Company number 140269

James Halstead plc

Annual Report and Accounts

For Year ending 30th June 2003

CHAIRMAN'S STATEMENT

In these results, the Group reports a laudable set of figures with sales at £99.8 million, a 7.2% increase over the previous year. Pre-tax profit at £12.2 million is 8.3% ahead, and post-tax profit at £8.6 million – 9.7% ahead.

The improvement in sales has been reflected in most, but not all our markets. The areas of decline were largely anticipated and cost control measures put in place. Our flooring businesses combine to form the backbone of the Group and whilst conditions in the motorcycle accessories market have precluded significant bottom line improvement, Phoenix contributed a more than acceptable result.

Dividend

The Board are proposing a final dividend of 10.0p per Ordinary Share, being 11.1% ahead of last year. This compares with a post-tax profit increase of 9.7% and earnings per share improvement of 16.7%. Despite a climate of falling interest rates and negative stock market sentiment, it is our belief that these results should be reflected in a record dividend.

Acknowledgements

Over many years I have taken this opportunity to thank the directors, management and employees of this Group for their efforts, and again our teams warrant such a mention.

Outlook

Once again I am cautiously optimistic about the prospects for the year ahead and given the solid base of our balance sheet, the platform of our organisation around the world and the commitment of the team, I retain this stance. The challenge placed upon us in providing employee pensions might be viewed as a concern, but against the positives of longer lives and low inflation, meaning that pensions are not being eroded by the cost of living, we will be encouraging our staff to consider a longer working life and a greater personal saving toward retirement.

CHIEF EXECUTIVE'S REVIEW

The overall result measured by sales, pre-tax profit, post-tax profit and earnings must be viewed as good, given that all these are at record levels. The business has moved forward measurably, if modestly.

However, many markets remain fragile and a cause for concern; the European flooring market and the motorcycle accessories market in the UK being typical examples.

A 7.2% increase in sales was the main reason for our achieving a record profit of £12.2 million (2002 - £11.3 million), however the absorption of increased costs resulted in the sales growth not translating more fully to the bottom line.

Once again, our flooring interests showed measured improvements in sales and profit across the world and within our niche markets we held, or progressed, our share in all key territories.

To single out positives I would note that luxury tile launches in the UK have gone well and our 'cleanability' enhanced products in Polysafe continue to set the standard for the industry.

Manufactured products have held their own in a competitive environment, but the year has been an extremely challenging one for our UK factory. Although our investment in equipment earns satisfactory returns, over-capacity in this industry compounds the problems caused by the European economic climate. The results reflect our success in the year of facing this challenge, but inflationary pressures on our UK manufacturing continue. However our dependence on this part of the business has, again, reduced.

Continued >>

CHIEF EXECUTIVE'S REVIEW *{ Continued }*

Polyflor { The UK Business }

The Polyflor brand is probably the most recognised in the whole of the contract flooring market and we have increased marketing, sales support and sales representation during the year.

This year we launched Voyager, a collection directed at the transport sector. This collection is fully focused on product specifiers and end-users in the train, bus and shipping markets. The results have been most encouraging.

Our ties with the distribution business in the UK have continued and significant growth has been experienced. Whilst never at the lowest price points, we continue to offer value for money and have increased our focus on bringing business to our distribution partners.

Once again, our next generation of safety floors have proved successful and an increasing focus on end-user requirements continues. Energy usage, sustainability and environmental impact are important issues and the company has emphasised its commitment in this respect by greater impetus to marketing our environmental policies.

Halstead Flooring Concepts { New Zealand }

The company had a good year with a 16% improvement in sales, partially as a result of being selected as the supplier of flooring to the largest hospital to be built in New Zealand. The spin-off benefits of this have included other projects in Auckland and several other refurbishment programmes in New Zealand.

During the year our own brand range of cushion vinyl was successfully launched and already has established a significant market share.

The challenge for this long established distributor is to expand its range of end-users with its portfolio of products.

Objectflor { The Central European Market }

The economic conditions in Germany and its neighbouring countries have been consistently gloomy over the past year. Our competitors report sales decline, with many reducing their workforce. Objectflor is well organised and has followed a business concept of ignoring competitor activity. Our sales team increased during the year and there has been a sales growth of almost 14%. Whilst the addition of complementary flooring products was significant, it was by no means the only reason for growth and in the most difficult sector, homogeneous sheet, market share improved.

Karndean also contributed to growth with its budget range of products.

Cost increases, associated with freight and distribution activities, blunted some of the bottom line improvement and increased demands for product samples also prevented the full effect of sales improvement from reflecting totally into profit.

Nevertheless, in a depressed market, the company's progress was good. Given the economic backdrop, debtor control was a key management objective and both debtors and stock levels improved during the year.

Halstead Flooring { Australia }

In terms of sales growth, Australia has performed well with a year on year growth of 15%. This was, however, below target and the planned investment in point-of-sale material and additional sales staff resulted in a shortfall in budgeted profit. The relocation of the head office to Melbourne was completed within agreed timescales, but problems associated with this move proved to be another contributory factor to the profit shortfall. The Group Board have augmented the management and the combination of further sales growth and a more settled team has been reflected in improved results towards the year end. Despite the changes and sales growth, debtor levels are below last year and stockholding broadly on a par.

Continued >>

Polyflor Hong Kong

Polyflor Hong Kong was established in 1992 and directs the flooring distributors in the Asian markets, primarily China, Singapore, Malaysia and Japan. As a result of the local team's efforts, Polyflor is consistently short-listed for major projects throughout the Far East/Pacific Rim. The company has enjoyed a successful year, improving our presence in one of the most competitive areas for project business in the world. From prestigious Japanese transport projects and the SARS clinics of Singapore to the large hospitals of China, the progress has been steady and Polyflor's hallmarks of solid technical input to specification and customer service have consolidated our achievements over the years with a 14% improvement in sales.

Polyflor Nordic

This year saw the Scandinavian business grow with our established Norwegian base continuing to advance the Polyflor product range.
Sales have increased by 12%, and the business is moving into larger warehousing premises in Oslo early in the new financial year. The core Polyflor range is to be augmented with the distribution of wood laminates, new luxury tile offerings and the Saarfloor range of rubber flooring which has already proved itself in the central European market. Towards the end of the year a branch was opened in Sweden and a direct sales force established.

Phoenix Distribution { Motorcycle Accessories }

Given adverse market conditions, the Board are satisfied with the significant contribution made by Phoenix to Group profitability. Whilst UK operations generally suffered, the Belstaff brand continues to perform well. Phoenix Distribution sells predominantly to the motorcycle retail trade, and the market leader in this sector ceased to trade during the year after months of speculation and uncertainty.

Despite this, cash generation and profit were creditable, a result of working capital control being a key management objective, avoiding the temptation of speculative stock purchases which could have required considerable discounting at point-of-sale.

Within the brand portfolio, the results were mixed. Arai performed well against the UK market trend. The Shark product, however, was hampered by production delays, which are unacceptable to customers in an extremely competitive sector.
The Belstaff performance, which also suffered from UK problems, was more than compensated for by the European brand performance. Sales of product under the Belstaff brand have continued to be a significant factor over the last twelve months.

Prospects

The Group's companies are well placed to continue to deliver a satisfactory return on our investments. Given our share in certain markets, we are inevitably exposed to general economic conditions but, this said, some new products will be added to complement the 'Halstead' portfolio. We have limited ability to add to our manufacturing base and there appears to be a sentiment against manufacturing by government both at a national level and, much more surprisingly, at local government level. Whilst this is regrettable, it seems likely that the proportion of sales made by the Manchester factory will continue to decline. Despite this, it is reasonable to look forward, albeit prudently, to continued success.

FINANCIAL HIGHLIGHTS

Turnover increased to £99.8 million - **up 7.2%**

Pre-tax profit increased to £12.2 million - **up 8.3%**

Headline earnings per share increased to 33.6p - **up 16.7%**

Final dividend proposed at 10.0p - **up 11.1%**

FINANCIAL REVIEW

Accounting Policies

The accounting policies are set out on pages 36 and 37. The accounts have been prepared on a consistent basis with last year.

Results for the year

Looking at the various ratios for measuring performance and the key statistics, *the financial performance has been good.*

- Group turnover at £99.77 million (2002 : £93.03 million) up 7.2%.
- Profit before taxation at £12.21 million (2002 : £11.275 million) up 8.3%.
- Taxation at £3.65 million (2002 : £3.47 million) up 5.2%.
- Headline earnings per share at 33.6p (2002 : 28.8p) up 16.7 %.
- Dividends at 15.10p (2002 : 13.75p) up 9.8%.
- Stock at £21.44 million (2002 : £20.52 million) up 4.4%.
- Debtors outstanding at £17.64 million (2002 : £17.73 million) down 0.5%.
- Net cash at £18.96 million (2002 : £13.76 million) up 37.8%.

