheme at an option price of 335.50p per share. All of these were issued in March.

The company had the following options outstanding at 31 December 2000

Date of grant	Period of exercise	Option price per share	No. of ordinary shares Total
Headlam Group Approved Executive Schemes			
15 October 1993	October 1996 - October 2003	139.92p	**33,732**
14 October 1994	October 1997 - October 2004	153.30p	**23,849**
4 August 1995	August 1998 - August 2005	132.80p	**77,504**
16 May 1997	May 2000 - May 2007	306.50p	**106,500**
9 July 1997	July 2000 - July 2007	295.50p	**70,013**
21 May 1998	May 2001 - May 2008	379.00p	**201,214**
14 December 1998	December 2001 - December 2008	225.50p	**90,858**
			603,670
Headlam Group Unapproved Executive Schemes			
15 May 1997	May 2000 - May 2004	311.50p	**428,400**
29 April 1998	April 2001 - April 2005	379.00p	**103,141**
14 December 1998	December 2001 - December 2005	225.50p	**259,849**
7 June 2000	June 2003 - June 2007	322.00p	**40,000**
			831,390
Headlam Group Sharesave Scheme			
23 October 1995	November 2000 - April 2001	138.88p	**108,548**
22 October 1997	December 2000 - May 2001	269.00p	**17,740**
22 October 1997	December 2002 - May 2003	269.00p	**294,941**
			421,229
Gradus Group Approved Executive Scheme			
16 June 1995	June 1998 - June 2005	194.59p	**30,831**
Gradus Group Savings-related Scheme			
1 September 1995	September 2000 - February 2001	194.59p	**6,907**
1 August 1996	August 2001 - January 2002	185.75p	**42,571**
			49,478

Notes to the Financial Statements

22. Share capital - continued

Date of grant	Period of exercise	Option price per share	No. of ordinary shares Total
Eclipse Blinds Unapproved Executive Scheme			
8 July 1994	July 1997 - July 2004	99.13p	**8,450**
30 September 1994	September 1997 - September 2004	129.63p	**1,385**
31 May 1996	May 1999 - May 2006	335.50p	**62,292**
22 August 1997	August 2000 - August 2007	381.86p	**22,949**
26 March 1998	March 2001 - March 2008	360.51p	**57,046**
			152,122
Eclipse Blinds Approved Employee Share Option Scheme			
30 September 1994	September 1997 - September 2004	129.63p	**9,179**
19 May 1995	May 1998 - May 2005	274.50p	**9,834**
			19,013
Eclipse Blinds Sharesave Scheme			
1 August 1996	October 2001 - April 2002	253.15p	**18,386**
1 August 1996	October 2003 - April 2004	253.15p	**2,464**
1 September 1997	September 2000 - March 2001	308.66p	**379**
1 September 1997	September 2002 - March 2003	308.66p	**446**
1 September 1997	September 2004 - March 2005	308.66p	**1,136**
			22,811

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 7.50p 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.

23. Reserves

Group

	Share premium account £'000	Revaluation reserve £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2000	47,838	3,866	49,654	13,871	115,229
Retained loss for the financial year	—	—	—	(56,382)	(56,382)
Arising on share issues	465	—	—	—	465
Transfer of special reserve	—	—	(49,654)	49,654	—
Transfer of realised revaluation reserve	—	(260)	—	260	—
Adjustments for exchange movements	—	—	—	167	167
Shares issued from Qualifying Employee Share Trust	—	—	—	166	166
At 31 December 2000	48,303	3,606	—	7,736	59,645

The special reserve arose on the issue of ordinary shares in connection with the acquisition of Eclipse Group Plc. This reserve has been used to partially off-set the goodwill impairment arising on this acquisition and reported through the consolidated profit and loss account for the year ended 31 December 2000.

Adjustments for exchange movements include a charge of £372,000 (1999: £1,236,000) in respect of currency loans used to hedge the cost of investment in overseas subsidiaries.