Share Buy Backs

Over the last year £3.5 million (including costs) was used to buy back shares – at an average price of £2.60p per share. Given the absence of credible acquisition opportunities without paying exaggerated multiples, and with regard to the yield on our shares, the Board felt this was the route to take.

Continued >>

FINANCIAL REVIEW (Continued)

FRS 17 - Pensions

I would draw shareholders' attention to the pensions disclosures in note 20 on pages 49 to 51.

The Group operates several pension schemes but these disclosures relate mainly to the defined benefit scheme for UK employees (more commonly referred to as a final salary scheme). There has been much press comment in recent years on these schemes with poor stock market performance combining with other factors to make them more expensive to operate. The FRS 17 figures are the current method of disclosing the position on pensions and are far from complete in presenting all the issues involved.

The management team is focused on the commitment to contain total earnings increases, including merit, across all pension scheme members within RPI growth. Given the inability to increase market prices for our products this commitment is economically essential.

International Accounting Standards

As a public company James Halstead plc will need to move towards international financial reporting standards. We question the cost/benefit of this for a relatively small group such as James Halstead, listed on AIM. In particular IAS 14 conflicts o0with both SSAP 25 and the Companies Act 1985 which both allow an exemption where disclosure is seriously prejudicial to the entity's interests. Our competitors would be very interested in any additional analysis and the Group has always sought and been given this exemption.

Employee Profit Share

Note 2 on page 38 shows the number of shares held, on behalf of employees, by the trustees of the employee profit sharing scheme. This reflects the longer term objective of rewarding employees for the success of the company. In the UK the new employee share scheme has been implemented, as approved by shareholders. Rewarding employees by way of shares has extended the shareholder base.

Cash Flow

Cash inflow from operating activities remained strong at £17.3 million (2002 : £15.2 million).

The overall increase in cash, of £5.1 million is after net capital expenditure of £1.6 million, payment of taxation and dividends less interest of £7.1 million and purchase of own shares of £3.5 million. The latter has enhanced earnings in the business, with the historic yield on the shares purchased being 5.8% against base rates of 3.5%.

Net Assets

The overall increase in net assets is £1.9 million, with the increase from retained profits of £4.8 million being offset by the effects of net changes in share capital and exchange movements of £2.9 million. Net assets per ordinary share increased to 201.56p (2002 : 184.83p).

Treasury

The Group's UK cash and bank balances are managed centrally at the Group's head office. As yet, the Group does not make use of financial derivatives in managing its sterling balances. Foreign currency bank accounts are operated in all major currencies in which the Group's UK subsidiaries have transactional exposures. Balances on these accounts are monitored daily.

Where appropriate, overseas subsidiaries have borrowing facilities with their local banks. At 30 June 2003 all overseas subsidiaries had positive bank balances.

The Group has significant transactional exposures relating to both sales and purchases denominated in foreign currencies. In particular it is the Group's stated policy to undertake much of its export trade in local currency. This works to our advantage by ensuring that sales volume does not fluctuate as a result of exchange rate movements and removes risk from our trading partners.

The Group's central treasury function manages foreign currency exposures, which are covered by a combination of foreign currency bank accounts, forward contracts, and occasionally currency options. The level of forward cover in place is reported to the Group board on a regular basis.

Overall, the approach to treasury management is one of identifying appropriate instruments to facilitate the Group's trading activities, and is risk averse. There is no intention to trade in financial instruments or for the Group treasury department to act as a profit centre in its own right and consequently "speculative" derivatives and practices are avoided.

Detailed disclosures on financial instruments are contained in note 22 on pages 52 and 53.

GROUP DIRECTORS AND ADVISERS

1 **Geoffrey Halstead** { Executive Chairman }

has many years service with the group, having been instrumental in its inception, growth and development. After holding the position of chief executive for several years he stepped down from that position in April 2002, remaining on the board as executive chairman.

2 **Mark Halstead** { Group Chief Executive }

has been with the group for over twenty years having held senior management positions both in the UK and abroad. He was appointed group chief executive in April 2002.

3 **Gordon Oliver** { Group Finance Director }

is a chartered accountant. After qualifying with KPMG followed by financial positions in industry, he joined the company in 1987 as group financial controller. He was appointed group finance director in 1999.

4 **Anthony Wild**
{ Senior Independent Director }

was appointed to the board as senior independent director in March 2001. He is a chartered accountant and prominent local businessman. He chairs the Audit and Remuneration committees of the board.

5 **Jack Whittaker** { Secretary }

is a Fellow of the Chartered Institute of Management Accountants. He has many years' company secretarial experience gained in a wide spectrum of industrial companies.

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Company Registration No 140269

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Bristol BS99 7NH

Bankers
The Royal Bank of Scotland plc
38 Mosley Street, Manchester M60 2BE

Nominated Adviser
Brown Shipley Corporate Finance
1 King Street, Manchester M2 6AW

Stockbrokers
Brown Shipley Corporate Finance
Founders Court, Lothbury, London EC2R 7HE

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants, 101 Barbirolli Square,
Lower Mosley Street, Manchester M2 3PW

REPORT OF THE DIRECTORS

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2003.

The audited financial statements are set out on pages 32 to 53.

Principal activities

The principal activities of the group are described in the chief executive's review.

Results and dividends

Group profit in the year, before tax amounted to £12,211,000. The profit for the financial year, after taxation was £8,565,000 and the directors propose that this be dealt with as follows:

		£'000
Preference dividend	- paid	11
Ordinary dividends	- interim paid	1,297
	- final proposed	2,489
Retained profit, transferred to reserves		4,768

The directors are recommending a final dividend of 10.0p per share on the ordinary share capital for payment on 5 December 2003 to those shareholders whose names appear on the register at 31 October 2003. This final dividend together with the interim dividend paid on 29 May 2003 makes a total of 15.10p per share (2002: 13.75p).

Directors

Mr M Halstead, the director retiring by rotation, offers himself for re-election at the annual general meeting.

The interests of the directors and their families in the share capital of the company were as follows:

	1 July 2002		30 June 2003	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	974,514	105,650	977,910	105,650
G R Oliver	12,432	—	14,430	—
M Halstead	1,686,457	1,394,880	1,688,863	1,398,420
J A Wild	17,927	1,602,386	17,927	1,602,386
Preference shares				
G Halstead	500	—	500	—
J A Wild	—	8,750	—	8,750

Details of the directors' options under the terms of the executive share option scheme are set out in note 19.

There have been no changes in the directors' interests between the year-end and 26 September 2003.

Substantial interests

As at 26 September 2003 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
Forest Nominees Limited	980,000	3.94
J Halstead and Ms G Halstead	4,544,515	18.26
J Halstead and A Halstead	1,369,150	5.50
Vidacos Nominees Limited	1,053,061	4.23
Isis Asset Management	870,420	3.50

Share capital

On 7 November 2002 10,000 new ordinary shares and on 30 December 2002 25,000 new ordinary shares were issued and allocated as fully paid to enable share options to be exercised.

Share buy back

At the annual general meeting held on 6 December 2002, members renewed the company's authority under section 166 of the Companies Act 1985 to make market purchases on the London Stock Exchange of up to 15% of the ordinary shares of the company at not more than 5% above their average middle market quotation in the London Stock Exchange Daily Official List (AIM) on the five dealing days prior to the date of purchase. Pursuant to this authority the company has, in the financial year ended 30 June 2003, purchased an aggregate of 1,335,000 ordinary shares of 10p each having a nominal value of £133,500 (representing 5.0% of the company's issued ordinary share capital at 30 June 2002) for an aggregate consideration of £3,470,750 plus costs of £34,718. The company considers that these purchases were beneficial to members given the yield on the shares relative to the share price.

Since 30 June 2003 the company has purchased a further aggregate of 540,000 ordinary shares of 10p each, having a nominal value of £54,000 (representing 2.0% of the company's issued ordinary share capital at 30 June 2002) for an aggregate consideration of £1,530,900, plus costs of £15,311.

The directors believe that it is in the best interests of the company for the authority to be renewed at a similar level at the forthcoming annual general meeting for a period of twelve months to expire at the next annual general meeting. Accordingly, it is intended to propose as special business, at the forthcoming annual general meeting, a special resolution to renew the directors' existing authority to purchase shares in the company which shall be limited to 15% of the ordinary share capital of the company at 30 June 2003.