The cumulative amounts of goodwill written off to the special reserve and the profit and loss account at 31 December 2000 arising on acquisitions completed before 1 January 1998 were £40,797,000 (1999: £40,797,000) and £28,693,000 (1999: £28,693,000) respectively.

Company

	Share premium account £'000	Revaluation reserve £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2000	47,838	3,866	70,232	27,510	149,446
Retained loss for the financial year	—	—	—	(51,560)	(51,560)
Arising on share issues	465	—	—	—	465
Transfer of special reserve	—	—	(49,654)	49,654	—
Transfer of realised revaluation reserve	—	(260)	—	260	—
Adjustments for exchange movements	—	—	—	(529)	(529)
Shares issued from Qualifying Employee Share Trust	—	—	—	166	166
At 31 December 2000	48,303	3,606	20,578	25,501	97,988

Notes to the Financial Statements

24. Acquisitions

The fair value of the acquisitions undertaken during the year were as follows

	Book value £'000	Fair value adjustments £'000	Notes	Fair value £'000
Belcolor				
Fixed assets				
Tangible assets	2,994	—		2,994
Stocks	1,445	—		1,445
Debtors	1,875	—		1,875
Cash at bank and in hand	208	—		208
Creditors: amounts falling due within one year	(2,726)	—		(2,726)
Creditors: amounts falling due after more than one year	(1,788)	—		(1,788)
	2,008	—		2,008
Other acquisitions				
Fixed assets				
Tangible assets	273	(33)	(a)	240
Stocks	1,240	(200)	(b)	1,040
Debtors	947	—		947
Cash at bank and in hand	343	—		343
Creditors: amounts falling due within one year	(1,042)	—		(1,042)
Finance leases and similar hire purchase contracts	(45)	—		(45)
Deferred taxation	(7)	—		(7)
	1,709	(233)		1,476

Notes

(a) Revaluation of fixed assets to reflect their market value given age and condition.

(b) Write down of stocks to reflect their net realisable value.

Total consideration comprised

	Cash £'000	Acquisition costs capitalised £'000	Total £'000
Belcolor	6,086	99	6,185
Other	2,702	53	2,755
	8,788	152	8,940

Total goodwill capitalised in the year comprised

	Total consideration £'000	Fair value of assets acquired £'000	Goodwill arising £'000
Belcolor	6,185	2,008	4,177
Other	2,755	1,476	1,279
	8,940	3,484	5,456

The profit after taxation of Belcolor for the year ended 31 December 1999 was £275,000, and its results since that date have been included in the consolidated profit and loss account.

Notes to the Financial Statements

25. Effects of group acquisitions

	2000 £'000	1999 £'000
Net assets acquired		
Fixed assets		
Tangible assets	**3,234**	7,358
Intangible assets	**—**	73
Stocks	**2,485**	15,932
Debtors	**2,822**	20,148
Cash/(bank overdraft)	**551**	(7,632)
Finance leases and similar hire purchase contracts	**(45)**	(4)
Creditors: amounts falling due within one year	**(3,768)**	(28,076)
Creditors: amounts falling due after more than one year	**(1,788)**	(2,154)
Provisions	**—**	(299)
Deferred taxation	**(7)**	(26)
	3,484	5,320
Goodwill arising on acquisitions	**5,456**	72,158
Total consideration paid	**8,940**	77,478
Satisfied by		
Cash	**8,788**	25,363
Shares issued	**—**	50,384
Acquisition costs capitalised	**152**	1,731
	8,940	77,478
Analysis of cash flows in respect of acquisitions		
Cash consideration paid	**8,788**	25,363
Costs of acquisitions	**152**	1,731
(Cash)/bank overdraft	**(551)**	7,632
	8,389	34,726
Preference share redemption	**—**	(12,121)
	8,389	22,605

26. Cash flows relating to group acquisitions

Acquisitions during the year contributed £1,644,000 to the group's net operating cash flows, utilised £94,000 in respect of net returns on investments and servicing of finance, paid taxation of £93,000 and utilised £1,177,000 in respect of investing activities.