Special business at the annual general meeting

Resolution 5 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2004.

Resolution 6 authorises the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985 for a further period of twelve months from the date of the annual general meeting on 5 December 2003.

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

Resolution 8 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 15% of the issued capital at prices not exceeding 5% of the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time.

Resolution 9 seeks authority to amend the Memorandum and Articles of Association of the company to specifically authorise the use of financial derivatives.

Employment policies and involvement

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

Employee share scheme

In December 2002 ordinary shares were allocated to eligible participants under the employee share scheme.

For many years the directors have pursued a policy of developing employee commitment to the business through the operation of an employee profit sharing scheme. This still remains our policy. Following changes made to employee profit sharing schemes in the Finance Act of 2000, and the approval of shareholders given at the annual general meeting held on 7 December 2001, for the introduction of a new scheme, the first allocation of shares to eligible participants in the new scheme will be made in December 2003.

Environmental policy

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

Health and safety

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities continues to be a matter of primary concern. It is therefore the group's policy to manage its activities so far as to avoid causing any unnecessary or unacceptable risk to the health and safety of all those affected by its activities. In order to ensure that the group's high standards in this area are maintained a substantial programme of training and retraining of employees took place throughout the year.

Research and development

We remain totally committed to the continuing development of our processes and our products to both satisfy the needs of our customers and ensure that we remain at the forefront of our businesses.

Policy and practice on payment of creditors

Operating businesses are responsible for agreeing the terms and conditions under which business transactions are conducted. It is group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. At 30 June 2003 there were 39 (2002: 31) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £1,357 (2002: £3,078) for charitable purposes. There were no political contributions.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements the directors 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
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

REPORT OF THE DIRECTORS (Continued)

Going concern

After making enquiries the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

For this reason they continue to adopt the going concern basis in preparing the accounts.

Auditors' remuneration - non-audit related fees

Our auditors have undertaken regular non-audit related work in respect of taxation and actuarial matters. This work is tendered for separately from audit work. In the year to 30 June 2003 the group also commissioned an amount of non-statutory audit-type work.

The board has always sought to ensure that the auditors do not automatically receive additional fees. This approach, the board believes, enables the company to ensure value for money on the company's part, and maintains the independence of the auditors. See note 5 on page 39.

Auditors

On 31 January 2003 PricewaterhouseCoopers resigned as auditors of the company. On 31 January 2003 the directors appointed PricewaterhouseCoopers LLP as auditors. A resolution confirming this appointment will be put before the annual general meeting on 5 December 2003.

Approved by the board of directors and signed on behalf of the board.

W J Whittaker
Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester M26 1JN

30 September 2003

BOARD REPORT ON REMUNERATION

Remuneration committee

The remuneration committee comprises Mr J A Wild, as chairman and Mr G Halstead. The committee meets at least once a year, although usually more frequently, to determine the remuneration packages of the executive directors of the group.

The remuneration policy for the non-executive director is determined by the board as a whole by reference to market rates. He does not participate in the group bonus scheme, pension scheme or share option scheme. No director can vote in regard to his own remuneration.

Mr G Halstead's salary is determined by the full board.

Remuneration policy

The remuneration policy is to provide terms of employment such that the recruitment, motivation and retention of high calibre personnel is achieved and maintained to the mutual benefit of shareholders and employees. The committee is assisted from time to time by data supplied by independent professional remuneration consultants as to comparable companies although identical circumstances are rarely found. Details of the directors' remuneration and pension entitlements are given in note 6 on page 39 and analysis of directors' share options in note 19 on pages 46 and 47.

Basic salary and bonus payments

Annual bonus schemes are in place which reward the executive directors on achieving performance objectives. Performance is determined by index linked profit improvements through a trend of earnings per share growth. Executives are eligible members of the employee share scheme and they are provided with fully expensed cars and medical benefits insurance. Pension entitlements are calculated on basic salary only.

Share option schemes

The remuneration committee believes that share option plans are an important long term incentive to executive directors and other senior employees. They are intended to link the exercise of the option to a sustained and significant improvement in the underlying financial performance of the group. Having considered a number of alternative schemes to replace the previous share option scheme, the validity of which expired in 1996, a new share option plan was proposed to and approved by shareholders at the 1998 annual general meeting.

The share option plan is reviewed by the remuneration committee and is open to executive directors and selected employees of the group. The option price per ordinary share will not be less than market value on the day of grant. A limit of four times earnings has been placed on the value of the aggregate price payable on the exercise of all options or rights to subscribe for ordinary shares granted to an individual employee under the share option plan and under all other discretionary schemes.

Additional options over 133,000 shares were granted in the financial year ended 30 June 2003, and options over 35,000 were exercised during this period.

The Remuneration Committee welcomes the Government's move to introduce Treasury Shares from 1 December 2003. This will provide the company with greater flexibility.

Pensions

The company operates Inland Revenue Approved defined benefits and defined contributions pension schemes. All the executive directors in the group are members of the defined benefits scheme. The directors are accruing benefits at a rate which will be sufficient to provide a maximum pension of two-thirds of pensionable salary at normal retirement age.

All members of the schemes are required to contribute a percentage of their pensionable earnings.

Other benefits within the schemes are death in service lump sums, spouse's and dependants' pensions following death in service of the member and ill health early retirement where the appropriate circumstances arise.

Service agreements

The chairman and the group chief executive do not have service agreements. The other executive director has a service agreement which terminates within or is terminable by the company and the executive on not more than one year's notice. The remuneration committee has taken the view that notice periods of one year are reasonable and in the interests of both the company and its executive directors having regard to prevailing market conditions and current practice. The non-executive director does not have a service agreement.

J A Wild

Chairman of the Remuneration Committee

STATEMENT OF CORPORATE GOVERNANCE

The Board

The membership of the board during the year comprised three executive directors and one non-executive director.

The board, which meets regularly (eight times during the last financial year including the annual general meeting) determines the policies and objectives of the group and provides overall strategic direction to ensure that the policies and objectives are carried out. There is a list of matters which are specifically the responsibility of the board to resolve. Monthly management accounts are circulated to the directors. An agenda of matters to be discussed, including latest group management accounts, is circulated to board members in advance of each main board meeting and discussions and decisions taken at those meetings are minuted in full.

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

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

Board Committees

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

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

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

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

Internal Control

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

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

- The group directors are responsible for establishing, maintaining and reviewing the group's system of internal control and meet regularly to consider group financial performance, business development and management issues, and to review these against predetermined objectives.

- The group board also establishes corporate strategy and business objectives. Management of subsidiary companies integrate these objectives into their business strategies for presentation to the group board with supporting financial objectives.

- Subsidiary company budgets, containing financial and operating targets, capital expenditure proposals and performance/profitability indicators, are presented to, and reviewed by the group executive directors. The consolidated group budget is approved by the group board.

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. These risks are appraised and evaluated by responsible executives and endorsed by subsidiary and group management. This process has been in place throughout the year and up to the date of approval of the annual accounts.

- As part of the regular monitoring and review, the group executive directors hold regular meetings with the management of the subsidiary companies at which reports covering such areas as forecasts, business development, strategic planning, risk exposure and performance against budget, are presented and discussed. These are then reported to the group board, on a quarterly basis.

- The group board review and consider any major problem which may have occurred and assess how the risks have changed in the period under review.

- There is a group-wide policy governing appraisal and approval of capital expenditure and asset disposals.

- To underpin the effectiveness of controls, it is the group's policy to recruit management and staff of high calibre, integrity and appropriate disciplines. High standards of integrity, business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels.

- The Audit Committee keeps under review the effectiveness of the system of internal control and reports its conclusions to the full board.

- The board also conducts an assessment of the effectiveness of the internal control system. This assessment consists of a review of all the significant areas of internal control, including risk assessment, the control environment, control activities, information and communication, and monitoring.

Relations with Shareholders

The executive directors are available to meet institutional shareholders and fund managers, given reasonable notice. The entire board is available to answer shareholders' questions at the annual general meeting.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

Independent auditors' report to the members of James Halstead plc

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the related notes and the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. 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 regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the remuneration report, the chief executive's and financial reviews and the corporate governance statement.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

101, Barbirolli Square,
Lower Mosley Street
Manchester M2 3PW
30 September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2003

	Note	2003 £'000	2002 £'000
Turnover	1	99,775	93,033
Operating profit	3	11,792	10,838
Net interest receivable	4	419	437
Profit on ordinary activities before taxation	5	12,211	11,275
Taxation on ordinary activities	8	(3,646)	(3,465)
Profit on ordinary activities after taxation		8,565	7,810
Dividends (including non-equity)	9	(3,797)	(3,674)
Retained profit for the year	19	4,768	4,136
Earnings per ordinary share	10		
- headline		33.6p	28.8p
- basic		33.0p	28.3p
- diluted		32.8p	28.2p

All the above results derive from continuing operations.