27. Reconciliation of group operating (loss)/profit to net cash inflow from operating activities

	2000 £'000	1999 £'000
Operating (loss)/profit	**(37,064)**	31,820
Exceptional items	**(2,058)**	—
	(39,122)	31,820
Depreciation of tangible fixed assets	**5,319**	3,937
Depreciation of intangible fixed assets	**64**	—
Fixed asset investment writedown	**28**	—
Goodwill amortisation	**787**	2,439
Goodwill impairment	**59,970**	—
Asset impairment	**5,823**	—
Loss/(profit) on sale of tangible fixed assets	**854**	(91)
Movement in stocks	**323**	(5,231)
Movement in debtors	**4,804**	(7,308)
Movement in creditors	**(6,541)**	6,434
Net cash inflow from operating activities	**32,309**	32,000

Notes to the Financial Statements

28. Gross cash flows

	2000 £'000	1999 £'000
Returns on investments and servicing of finance		
Bank interest receivable	**78**	44
Bank and loan interest	**(4,452)**	(2,793)
Interest payable on finance leases and similar hire purchase contracts	**(275)**	(178)
Dividends on non-equity shares	**(3)**	(129)
	(4,652)	(3,056)
Capital expenditure and financial investments		
Purchase of tangible fixed assets	**(5,687)**	(10,545)
Sale of tangible fixed assets	**424**	1,033
Sale of assets held for resale	**4,416**	—
Purchase of investments	**—**	(466)
	(847)	(9,978)
Financing		
Issue of ordinary share capital	**480**	661
Expenses paid in connection with share issues	**—**	(330)
Repayment of amounts borrowed	**(8,254)**	(2,869)
New loans	**5,202**	19,563
Redemption of preference shares	**—**	(12,121)
Capital element of finance leases and similar hire purchase contract payments	**(1,839)**	(1,858)
	(4,411)	3,046

29. Analysis of changes in net debt

	At 1 January 2000 £'000	Cash Flows £'000	Acquired £'000	Other changes £'000	Translation differences £'000	At 31 December 2000 £'000
Cash at bank and in hand	10,871	(4,119)	551	—	(87)	7,216
Bank overdraft	(793)	71	—	—	(7)	(729)
	10,078	(4,048)	551	—	(94)	6,487
Debt due within one year	(11,677)	8,254	(1,484)	(749)	(65)	(5,721)
Debt due after one year	(28,094)	(5,202)	(1,551)	749	(475)	(34,573)
Finance leases and similar hire purchase contracts	(3,938)	1,839	(45)	(2,996)	—	(5,140)
	(33,631)	843	(2,529)	(2,996)	(634)	(38,947)

30. Financial instruments

Details of financial instruments are disclosed in the Financial Review on pages 12 to 17.

31. Leasing commitments

The annual commitments under non-cancellable operating leases were as follows

	Group		Company
	Land and buildings £'000	Plant and equipment £'000	Plant and equipment £'000
2000			
Operating leases which expire			
2001	367	1,323	6
2002-2005	571	4,235	—
Thereafter	1,973	18	—
	2,911	5,576	6
1999			
Operating leases which expire			
2000	140	902	5
2001-2004	451	3,895	10
Thereafter	1,768	18	—
	2,359	4,815	15

Notes to the Financial Statements

32. Capital commitments

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Authorised by the directors and contracted for	**241**	3,745	**—**	1,705

33. Contingent liabilities

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Third party guarantees	**1,854**	1,754	**—**	—
Guarantees of subsidiary bank facilities	**—**	—	**12,666**	9,981

The group enters into forward foreign exchange contracts to hedge foreign currency transactions. At 31 December 2000 the group had contracted to exchange £1,371,000 (1999: £7,139,000) into various European currencies and US dollars.

34. Pension commitments

During the year, the group operated a number of defined benefit and defined contribution pension schemes, the assets of which, with certain minor exceptions, are held in separate trustee administered funds.