The notes on pages 38 to 53 form part of these accounts.

BALANCE SHEETS

as at 30 June 2003

	Note	Group 2003 £'000	Group 2002 £'000	Parent company 2003 £'000	Parent company 2002 £'000
Fixed assets					
Intangible assets	11	2,737	2,909	-	-
Tangible assets	12	20,331	21,756	444	464
Investments	13	-	-	30,466	30,466
		23,068	24,665	30,910	30,930
Current assets					
Stocks	14	21,436	20,521	-	-
Debtors	15	17,639	17,727	9,493	8,719
Cash at bank, in hand and on short-term deposit		18,956	13,755	13,263	9,999
		58,031	52,003	22,756	18,718
Creditors - amounts falling due within one year	16	(27,484)	(24,905)	(19,205)	(12,673)
Net current assets		30,547	27,098	3,551	6,045
Total assets less current liabilities		53,615	51,763	34,461	36,975
Creditors - amounts falling due after more than one year	17	(204)	(188)	-	-
Provisions for liabilities and charges	18	(1,960)	(1,976)	-	-
		51,451	49,599	34,461	36,975
Capital and reserves	19				
Equity share capital		2,543	2,673	2,543	2,673
Non-equity share capital		200	200	200	200
Called up share capital		2,743	2,873	2,743	2,873
Share premium account		4,442	4,369	4,442	4,369
Revaluation reserve		3,544	3,544	-	-
Capital reserve		656	523	656	523
Profit and loss account		40,066	38,290	26,620	29,210
Total shareholders' funds		51,451	49,599	34,461	36,975

These financial statements were approved by the board on 30 September 2003 and are signed on behalf of the board of directors.

M Halstead, Director

G R Oliver, Director

The notes on pages 38 to 53 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	21(i)	17,261	15,233
Returns on investments and servicing of finance	21(ii)	397	395
Taxation paid		(3,838)	(2,111)
Capital expenditure	21(ii)	(1,626)	(1,582)
Acquisitions and disposals	21(ii)	-	(251)
Equity dividends paid		(3,645)	(3,173)
Cash inflow before use of liquid resources and financing		8,549	8,511
Management of liquid resources		-	4,616
Financing:			
Purchase of own shares		(3,505)	(5,096)
Shares issued		76	192
Increase in cash		5,120	8,223
Reconciliation of net cash flow to movement in net funds	21(iii)		
Increase in cash		5,120	8,223
Cash flow from change in liquid resources		-	(4,616)
Change in net funds resulting from cash flows		5,120	3,607
Effect of exchange differences		81	79
Movement in net funds for the period		5,201	3,686
Net funds as at 30 June 2002		13,755	10,069
Net funds as at 30 June 2003		18,956	13,755

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 June 2003

	2003	2002
	£'000	£'000
Profit for the financial year	8,565	7,810
Currency translation differences on foreign currency net investments	513	237
Total recognised gains relating to the year	9,078	8,047
Prior year adjustment	-	(2,265)
Total recognised gains since the last annual report	9,078	5,782

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

for the year ended 30 June 2003

	Note	2003	2002
		£'000	£'000
Profit for the financial year		8,565	7,810
Dividends	9	(3,797)	(3,674)
		4,768	4,136
Other recognised gains and losses relating to the year		513	237
Purchase of own shares		(3,505)	(4,614)
New share capital subscribed		76	630
Net increase in shareholders' funds for the year		1,852	389
Opening shareholders' funds (at 1 July 2001 £51,475,000 before prior year adjustment of £2,265,000)		49,599	49,210
Closing shareholders' funds		51,451	49,599
Equity shareholders' funds		51,251	49,399
Non-equity shareholders' funds		200	200
		51,451	49,599

STATEMENT OF ACCOUNTING POLICIES

The group accounts consolidate the accounts of the holding company and its subsidiaries made up to 30 June 2003 and have been prepared in accordance with applicable Accounting Standards. The accounting policies adopted are those that are judged to be the most applicable for giving a true and fair view, and which are consistent with the requirements of accounting standards, UITF abstracts and companies legislation.

A summary of the principal accounting policies adopted by the directors is set out below. These are consistent with the previous year, having been reviewed in accordance with FRS 18 "Accounting Policies" issued in December 2000.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain freehold land and buildings.

Turnover

Turnover comprises the invoiced value of goods and services recognised on despatch, after deducting value added tax or other sales related taxes, trade discounts and transactions between group companies.

Trading results

The disclosure of turnover, profit and net assets by segment as laid down by Statement of Standard Accounting Practice No. 25, and the disclosure of turnover by business class as laid down by the Companies Act 1985 paragraph 55 of schedule 4, would, in the opinion of the directors, be seriously prejudicial to the interests of the group. Consequently these disclosures have not been made.

Research and development

Research and development expenditure is written-off in the year in which it is incurred.

Tangible fixed assets

FRS 15 'Tangible Fixed Assets' was adopted with effect from 1 July 1999. The book values of certain assets which were the subject of past revaluations have been retained as permitted by the transitional arrangements. Otherwise fixed assets are stated at cost, which includes the costs of transport, installation and commissioning. Interest is not capitalised. Depreciation of freehold buildings has been calculated at a rate of 2% of cost or valuation. No depreciation has been provided in respect of the group's interests in land or for assets in the course of construction. Depreciation of plant, machinery and equipment is provided mainly on the straight line method and has been calculated at appropriate rates varying between 5% and 40% as determined by reference to the anticipated life of each asset.

Leased assets

Expenditure on operating leases is charged to the profit and loss account as incurred.

Stock

Stock is valued at the lower of cost and net realisable value. In the case of finished and partly finished goods, cost represents the cost of materials, labour and related production overheads on bases consistently applied from year to year.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the purchase consideration over the fair value of the assets acquired. Goodwill arising on the acquisition of subsidiaries and businesses prior to 1 July 1998 was written off immediately against reserves. From that date goodwill has been capitalised and amortised on a straight line basis over its useful economic life.

STATEMENT OF ACCOUNTING POLICIES (Continued)

Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

Foreign currencies

Assets, liabilities and trading results in foreign currencies are converted into sterling at the rates ruling at the balance sheet date except where forward contracts exist. Gains or losses on exchange arising from trading operations are taken into account in arriving at the trading profit, and differences arising from retranslating net assets at the beginning of the year are dealt with through reserves.

Pensions

The company and its UK subsidiaries operate a defined benefits pension scheme whose assets are independent of the group's finances. The expected cost of pensions in respect of the group's defined benefit scheme are charged to the profit and loss account so as to spread the cost of the pensions over the service lives of the employees within the scheme. Pension costs for a number of employees both inside and outside the UK are also incurred under money purchase schemes accounted for on a payments basis. This policy, which is in accordance with SSAP 24, will, under the transitional arrangements of the new accounting standard FRS 17 "Retirement Benefits", continue to be applied until FRS 17 becomes mandatory. In the meantime the group will make additional disclosures regarding pensions as required by FRS 17.

Derivative financial instruments

The group uses forward currency contracts, for risk management purposes only, to reduce its exposure to exchange rate fluctuations. These contracts are accounted for as hedges, with their impact on profit being deferred until the underlying hedged transaction is recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

1. Turnover

	2003	2002
Geographical markets supplied	£'000	£'000
United Kingdom	48,256	49,207
Europe	28,273	24,206
Australasia	18,897	14,770
Others	4,349	4,850
	99,775	93,033

The origination of the above turnover is not materially different from the geographical markets supplied save that supplies mainly originate in the UK.

2. Employee profit sharing

Profit for the year is after charging the cost of the James Halstead plc share ownership plan.

Since 1980 the group has operated an employee share scheme, approved under the Finance Act 1978. In December 2001 the shareholders approved a new share ownership plan in line with the requirements of legislative changes. The aim of this scheme is to enable employees to build up a personal shareholding in James Halstead plc and to participate in its continued expansion and success as shareholders as well as employees.