The group now operates one defined benefit scheme, which contains what used to be the group's three principal defined benefits schemes, which were amalgamated with effect from 31 January 1999. A formal actuarial valuation of the combined arrangements was carried out as at 31 March 1999. The total market value of the assets of the scheme at that date was £26.8 million, excluding members' Additional Voluntary Contributions, and the statutory Minimum Funding Requirements funding level at that date was 104%.

The valuation was carried out using the attained age method and the key assumptions made were that the real rate of return on investment exceeds pay inflation by 2% per annum and that any pension subject to Limited Price Indexation increased at 3.5% per annum. The next formal valuation is scheduled to be carried out at a date no later than 31 March 2002.

The total pension cost for the group was £2,821,000 (1999: £1,803,000). An amount of £233,000 is included in creditors (1999: £162,000) this being the difference between accumulated pension costs and the payment of contributions to the pension funds.

35. Post balance sheet events

Details of post balance sheet events are disclosed in the Directors' Report on pages 22 to 24.

Principal Trading Subsidiaries

	Place of incorporation	% of ordinary shares owned
Floorcoverings		
Floorcovering Distribution		
* Headlam (Floorcovering Distributors) Limited	Great Britain	100
MCD Group Limited	Great Britain	100
Lethem-Vergeer BV	Netherlands	100
DFA SA	France	100
* Belcolor AG	Switzerland	100
Contract Carpet and Accessories		
Gradus Limited	Great Britain	100
Joseph, Hamilton & Seaton Limited	Great Britain	100
Windowcoverings		
Fabrics		
* Headlam Home Furnishings (Holdings) Limited	Great Britain	100
BV Interplan Import – Export Woontextiel	Netherlands	100
Window Blinds		
Eclipse Blind Systems Limited	Great Britain	100
Vertika International Limited	Great Britain	100
Eclipse Blind Systems Inc	USA	100
Scientific Plastics Inc	USA	100
Haller Produkte GmbH	Germany	100
Eclipse Blind Systems BV	Netherlands	100
HPM AS	Czech Republic	98
Eclipse – OPM Blind Systems AB	Sweden	100

* These subsidiaries are owned directly by Headlam Group plc. The investment in subsidiary undertakings comprises ordinary share capital and loans.

Financial Record

	1996 £'000	1997 £'000	1998 £'000	1999 £'000	2000 £'000
Trading results					
Turnover	186,429	270,332	327,593	386,878	**448,646**
Operating profit before goodwill amortisation and asset impairment	12,221	20,205	25,152	34,259	**29,516**
Goodwill amortisation	—	—	—	(2,439)	**(787)**
Goodwill impairment	—	—	—	—	**(59,970)**
Asset impairment	—	—	—	—	**(5,823)**
Operating profit/(loss)	12,221	20,205	25,152	31,820	**(37,064)**
Loss on sale of land and buildings	—	—	—	—	**(604)**
Profit/(loss) on disposal of discontinued operations	178	—	—	—	**(1,454)**
Profit/(loss) on ordinary activities before interest	12,399	20,205	25,152	31,820	**(39,122)**
Interest	(843)	(2,074)	(2,295)	(3,096)	**(4,914)**
Profit/(loss) on ordinary activities before taxation	11,556	18,131	22,857	28,724	**(44,036)**
Taxation	(3,698)	(5,893)	(7,087)	(9,494)	**(3,696)**
Profit/(loss) on ordinary activities after taxation	7,858	12,238	15,770	19,230	**(47,732)**
Dividends	(3,069)	(4,683)	(5,820)	(8,461)	**(8,650)**
Transfer to reserves	4,789	7,555	9,950	10,769	**(56,382)**
Dividend per share	5.7p	7.1p	8.5p	10.0p	**10.35p**
Basic earnings per share	15.2p	19.3p	23.1p	27.5p	**19.7p**

	1996 £'000	1997 £'000	1998 £'000	1999 £'000	2000 £'000
Capital employed					
Fixed assets					
Intangible	—	—	—	69,787	**14,422**
Tangible	26,365	42,106	41,181	50,288	**55,322**
Net current assets	23,274	38,681	40,490	30,818	**33,022**
Creditors: amounts falling due after more than one year	(6,662)	(35,105)	(23,238)	(30,993)	**(38,219)**
Provisions	(966)	(698)	(380)	(451)	**(667)**
Capital employed	42,011	44,984	58,053	119,449	**63,880**
Gearing	—	36%	. 4%	28%	**61%**

The dividend per share and basic earnings per share for 1996 have been adjusted to reflect the placing and open offer which occurred during July 1997.