Under the rules of the scheme up to 5% of profit before taxation of the subsidiaries is paid out in profit share. In the case of UK employees this is paid to the trustees of the scheme who then acquire shares in the group. These shares are appropriated unconditionally to eligible employees by reference to earnings and length of service.

	2003	2002
Shares held by the trustees as at 30 June on behalf of the employees	471,926	432,796
As a percentage of shares in issue	1.85%	1.62%

3. Operating profit

	2003	2002
	£'000	£'000
Turnover	99,775	93,033
Cost of sales	(56,644)	(53,093)
Gross profit	43,131	39,940
Selling & distribution costs	(22,682)	(20,402)
Administrative expenses	(8,657)	(8,700)
Operating profit	11,792	10,838

The company has taken advantage of the exemption conferred by section 230 (1) of the Companies Act 1985 and has not presented its own profit and loss account.

4. Interest

	2003	2002
Interest receivable	£'000	£'000
On bank deposits	631	522
Other	-	57
	631	579
Interest payable		
On bank loans and overdrafts repayable within 5 years	(200)	(136)
Other	(12)	(6)
	(212)	(142)
Net interest receivable	419	437

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

	2003	2002
	£'000	£'000
Depreciation of tangible fixed assets	3,397	2,969
Amortisation of goodwill	172	153
Hire of plant and machinery	53	61
Leasing charges - land and buildings and other	1,395	1,189
Auditors' remuneration - audit fees	81	71
Auditors' remuneration - non audit related fees	64	155
Research and development	1,738	1,696
Loss on sale of fixed assets	9	13

Audit fees for the parent company were £24,000 (2002: £19,250).

6. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £578,749 (2002: £483,394). Pension contributions amounted to £34,652 (2002: £26,340). The emoluments of the highest paid director, excluding pension contributions were £200,880 (2002: £194,405). The performance related element of directors' remuneration has been an increasing proportion of total remuneration in accordance with corporate governance best practice. Given the difficulties of final salary related schemes the Remuneration Committee concurs with the executive directors' decision to specifically exclude performance related pay from pensionable earnings.

Benefits are accruing to two directors (2002: 2) under the defined benefit pension scheme.

Aggregate gains on the exercising of share options by directors in the year amounted to £Nil (2002: £22,575).

7. Staff numbers and costs, excluding group directors

	2003	2002
Employee costs	£'000	£'000
Wages and salaries	16,876	16,174
Social security costs	1,622	1,423
Other pension costs	1,109	1,111
	19,607	18,708

Employee numbers	2003	2002
	Number	Number
The average monthly number of persons employed by the group during the year by activity was		
Manufacturing, selling and distribution	568	572
Administration	105	107
	673	679

NOTES TO THE ACCOUNTS (Continued)

8. Taxation

	2003 £'000	2002 £'000
a) Current taxation		
UK Corporation tax at standard rate 30% (2002: 30%)	4,005	3,638
Double taxation relief	(46)	(51)
Overseas tax	196	164
Over provision in respect of prior years	(493)	(143)
	3,662	3,608
Deferred taxation (Note 18)	(16)	(143)
	3,646	3,465
b) Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	12,211	11,275
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	3,663	3,383
Effects of:		
Expenses not deductible for tax purposes	106	118
Accelerated capital allowances and other timing differences	408	233
Higher tax rates on overseas earnings	1	17
Adjustments to tax in respect of prior periods	(493)	(143)
Income not chargeable to corporation tax	(23)	-
Current tax charge for the period	3,662	3,608

c) Factors that may affect future tax charges

The group's overseas tax rates are higher than those in the United Kingdom, primarily because profits in Germany and New Zealand are taxed at rates between 33% and 40%.

9. Dividends

	2003	*2002*
Non-equity dividends	£'000	£'000
On 200,000 preference shares - at 5.5p per annum	11	11
This equates to a weighted average interest rate of 5.5% (2002: 5.5%).		
Equity dividends		
Interim dividend of 5.1p (2002: 4.75p)	1,297	1,257
Final proposed dividend of 10.0p (2002: 9.0p)	2,489	2,406
	3,797	3,674

10. Calculation of earnings per ordinary share

	2003 £'000	2002 £'000
Profit on ordinary activities after taxation	8,565	7,810
Preference dividend	(11)	(11)
Basic earnings	8,554	7,799
Goodwill amortisation charge	172	153
Headline earnings	8,726	7,952
Weighted average number of ordinary shares in issue	*25,960,207*	*27,578,577*
Weighted average number of ordinary shares in issue (diluted for the effect of outstanding share options)	26,083,850	27,640,686
Headline earnings per ordinary share	33.6p	28.8p
Basic earnings per ordinary share	33.0p	28.3p
Diluted earnings per ordinary share	32.8p	28.2p

11. Intangible fixed assets - goodwill

	£'000
Cost	
At 30 June 2002 and 30 June 2003	3,442
Amortisation	
At 30 June 2002	533
Charge for the year	172
At 30 June 2003	705
Net book value at 30 June 2003	*2,737*
Net book value at 30 June 2002	2,909

12. *Tangible fixed assets*

	Group			Parent company		
	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000	Freehold land and buildings £'000	Fixtures, fittings and vehicles £'000	Total £'000
Cost						
At 30 June 2002	6,839	39,618	46,457	367	257	624
Additions	123	1,922	2,045	-	40	40
Disposals	-	(500)	(500)	-	(40)	(40)
Transfers	-	-	-	-	14	14
Exchange rate adjustments	57	87	144	-	-	-
	7,019	41,127	48,146	367	271	638
Accumulated depreciation						
At 30 June 2002	1,595	23,106	24,701	29	131	160
Charge to profit and loss account	261	3,136	3,397	5	50	55
Disposals	-	(339)	(339)	-	(30)	(30)
Transfers	-	-	-	-	9	9
Exchange rate adjustments	7	49	56	-	-	-
	1,863	25,952	27,815	34	160	194
Net book values at 30 June 2003	5,156	15,175	20,331	333	111	444
Net book values at 30 June 2002	5,244	16,512	21,756	338	126	464

The amounts at 30 June 2003 for freehold land and buildings include valuations as of the dates noted (of which £695,458 relates to land which is not depreciated)

	£
30 June 1993	4,350,000
30 June 1999	609,632

Freehold land and buildings shown at valuation have been revalued regularly throughout the group's history. Consequently, historical cost information is no longer retained by the group and the earliest valuation which can be obtained without unreasonable expense and delay is shown above. These revalued assets are included in cost as permitted by FRS 15.

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

Capital commitments	2003 £'000	2002 £'000
Contracted but not provided for	238	535

Commitments under operating leases for the year to 30 June 2004 - analysed as to leases which expire:	Land and buildings £'000	Other £'000
within the next 12 months	175	204
between 2 and 5 years	367	252
after 5 years	230	5

13. Investments - interests in subsidiary undertakings

Particulars of subsidiary undertakings	Country of incorporation and operation	Proportion held (group) %	Proportion held (parent company) %	Shares at cost (parent company) £'000
*Polyflor Limited	England	100	100	3,000
JHT Limited	England	100	100	-
JHL Limited	England	100	100	-
Titan Leisure Group Limited	England	100	100	15,200
Belstaff International Limited	England	100	-	-
Titan CPL Limited	England	100	-	-
*Phoenix Distribution (NW) Limited	England	100	-	-
Halstead Flooring Concepts Pty Limited	Australia	100	100	6,176
*Polyflor Australia Pty Limited	Australia	100	-	-
*Halstead Flooring Concepts Limited	New Zealand	100	-	-
*Objectflor Art und Design Belags GmbH	Germany	100	100	4,776
*Karndean International GmbH	Germany	100	-	-
				29,152

*The activities of these trading subsidiaries are described in the chief executive's review.

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
At 30 June 2003 and 30 June 2002	29,152	1,314	30,466

14. Stocks

	Group 2003 £'000	Group 2002 £'000
Raw materials	856	860
Consumable stores	439	521
Work in progress	601	514
Finished goods	19,540	18,626
	21,436	20,521

NOTES TO THE ACCOUNTS (Continued)

15. *Debtors*

	Group		Parent company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	16,236	16,556	-	-
Current accounts with subsidiary undertakings	-	-	9,156	8,438
Other debtors	620	571	274	265
Prepayments and accrued income	783	600	63	16
	17,639	17,727	9,493	8,719

16. Creditors - amounts falling due within one year

	Group		Parent company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Current accounts with subsidiary undertakings	-	-	14,576	8,013
Trade creditors	13,417	12,035	116	186
Taxation payable	3,445	3,454	346	395
Other taxation and social security	891	1,035	35	35
Other creditors	1,760	1,050	460	311
Deferred consideration	267	248	-	-
Accruals and deferred income	5,215	4,677	1,183	1,327
Proposed final dividend	2,489	2,406	2,489	2,406
	27,484	24,905	19,205	12,673

Certain United Kingdom group companies have given unlimited cross guarantees to support overdraft facilities with The Royal Bank of Scotland plc and National Westminster Bank Plc.

17. *Creditors - amounts falling due after more than one year*

	Group	
	2003	2002
	£'000	£'000
Overseas pension liability and other creditors	204	188
	204	188

18. Provisions for liabilities and charges

Deferred tax	Group	
	2003	2002
	£'000	£'000
Accelerated capital allowances	2,616	2,738
Short term timing differences	(656)	(762)
	1,960	1,976
Opening balance	1,976	2,119
Credit to profit and loss account	(16)	(143)
Balance at 30 June 2003	1,960	1,976

19. Capital and reserves

	Authorised		Allotted, issued and fully paid	
	2003	2002	2003	2002
(a) Called up share capital				
Authorised and issued share capital				
Number of shares (000's)				
Ordinary shares at 10p each	50,000	50,000	25,427	26,727
5.5% (2002: 5.5%) preference shares of £1 each	200	200	200	200
Nominal value of shares	£'000	£'000	£'000	£'000
Ordinary shares of 10p each	5,000	5,000	2,543	2,673
5.5% (2002: 5.5%) preference shares of £1 each	200	200	200	200
	5,200	5,200	2,743	2,873

The 5.5% (2002: 5.5%) cumulative preference shares of £1 shall confer on the holders thereof the right to receive in priority to all other shares in the capital of the company out of the profits of the company which it shall be determined to distribute, a fixed cumulative preferential dividend at the rate of 5.5% (2002: 5.5%) per annum on the capital for the time being paid up thereon and the right in the event of a winding up, in priority to all other shares in the capital of the company, to repayment of the capital paid up thereon together with a premium of 5p per share and a sum equivalent to any arrears and accruals of the said fixed cumulative preferential dividend thereon (whether earned or declared or not) calculated up to the date of such repayment of capital but shall not confer any further right to participate in profits or assets of James Halstead plc.

The company shall not be at liberty to create or issue any further share ranking in priority to or pari passu with the preference shares without the consent in writing of the holders of three-fourths of the issued preference shares or the sanction of an extraordinary resolution of the holders of such preference shares passed at a separate general meeting of such holders.

The preference shares shall not confer upon the holders thereof the right to attend or vote at any general meeting of the company or to receive notice thereof, unless either:

(i) At the date of the notice convening the meeting the fixed cumulative preferential dividend on the preference shares is six months in arrears and then so long only as such dividend shall remain unpaid, and so that for this purpose the dividend on the preference shares shall be deemed to accrue due and be payable by equal half-yearly instalments on 30 June and 31 December in every year, or

(ii) The business of the meeting includes the consideration of a resolution for reducing the capital or winding up the company or for the sale of its undertaking or of any resolution directly abrogating or varying any of the special rights or privileges attached to the preference shares.

The preference shares shall nevertheless entitle the holders thereof to receive notice of every general meeting.

At a general meeting at which the holders of preference shares are entitled to attend and vote the preference shares shall entitle a holder thereof, or his proxy, to vote only for every preference share held by him.

NOTES TO THE ACCOUNTS (Continued)

Purchase of own shares

Under the authority given to the directors at the previous annual general meeting, the company purchased 5.0% of its own ordinary shares during the year, as follows:

2 October 2002	550,000 shares @259p each
8 October 2002	100,000 shares @257p each
11 November 2002	350,000 shares @248p each
31 March 2003	335,000 shares @275p each

being not more than 105% of the average middle market quotations for five business days preceding the purchase.

Issue of shares

To enable share options to be exercised, the company issued 10,000 new ordinary shares on 7 November 2002 and 25,000 new ordinary shares on 30 December 2002.

NOTES TO THE ACCOUNTS (Continued)

Under the terms of the executive share option schemes approved on 5 December 1986 and were granted during the year and details of these, together with those options remaining

Director's name	Date of grant	Date exercisable
G Halstead	8 Nov 93	7 Nov 96
	7 May 99	6 May 02
	6 Oct 00	5 Oct 03
	8 Oct 01	7 Oct 04
	25 Oct 02	24 Oct 05
G R Oliver	8 Nov 93	7 Nov 96
	6 Oct 00	5 Oct 03
	8 Oct 01	7 Oct 04
	25 Oct 02	24 Oct 05
M Halstead	6 Oct 00	5 Oct 03
	8 Oct 01	7 Oct 04
	25 Oct 02	24 Oct 05
Total - Directors		

Others	Date of grant	Date exercisable
0 (2002:1)	21 Dec 92	20 Dec 95
4 (2002:4)	8 Nov 93	7 Nov 96
0 (2002:8)	7 May 99	6 May 02
13 (2002:13)	6 Oct 00	5 Oct 03
5 (2002:5)	23 Apr 01	22 Apr 04
15 (2002:15)	8 Oct 01	7 Oct 04
18 (2002:Nil)	25 Oct 02	24 Oct 05
Total - Others		

The market price of the shares at 30 June 2003 was 288p (2002:259p)

The share price during the year ranged from 250p to 296p ecember 1998 options were exercised on 35,000 shares during the year. Further options standing, are as follows:

Date of expiry	Exercise price (pence)	Shares b/fwd at 30.06.02	Exercised in year	Issued/ (lapsed) in year	Shares c/fwd at 30.06.03
Nov 03	341.0	40,000	—	—	40,000
May 09	202.5	35,000	—	—	35,000
Oct 10	*200.0*	*20,000*	—	—	*20,000*
Oct 11	203.66	20,000	—	—	20,000
Oct 12	259.33	—	—	9,000	9,000
Nov 03	341.0	12,500	—	—	12,500
Oct 10	200.0	20,000	—	—	20,000
Oct 11	203.66	20,000	—	—	20,000
Oct 12	259.33	—	—	9,000	9,000
Oct 10	200.0	20,000	—	—	20,000
Oct 11	203.66	20,000	—	—	20,000
Oct 12	259.33	—	—	9,000	9,000
		207,500	—	27,000	234,500

Date of expiry	Exercise price (pence)	Shares b/fwd at 30.06.02	Exercised in year	Issued/ (lapsed) in year	Shares c/fwd at 30.06.03
Dec 02	258.0	*10,000*	*(10,000)*	—	—
Nov 03	341.0	95,000	—	—	95,000
May 09	202.5	25,000	(25,000)	—	—
Oct 10	200.0	122,000	—	—	122,000
Apr 11	180.3	50,000	—	—	50,000
Oct 11	203.66	142,000	—	—	142,000
Oct 12	259.33	—	—	106,000	106,000
		444,000	*(35,000)*	*106,000*	515,000

(b) Reserves	Share premium account £'000	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
Movements on reserves during the year were as follows:				
Group				
Balance at 30 June 2002	4,369	3,544	523	38,290
Currency translation differences on foreign currency net investments	-	-	-	513
Premium on share issues	73	-	-	-
Purchase of own shares	-	-	133	(3,505)
Retained profit for the year	-	-	-	4,768
Balance at 30 June 2003	4,442	3,544	656	40,066
Parent company				
Balance at 30 June 2002	4,369	-	523	29,210
Premium on share issues	73	-	-	-
Purchase of own shares	-	-	133	(3,505)
Retained profit for the year	-	-	-	915
Balance at 30 June 2003	4,442	-	656	26,620

(c) Goodwill

The cumulative goodwill, resulting from acquisitions, written off on consolidation against reserves amounts to £2,963,091 (2002: £2,963,091).

(d) The consolidated profit for the financial year includes a profit before dividends of £4,712,017 (2002: £11,487,069) which is dealt with in the accounts of the parent company.

20. Pension arrangements

Within the UK, the Group operates a pension scheme of the defined benefit type, which provides benefits based on final pensionable remuneration. The assets of the scheme are held in separate trustee administered funds. In addition some employees are provided with benefits through defined contribution arrangements.

The pension cost for the defined benefit scheme has been assessed in accordance with the advice of qualified actuaries and an actuarial valuation of the scheme was carried out by PricewaterhouseCoopers as at 5 April 2002 using the projected unit method.