The basic earnings per share is calculated by reference to operating profit before goodwill amortisation, asset impairment and exceptional items.

Notice of Annual General Meeting

Notice is hereby given that the fifty-third Annual General Meeting of Headlam Group plc will be held at The Belfry, Lichfield Road, Wishaw, Warwickshire, B76 9PR on 23 May 2001 at 10.00 a.m. 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 2000, together with the auditors' report.

2 To declare a final dividend.

3 To re-elect as a director SG Wilson who retires in accordance with the Articles of Association and is eligible for re-election.

4 To re-elect as a director G Waldron who retires in accordance with the Articles of Association and is eligible for re-election. As G Waldron has attained the age of 70, being born on 16 April 1930, this resolution authorising his re-election as a director for a period of twelve months expires at the conclusion of the next Annual General Meeting.

5 To re-appoint KPMG Audit Plc as auditors of the company and to authorise the directors to agree their remuneration.

As special business

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

6 That, pursuant to and in accordance with the provisions of Article 18 of the company's Articles of Association

6.1 the directors are empowered to allot equity securities; and the sum applicable for the purpose of Article 18 is £209,245.80; and

6.2 such power shall expire at the conclusion of the next Annual General Meeting or on 22 August 2002, whichever is the earlier.

7 That the company be and is hereby granted general and unconditional authority to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 5p each in its capital provided that

7.1 this power shall be limited so that the number of ordinary shares of 5p each which may be acquired pursuant to this authority does not exceed an aggregate of 12,563,703 ordinary shares (representing approximately 15% of the company's issued ordinary share capital) and shall expire at the conclusion of the next Annual General Meeting of the company (except in relation to the purchase of ordinary shares the contract for which was concluded before such time and which is executed wholly or partly after such time); and

7.2 the maximum price which may be paid for an ordinary share shall not be more than 5% above the average of the market values for an ordinary share as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the date on which the purchase is made and the minimum price which may be paid for a preference share shall be 5p (in each case exclusive of expenses).

8 That, the company be and is hereby granted general and unconditional authority to make market purchases (within the meaning of section 163 of the Companies Act 1985) of preference shares of £1 each in its capital provided that

8.1 this power shall be limited so that the number of preference shares of £1 each which may be acquired pursuant to this authority does not exceed an aggregate of 50,000 preference shares (representing 100% of the company's issued preference share capital) and shall expire at the conclusion of the next Annual General Meeting of the company (except in relation to the purchase of preference shares the contract for which was concluded before such time and which is executed wholly or partly after such time); and

8.2 the maximum price which may be paid for a preference share shall not be more than 5% above the average of the market values for a preference share as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the date on which the purchase is made and the minimum price which may be paid for a preference share shall be £1 (in each case exclusive of expenses).

By order of the board

GM Duggan Secretary

20 April 2001

Registered Office
Headlam Group plc, Gorsey Lane, Coleshill, Birmingham B46 1JU.

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 and a summary of the directors' transactions in the company's shares during the year 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.

5 In accordance with regulation 34 of the Uncertified Securities Regulations 1995, the company has determined that only those members whose names are entered in the Register of Members at 9.45 a.m. on 21 May 2001 shall be entitled to attend and vote at the meeting.

Registered office
Gorsey Lane
Coleshill
Birmingham
B46 1JU

Website
www.headlam.com
E-mail
headlamgroup@headlam.com

Registration
Registered in England and Wales
Number 460129