In the valuation of the scheme, and for the purpose of assessing future pension costs for compliance with Statement of Standard Accounting Practice No. 24 (SSAP 24), the principal actuarial assumptions adopted were as follows: an investment return of 6.8% per annum, future increases in pensionable earnings of 3.9% per annum, price inflation of 2.9% per annum and future increases to (non-GMP) pensions in payment of 2.7% per annum. Assets were assessed at their market value.

At 5 April 2002, the assets were sufficient to cover 92.8% of the benefits that had accrued to members after allowing for expected future increases in pensionable earnings. Company contribution rates were adjusted to account for the removal of the past service deficit over the expected remaining service lives of the employees in the scheme. The market valuation of the assets at 5 April 2002 was £31,392,000.

The pension cost of the defined benefit scheme for the year was £966,000 (2002: £1,010,440).

FRS 17, "Retirement benefits" was issued in November 2000 to replace SSAP 24. Under the extended transitional arrangements for FRS 17, full adoption of the new accounting standard is not mandatory and the group will continue to account for pension costs under SSAP 24.

The transitional arrangements require disclosure of the following amounts relating to the UK's defined benefit pension scheme measured in accordance with FRS 17 at 30 June 2003:

	2003	2002	2001
	£'000	£'000	£'000
Total market value of assets	27,708	28,922	31,560
Present value of liabilities	(41,792)	(39,870)	(36,217)
Deficit in the scheme	(14,084)	(10,948)	(4,657)
Related deferred tax asset	4,225	3,284	1,397
Net pension liability	(9,859)	(7,664)	(3,260)

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	2003	2002
	£'000	£'000
Net assets excluding pension provision	51,451	49,599
Pension provision	(9,859)	(7,664)
Net assets including pension provision	41,592	41,935
Profit and loss reserve excluding pension provision	40,066	38,290
Pension provision	(9,859)	(7,664)
Profit and loss reserve including pension provision	30,207	30,626

NOTES TO THE ACCOUNTS (Continued)

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

	Long term rate of return expected			Value at 30 June 2003	Value at 30 June 2002	Value at 30 June 2001
	At 30 June 2003	At 30 June 2002	At 30 June 2001	£'000	£'000	£'000
UK equities	8.0%	8.0%	8.2%	14,833	14,728	16,019
Overseas equities	8.0%	8.0%	8.2%	6,589	6,852	7,292
Property	8.0%	8.0%	8.2%	1,193	1,166	1,159
Fixed interest	4.5%	5.0%	4.6%	3,905	4,180	4,607
Cash	2.5%	2.6%	2.6%	1,188	1,996	2,483
				27,708	28,922	31,560

The valuation of the scheme's liabilities for the purpose of these disclosures has been based on the most recent actuarial valuation at 5 April 2002, updated to take account of the requirements of FRS 17.

The major assumptions used were:

	30 June 2003	30 June 2002	30 June 2001
Rate of increase in salaries	2.5%	3.1%	3.6%
Rate of increase in pensions in payment	2.5%	2.6%	2.6%
Discount rate	5.3%	5.8%	6.2%
Inflation assumption	2.5%	2.6%	2.6%

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

		2003 £'000	2002 £'000
(i)	Operating profit:		
	Current service cost	(920)	(957)
	Past service cost	-	-
	Total operating charge	(920)	(957)
(ii)	Other finance income		
	Expected return on pension scheme assets	2,105	2,301
	Interest on pension scheme liabilities	(2,328)	(2,265)
	Net return	(223)	36
(iii)	Statement of total recognised gains and losses (STRGL)		
	Actual return less expected return on pension scheme assets	(3,496)	(5,463)
	Experience gains and losses arising on the scheme liabilities	2,557	738
	Changes in assumptions underlying the present value of the scheme liabilities	(2,020)	(1,655)
	Actuarial loss recognised in STRGL	(2,959)	(6,380)
(iv)	Movement in deficit during the year		
	Deficit in scheme at beginning of the year	(10,948)	(4,657)
	Movement in year:		
	Current service cost	(920)	(957)
	Contributions	966	1,010
	Past service costs	-	-
	Other finance income	(223)	36
	Actuarial loss	(2,959)	(6,380)
	Deficit in scheme at end of the year	(14,084)	(10,948)

NOTES TO THE ACCOUNTS (Continued)

Details of experience gains and losses for the year	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(3,496)	(5,463)
Percentage of scheme assets	(12.6%)	(18.9%)
Experience gains and losses on scheme liabilities:		
Amount (£'000)	2,557	738
Percentage of the present value of the scheme liabilities	6.1%	1.9%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(2,959)	(6,380)
Percentage of the present value of the scheme liabilities	(7.1%)	(16.0%)

The defined benefit scheme is now closed to new joiners. As such, the current service cost under the projected unit method, as a percentage of pensionable salaries, can be expected to rise in future as the average age of the scheme membership increases.

There is an unfunded pension arrangement in Germany. The present value of the liability of £183,000 (2002: £157,000) is included in the balance sheet at 30 June 2003. The major assumptions used are as above. Otherwise the pension scheme arrangements of the overseas subsidiaries are not of the defined benefit type and do not require disclosure under FRS 17.

21. Notes to the cash flow statement

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

	2003	2002
	£'000	£'000
Operating profit	11,792	10,838
Depreciation and amortisation charges	3,569	3,122
Loss on sale of tangible fixed assets	9	13
Increase in stocks	(266)	(1,358)
Decrease in debtors	699	1,894
Increase in creditors	1,458	724
Net cash inflow from operating activities	17,261	15,233

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

	2003	2002
	£'000	*£'000*
Returns on investments and servicing of finance		
Interest received	624	545
Interest paid	(216)	(139)
Preference dividend paid	(11)	(11)
	397	395
Capital expenditure		
Purchase of tangible fixed assets	(1,778)	(2,150)
Sale of tangible fixed assets	152	568
	(1,626)	(1,582)
Acquisitions and disposals		
Acquisition of business	-	(251)

NOTES TO THE ACCOUNTS (Continued)

(iii) Analysis of net funds

	At 30 June 2002 £'000	Net funds movement £'000	Exchange movement £'000	At 30 June 2003 £'000
Cash in hand and at bank	13,755	5,120	81	18,956

Cash in hand and at bank includes overnight deposits.

22. Financial instruments

A full description of the group's treasury policy is contained in the financial review. FRS 13 "Derivatives and Other Financial Instruments: disclosures" also requires further disclosures in respect of financial assets and liabilities and these are set out below. The group has taken advantage of the exemption available under FRS 13 and accordingly details in respect of short term debtors and creditors are excluded from all the following disclosures, other than the currency risk disclosures.

(i) Preference shares

The preference shares in issue are fully described in note 19 on page 44. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2003 was £200,000 (2002: £200,000). Based on the most recent mid-market price, the fair value of the preference shares at 30 June 2003 was £136,000 (2002: £136,000).

(ii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits and cash in hand 2003 £'000	Book and fair values of bank balances, deposits and cash in hand 2002 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	17,890	12,904
Australian Dollars	396	150
New Zealand Dollars	257	338
Euro	413	363
	18,956	13,755

All balances are current accounts or overnight deposits and in all cases interest rates are floating and are based on relevant national bank base and deposit rates.

For the purposes of managing its currency exposures, the group operates bank accounts in certain foreign currencies with its UK clearing banks. These are included in the currency risk disclosures below.

In the group balance sheet, cash at bank and in hand is shown net of UK overdrafts in line with the group's arrangements with its bankers. Foreign currency denominated net balances at 30 June 2003 with UK banks were, in US dollars £233,000 in hand (2002: £259,000 in hand), in Euro £1,076,000 overdrawn (2002: £2,311,000 overdrawn) and in other currencies £1,500,000 overdrawn (2002: £2,226,000 overdrawn).

NOTES TO THE ACCOUNTS (Continued)

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

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

Net foreign currency monetary assets/(liabilities)

	Euro	US Dollars	Australian Dollars	Japanese Yen	New Zealand Dollars	Hong Kong Dollars	Other
	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000	2003 £'000
Functional currency of group operation							
Sterling	(6,620)	2,671	(1,082)	878	(420)	(277)	(598)
New Zealand dollars	-	(52)	123	-	-	-	-
Total	(6,620)	2,619	(959)	878	(420)	(277)	(598)
	2002 £'000	2002 £'000	2002 £'000	2002 £'000	2002 £'000	2002 £'000	2002 £'000
Functional currency of group operation							
Sterling	(5,258)	2,592	(1,323)	761	(506)	(379)	(705)
New Zealand dollars	-	(16)	(21)	-	-	-	-
Total	(5,258)	2,576	(1,344)	761	(506)	(379)	(705)

There are no material amounts requiring disclosure in respect of group operations whose functional currency is other than Sterling or New Zealand dollars.

The above table does not include future transactions which have been hedged by forward contracts and foreign currency borrowings, but does take into account those borrowings and commitments.

(iv) Forward foreign exchange contracts

The gross value of contracts outstanding at 30 June 2003, based on the contracted forward rate was £17,528,890 (2002: £13,195,495). The fair value of these contracts, based on the estimated close out rate at 30 June 2003 is not materially different.

TEN YEAR SUMMARY

	1994	1995
Sales	69,063	72,671
Profit (before exceptional items)	9,632	10,321
Exceptional items*	265	-
Profit before taxation	9,897	10,321
Taxation	(3,136)	(3,426)
Profit after taxation	6,761	6,895
Preference dividends	8	8
Ordinary dividends	2,266	2,579
Retained in the business***	4,487	4,308
Capital employed	36,386	40,978
Unless otherwise stated all amounts are in £ thousands.		
Headline earnings per share**	21.68p	22.75p
Net dividends per ordinary share	7.50p	8.50p
Dividend cover based on headline earnings per share	2.89	2.68

* Relates to the termination of operations of Belstaff International Limited, in the year ended 30 June 1994, and to the sale of Driza-Bone Pty Limited in the year ended 30 June 1999.

** Headline earnings per share is defined in note 10 to the accounts.

*** The retained earnings in the year ended 30 June 1999 are reduced by the write back of goodwill on the sale of Driza-Bone Pty Limited. The amount of £3,063,297 was written back through reserves in the same year and consequently had no effect on the net assets of the group.

The figures for 2000 and 2001, but not for prior years, have been adjusted for FRS 19.

96	1997	1998	1999	2000 as restated	2001 as restated	2002	2003
38	76,263	73,654	84,305	92,821	93,541	93,033	99,775
29	7.708	8,610	9,251	9,946	10,689	11,275	12,211
-	-	-	(3,363)	-	-	-	-
29	7,708	8,610	5,888	9,946	10,689	11,275	12,211
39)	(3,361)	(3,137)	(3,030)	(3,205)	(3,538)	(3,465)	(3,646)
90	4,347	5,473	2,858	6,741	7,151	7,810	8,565
8	8	8	9	11	11	11	11
44	2,962	3,154	3,417	3,526	3,686	3,663	3,786
38	1,377	2,311	(568)	3,204	3,454	4,136	4,768
33	45,549	46,505	50,037	49,048	49,210	49,599	51,451
1p	14.14p	17.80p	20.40p	22.20p	24.66p	28.84p	33.61p
5p	9.65p	10.25p	11.00p	11.75p	12.75p	13.75p	15.10p
.54	1.47	1.74	1.85	1.89	1.93	2.10	2.23

SHAREHOLDER INFORMATION

Financial calendar

Annual general meeting	5 December 2003 (see notice of meeting on pages 57 to 60).
Announcement of results	
For the half year	March
For the full year	October
Dividend payments	
Ordinary shares - interim	June
- final	December
Preference shares	June and December

Share dealing information

The ordinary shares of the company are traded on the Alternative Investment Market of the London Stock Exchange.

Information concerning the day-to-day movement of the share price can be found in The Financial Times and The Daily Telegraph.

Shareholder analysis*

	Number of holders	Number of shares
By size of holding		
1-10,000	2,099	3,997,982
10,001-50,000	131	2,537,080
50,001-250,000	44	4,623,548
250,001 and over	17	13,728,680
	2,291	24,887,290

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	248	6,025,839	24.21
Other limited companies /corporate bodies	40	210,114	0.84
Miscellaneous bodies /pension funds	3	15,321	0.06
Private individuals	1,996	18,611,519	74.79
Investment trusts and funds	4	24,497	0.10
	2,291	24,887,290	100.00

*as at 26 September 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the EIGHTY EIGHTH ANNUAL GENERAL MEETING of the company will be held at The Moat House Hotel, 1 Higher Bridge Street, Bolton, Lancashire, on 5 December 2003 at 12.00 for the following purposes:

Ordinary business

1 To receive and adopt the report of the directors and the statement of accounts for the year ended 30 June 2003 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

4 To appoint Messrs PricewaterhouseCoopers LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 5 and 6 will be proposed as ordinary resolutions and resolutions 7, 8 and 9 will be proposed as special resolutions:

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

(i) to exercise the power contained in article 131 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 10p each of the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and

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

6 That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £829,576 provided that this authority shall expire on the date falling one year after the date of this resolution, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

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

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

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

8 That the company is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) on the London Stock Exchange Limited of fully paid ordinary shares of 10 pence each in the capital of the company ("ordinary shares") provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15% of the ordinary shares in issue at the date of passing of this resolution;

(ii) the maximum price (exclusive of any expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of The London Stock Exchange Limited for the 5 business days immediately preceding the day on which the ordinary share is purchased;

(iii) the minimum price which may be paid for each ordinary share is 10 pence (exclusive of any expenses);

(iv) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the company or twelve months from the date, if earlier, of passing this resolution; and

(v) the company may make a contract or contracts to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and the company may make a purchase of its ordinary shares in pursuance of such contract as if the authority hereby conferred had not expired.

9. That the Memorandum and Articles of Association of the Company be amended by the inclusion of object CC as follows:

As an object of the Company and as a pursuit in itself or otherwise and whether for the purpose of making a profit or avoiding a loss or managing a currency or interest rate exposure or any other exposure or for any other purpose whatsoever, to engage in currency exchange, interest rate and commodity transactions, derivative transactions and any other financial or other transactions of whatever nature in any manner and on any terms and for any purposes whatsoever, including, without prejudice to the generality of the foregoing, any transaction for the purpose of, or capable of being for the purposes of, avoiding, reducing, minimising, hedging against or otherwise managing the risk of any loss, cost, expense, or liability arising, or which may arise, directly or indirectly, from a change or changes in any interest rate or currency exchange rate or in the price or value of any property, asset, commodity, index or liability or from any other risk or factor affecting the Company's business, including but not limited to dealings whether involving purchases, sales or otherwise in foreign currency, spot and/or forward rate exchange contracts, futures, options, forward rate agreements, swaps, caps, floors, collars, and any such other foreign exchange or interest rate or commodity or other hedging arrangements and such other instruments as are similar to, or derived from, any of the foregoing.

NOTICE OF ANNUAL GENERAL MEETING (Continued)

10. To transact any other business relevant to an Annual General Meeting.

By order of the board
W J Whittaker

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester M26 1JN

27 October 2003

Notes

1 *Preference shareholders are advised that they are not entitled to attend or vote* at the annual general meeting.

2 A holder of ordinary shares is entitled to appoint a proxy to attend and, on a poll, vote instead of himself/herself. A proxy need not be a member of the company. To be effective the instrument appointing a proxy must reach the registrars office by noon on 3 December 2003 and the white form of proxy enclosed is for the use of ordinary shareholders. The appointment of a proxy need not preclude a member from attending and voting at the annual general meeting if he/she so desires. Persons holding ordinary shares under the employee share scheme should use the blue form of direction enclosed and this should be sent to the registrars office so as to arrive by noon on 3 December 2003.

3 The following information which is available for inspection during normal business hours at the registered office of the company on any weekdays (Saturdays and public holidays excepted) from the date of this notice until the date of the annual general meeting will also be available for inspection at the place of the annual general meeting for a period of 15 minutes prior to the meeting and until the conclusion of the meeting:

(i) the register of interests of directors in the share capital of the company; and

(ii) a copy of Mr G R Oliver's service contract.

4 Warrants for the final dividend, if approved, will be posted after the annual *general meeting on 5 December 2003 to shareholders on the register as at* 31 October 2003.

CD INSTALLATION INSTRUCTIONS

CD contains PC Screen Saver and Annual Reports (in pdf format) for 2003, 2002 and 2001

Installing the Screen Saver

After inserting the CD Rom into the CD Drive, double click on my computer, then the CD Drive icon. Proceed to double click on the Halstead icon from the new window and the screen saver will automatically install itself.

To customise and preview the Halstead screen saver, right click on the desktop and choose properties from the sub menu, then select the screen saver option.

Reading the PDF files

If you already have a version of Adobe Acrobat Reader installed on your PC, you can simply double click on the PDF you wish to view.

If you do not own a version of Adobe Acrobat Reader, double click on the Adobe Acrobat Folder on the CD Rom, choose the desired language and follow the on screen instructions to install.